

Santa Cruz County Board of Education
Santa Cruz County Office of Education
400 Encinal Street
Santa Cruz, CA 95060

Regular Board Meeting
January 17, 2019
Time: 4:00 p.m.
Board Room

AGENDA

1.0 **CALL TO ORDER, ROLL CALL AND ESTABLISHMENT OF QUORUM**

Dana Sales (President), Jane Royer Barr, Rose Filicetti, Sandra Nichols, Sue Roth,
Abel Sanchez, Bruce Van Allen
Faris Sabbah, Secretary

2.0 **PLEDGE OF ALLEGIANCE**

Superintendent Sabbah will lead the Pledge of Allegiance.

3.0 **APPROVAL OF AGENDA**

Agenda deletions and/or changes of sequence will be approved or the agenda will be approved as submitted.

4.0 **PUBLIC COMMENT**

This is an opportunity for the public to address the Board regarding items not on the agenda. The Board President will recognize any member of the audience not previously placed on the agenda who wishes to speak on a matter directly related to school business. Each speaker, on any specific topic, may speak up to **three (3) minutes** unless otherwise limited or extended by the President. The President may allot time to those wishing to speak but no action will be taken on matters presented (E.C. Section 35145.5). If appropriate, the President, or any Member of the Board, may direct that a matter be referred to the Superintendent's Office for placement on a future agenda. Please refer to item, *Please Note*, on the last page of this agenda.

5.0 **CONSENT AGENDA**

All items appearing on the consent agenda are recommended actions, which are considered to be routine in nature and will be acted upon as one motion. Specific items may be removed for separate consideration. Item(s) removed will be considered immediately following the consent agenda motion as Deferred Consent Items.

- 5.0.1 Minutes of the Regular Board Meeting held on December 20, 2018
- 5.0.2 Minutes of the Special Board Meeting held on January 7, 2019
- 5.0.3 Routine Budget Revisions
- 5.0.4 Donations

5.1 **DEFERRED CONSENT ITEMS (if required)**

This item is placed on the agenda to address any items that might be pulled from Agenda Item 5.0 for further discussion/consideration if so determined.

6.0 CORRESPONDENCE

Correspondence will be available for review at the meeting location.

7.0 UNFINISHED BUSINESS

8.0 REPORTS, DISCUSSIONS AND PRESENTATIONS

8.1 2017-2018 Fiscal Year Annual Audit Report

The Board will be provided with the 2017-2018 final, audited, prior-year financial statements, which the Santa Cruz County Office of Education is required to file with the California Department of Education and the State Controller's office.

Presenters: Rebecca Olker, Manager, Internal Business Services
Terri Montgomery, Partner, Vavrinek, Trine, Day & Co., LLP
Jill Stenton, Senior Manager, Vavrinek, Trine, Day & Co., LLP

8.2 Strategic Planning Presentation

The Board will be provided with a presentation regarding the Santa Cruz County Office of Education's Strategic Plan.

Presenter: Nicole Young, Owner/Principal, Optimal Solutions Consulting

9.0 PUBLIC HEARINGS/NEW BUSINESS AND ACTION ITEMS

9.1 Cypress Charter Proposal

The Board will be presented with a report about the prospect of a new charter school to be established at the current site of Cypress Charter High School, and decide whether to bring forward a petition for its implementation for at the next Regular Board Meeting on February 21, 2019.

Presenter: Faris Sabbah, Superintendent

Call for Motion: Dana Sales (President)

10.0 SUPERINTENDENT REPORT

County Superintendent of Schools, Faris Sabbah, will provide an update on activities and matters of interest.

11.0 TRUSTEE REPORTS (3 minutes each)

Trustees will report on matters, events and activities as related to Board goals of: Advocating for students, maintaining community relations and promoting student achievement.

12.0 AD HOC COMMITTEE REPORTS/ACTIONS (if any)

13.0 ADDITIONS, IF ANY, TO FUTURE BOARD AGENDA ITEMS

14.0 SCHEDULE OF MEETINGS AND COMING EVENTS

January 16 th , 2019 10:00 a.m. – 12:00 p.m.	Alternative Education Graduation 216 Evergreen St., Santa Cruz, CA 95060
January 18 th , 2019 10:00 a.m. and 1:00 p.m.	Sequoia High School Graduations 229 Green Valley Rd., Freedom, CA 95019
January 26, 2019 12:00 p.m. – 3:30 p.m.	Santa Cruz County Spelling Bee Championship University of California, Santa Cruz, 95060
February 21, 2019 4:00 p.m.	Regular Meeting of the County Board of Education 400 Encinal Street, Santa Cruz, CA 95060
March 21, 2019 4:00 p.m.	Regular Meeting of the County Board of Education 400 Encinal Street, Santa Cruz, CA 95060

15.0 ADJOURNMENT

The Board President will adjourn the meeting.

PLEASE NOTE:

Public Participation:

All persons are encouraged to attend and, when appropriate, to participate in meetings of the Santa Cruz County Board of Education. If you wish to speak to an item on the agenda, please be present at the beginning of the meeting as any item, upon motion, may be moved to the beginning of the agenda. Persons wishing to address the Board are asked to state their name for the record. The president of the Board will establish a time limit of three (3) minutes, unless otherwise stated by the president, for comments from the public. Consideration of all matters is conducted in open session except those relating to litigation, personnel and employee negotiations, which, by law, may be considered in closed session. Expulsion appeal hearings are heard in closed session unless a request for hearing in open session is made by the appellant.

Backup Documentation:

Any writings or documents that are public records and are provided to a majority of the governing board regarding an open session item on this agenda will be made available for public inspection in the County Office of Education, located 400 Encinal Street, Santa Cruz, CA 95060, during normal business hours.

Translation Requests:

Spanish language translation is available on an as-needed basis. Please make advance arrangements with Cindy Holmes by telephone at (831) 466-5901. Traducciones del inglés al español y del español al inglés están disponibles en las sesiones de la mesa directiva. Por favor haga arreglos por anticipado con Cindy Holmes por teléfono al numero (831) 466-5901.

ADA Compliance:

In compliance with Government Code section 54954.2 (a), The Santa Cruz County Office of Education will, on request, make this agenda available in appropriate alternative formats to persons with a disability, as required by Section 202 of the Americans with Disabilities Act of 1990 (42 U.S.C. Sec 12132), and the federal rules and regulations adopted in implementation thereof. Individuals who need this agenda in an alternative format or who need a disability-related modification or accommodation in order to participate in the meeting should contact Cindy Holmes, Administrative Aide to the Superintendent, 400 Encinal St., Santa Cruz, CA 95060, (831) 466-5901.

SUPERINTENDENT'S RECOMMENDATION FOR BOARD ACTION

SUBJECT:

Consent Agenda: Regular Board Meeting Minutes, December 20th, 2018

DEPARTMENT/PROGRAM:

Santa Cruz County Board of Education

ACTION REQUESTED:

Board Approval

PREVIOUS STAFF/BOARD ACTION:

None.

BACKGROUND INFORMATION AND/OR STATEMENT OF NEED:

Consent Agenda items are recommended for approval as actions routine in nature and acted upon as one motion. Specific items may be removed for specific consideration.

FISCAL IMPLICATIONS:

None.

CONTACT PERSON(S):

Faris Sabbah, Superintendent
Sage Leibenson, Executive Aide to the Superintendent

Santa Cruz County Board of Education
Santa Cruz County Office of Education
400 Encinal Street
Santa Cruz, CA 95060

Regular Board Meeting
December 20, 2018
Time: 4:00 p.m.
Board Room

UNAPPROVED MINUTES

1.0 CALL TO ORDER, ROLL CALL AND ESTABLISHMENT OF QUORUM

Board Present

Bruce Van Allen (President)
Jane Barr
Rose Filicetti
Sandra Nichols
Sue Roth
Dana Sales
Michael Watkins (Secretary)

Staff Present

Faris Sabbah
Mary Hart
Jivan Dhaliwal
Jim Guss
Sage Leibenson

Absent

Abel Sanchez

2.0 PLEDGE OF ALLEGIANCE

Bruce Van Allen (President) led the Pledge of Allegiance.

3.0 APPROVAL OF AGENDA

President Van Allen requested that Item 11.1, Request from Live Oak School District on Charter Transfer, be moved to Item 9.1.

Trustee Barr requested that the Swearing in of Re-Elected Board Trustees be added to the Agenda as Item 4.1.

Trustee Barr requested that Recognition of Jim Guss be added to the Agenda as Item 6.1.

It was M.S.C (Barr/Filicetti) to approve the above change and additions to the Agenda.

Ayes:	Barr, Filicetti, Nichols, Roth, Sales, Van Allen
Nays:	None
Abstain:	None
Absent:	Sanchez

4.0 PUBLIC COMMENT

Tracy Schultz, Rear Admiral Lower Half, United States Coast Guard (and teacher at Oasis High School), recognized Superintendent Watkins for his 46 years of service to children and 38 years of service to the County Office of Education and also recognized John Rice, Senior Director, Alternative Education, for his many years of support to Rear Admiral Schultz and his duties to the United States Coast Guard.

4.1 Swearing-In of Re-Elected Board Trustees

Superintendent Watkins swore in three re-elected Board Trustees: Trustee Filicetti, Trustee Roth and Trustee Van Allen.

5.0 CONSENT AGENDA

- 5.0.1 Minutes of the Board Meeting held on November 15, 2018.
- 5.0.2 Routine Budget Revisions
- 5.0.3 Surplus Equipment
- 5.0.4 Donations

Trustee Barr requested that a summary paragraph within the cover sheet of the Routine Budget Revisions be provided going forward. Mary Hart, Deputy Superintendent, Business Services agreed to provide this information from now on.

It was M.S.C. (Sales/Roth) to approve the Consent Agenda.

Ayes: Barr, Filicetti, Nichols, Roth, Sales, Van Allen
Nays: None
Abstain: None
Absent: Sanchez

5.1 DEFERRED CONSENT ITEMS (if required)

None.

6.0 SUPERINTENDENTS' RECOGNITION

The Board recognized Superintendent Watkins for his 38 years of superlative service to the Santa Cruz County Office of Education. Deputy Superintendent Sabbah presented an award to Superintendent Watkins recognizing him for his 46 years of loyal and dedicated service to education and children.

6.1 Recognition of Jim Guss

The Board and Superintendent Watkins recognized Jim Guss for his five years of service to the Board and to the COE.

7.0 ANNUAL ORGANIZATION OF THE BOARD

7.1 Nomination of President for the Board

Bruce Van Allen (President) called for nominations for Board President.

Trustee Nichols nominated Trustee Roth for Board President.

Trustee Roth expressed her desire to remain Vice President and nominated Trustee Sales for Board President.

7.2 Election of Board President

It was M.S.C (Roth/Barr) to elect Trustee Sales as Board President.

Ayes: Barr, Filicetti, Nichols, Roth, Sales, Van Allen
Nays: None
Abstain: None
Absent: Sanchez

7.3 Nomination of Vice President

Dana Sales (President) called for nominations for Board Vice President.

Trustee Barr nominated Trustee Roth for Board Vice President.

7.4 Election of Vice President

It was M.S.C (Barr/Filicetti) to elect Trustee Roth for Board Vice President.

Ayes: Barr, Filicetti, Nichols, Roth, Sales, Van Allen
Nays: None
Abstain: None
Absent: Sanchez

7.5 Seating of New Officers of the Board of Trustees

The new Officer of the Board were seated.

7.6 Appointment of Chairperson, County Committee on School District Organization

Dana Sales (President) appointed Trustee Van Allen as chairperson to the County Committee on School District Organization.

7.7 Establishment of Regular Meetings of the Board

The Board discussed the day of the month and the time to hold the regular meetings of the County Board of Education.

It was M.S.C (Van Allen/Roth) to designate the third Thursday of each month at 4:00 pm to hold the regular meetings of the County Board of Education.

Ayes: Barr, Filicetti, Nichols, Roth, Sales, Van Allen
Nays: None
Abstain: None
Absent: Sanchez

7.8 Appointment to Board Ad Hoc Committees

Dana Sales (President) appointed the following Trustees to each of the Ad Hoc Committees below:

7.8.1 Board Budget Committee

Trustee Barr, Trustee Sales and Trustee Sanchez

7.8.2 Policy Committee

Trustee Filicetti, Trustee Nichols and Trustee Van Allen

7.8.3 Charter Schools Committee

Trustee Barr, Trustee Roth and Trustee Sanchez

7.8.4 Community Outreach and Legislative Committee

Trustee Filicetti, Trustee Nichols and Trustee Van Allen

7.8.5 Santa Cruz County School Board Association

Trustee Filicetti and Trustee Roth

7.8.6 Property Acquisition Committee

Trustee Barr, Trustee Sanchez, Trustee Sales

7.8.7 Other Committee(s) as determined

Agenda Committee

Trustee Barr, Trustee Roth and Trustee Sales

8.0 CORRESPONDENCE

Superintendent Watkins stated that he received an email (copied for the Board) from Riley Gerbrandt concerning four “small cell site” antennas that Verizon is planning to install in the Live Oak area.

9.0 UNFINISHED BUSINESS

None

9.1 Request from Live Oak School District on Charter Transfer (moved from 11.1)

Deputy Superintendent Faris Sabbah stated that the Live Oak School District has requested that the County Board review the possibility of moving Cypress Charter High School from the Live Oak School District to becoming a dependent charter school under the County Board of Education. This move is being considered because of lower enrollment numbers in which ADA is not meeting the school’s financial obligations. Mr. Sabbah stated that the COE will bring forth a more formal plan to the Board in January.

10.0 PUBLIC HEARINGS/NEW BUSINESS AND ACTION ITEMS

10.1 Closed Session Disclosure (Open Session)

Dana Sales (President) disclosed that the Board would, in closed session, discuss matters relating to the possible purchase of certain real properties as noted in Agenda Item 10.2. Comments from the public were requested prior to commencing the closed session.

10.2 Conference with Real Property Negotiators (Closed Session)

The Board considered the purchase of property on certain property and/or give further direction concerning the price and/or terms for the purchase to the Board's negotiator (Gov. Code §54956.8).

Agency Representatives: Mary Hart, Deputy Superintendent, Business Services
Reuben Helick, Cushman & Wakefield
Mark Williams, Fagen Friedman & Fulfost LLP

Property: Green Valley Rd., Watsonville CA
Santa Cruz County
APN: 048-061-37

Negotiating Parties: Santa Cruz County Office of Education
The Sereno Group

10.3 Report Out on Closed Session (Open Session)

Dana Sales (President) reported that the Board, during closed session, took action to direct Administration to pursue a contract for the purchase of the Green Valley property. In addition, the Board authorized Administration to undertake any and all steps necessary to proceed with the transaction.

10.4 Approval of the 2018-219 Budget Development Calendar

The Board was asked by Deputy Superintendent of Business Services Mary Hart to approve the 2018-2019 Budget Development Process and Single Budget Adoption Timelines as submitted and recommended by administration.

It was M.S.C (Barr/Nichols) to approve the 2018-2019 Budget Development Process and Single Budget Adoption Timelines as submitted and recommended by administration.

Ayes: Barr, Filicetti, Nichols, Roth, Sales, Van Allen
Nays: None
Abstain: None
Absent: Sanchez

10.5 Approval of Board Bylaw 9290 – Conflict of Interest

The Board was asked by Deputy Superintendent of Business Services Mary Hart to approve the change to Board Bylaw 9290 to include the new position of Chief Technology Officer.

It was M.S.C (Van Allen/Filicetti) to approve the change to Board Bylaw 9290 to include the new position of Chief Technology Officer.

Ayes: Barr, Filicetti, Nichols, Roth, Sales, Van Allen
Nays: None
Abstain: None
Absent: Sanchez

11.0 REPORTS, DISCUSSION AND PRESENTATIONS

11.1 Request from Live Oak School District on Charter Transfer

Moved to Agenda Item 9.1

11.2 First Interim Financial Report

Mary Hart, Deputy Superintendent of Business Services reported to the Board the First Interim Financial Report in accordance with Education Code 1240(L). The Superintendent is required to certify the First Interim Financial Report and present it to the Board for review in public session.

12.0 SUPERINTENDENT REPORT

County Superintendent of Schools, Michael Watkins, provided an update on his activities and matters of interest since his last report on November 15, 2018.

13.0 TRUSTEE REPORTS

Trustee Filicetti reported to the Board that she volunteered for the MBEP State of the Region Summit, attended the Board Dinner at the CSBA Conference, and met with Gerlinde Brady, Dean of CTE and Workforce Development at Cabrillo College.

Trustee Barr stated to the Board that she attended the CSBA Conference in San Francisco and attended the CCBE Breakfast while attending the conference. Trustee Barr also attended a meeting of the Property Acquisition Committee.

Trustee Sales noted that he also attended the CSBA Conference in San Francisco and heard some interesting breakout sessions provided by the Los Angeles COE and the Sacramento COE.

Trustee Nichols did not have a report.

Trustee Roth stated that she also attended the CSBA Conference in San Francisco and also the most recent Santa Cruz County School Board Association meeting.

Trustee Van Allen reported to the Board that he thoroughly enjoyed being President of the Board this past year and thanked the Board for a very successful year. Trustee Van Allen also stated that he is looking into a new idea in Santa Cruz called the Green New Deal. The Green New Deal is a proposed economic stimulus program that aims to address both economic inequality and climate change.

14.0 AD HOC COMMITTEE REPORTS/ACTIONS

None.

15.0 ADDITIONS, IF ANY, TO FUTURE BOARD AGENDA ITEMS

Superintendent Watkins suggested that the Board, at a future meeting, receive a presentation by Amity Sandage, Environmental Literacy Coordinator, concerning the work that is being done in Santa Cruz County concerning environmental literacy.

16.0 SCHEDULE OF MEETINGS AND COMING EVENTS

January 17, 2019 4:00 pm	Regular Meeting of the County Board of Education 400 Encinal Street, Santa Cruz, CA 95060
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February 21, 2019 4:00 pm	Regular Meeting of the County Board of Education 400 Encinal Street, Santa Cruz, CA 95060
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17.0 ADJOURNMENT

Dana Sales (President) adjourned the meeting at 6:04 pm.

SUPERINTENDENT'S RECOMMENDATION FOR BOARD ACTION

SUBJECT:

Consent Agenda: Special Board Meeting Minutes, January 7th, 2019

DEPARTMENT/PROGRAM:

Santa Cruz County Board of Education

ACTION REQUESTED:

Board Approval

PREVIOUS STAFF/BOARD ACTION:

None.

BACKGROUND INFORMATION AND/OR STATEMENT OF NEED:

Consent Agenda items are recommended for approval as actions routine in nature and acted upon as one motion. Specific items may be removed for specific consideration.

FISCAL IMPLICATIONS:

None.

CONTACT PERSON(S):

Faris Sabbah, Superintendent
Sage Leibenson, Executive Aide to the Superintendent

Santa Cruz County Board of Education
Santa Cruz County Office of Education
400 Encinal Street
Santa Cruz, CA 95060

Special Board Meeting
January 7, 2019
Time: 2:00 p.m.
Superintendent's Conference Room

UNAPPROVED MINUTES

1.0 CALL TO ORDER, ROLL CALL AND ESTABLISHMENT OF QUORUM

Board Present

Dana Sales (President)
Jane Royer Barr
Rose Filicetti
Sandra Nichols
Sue Roth
Bruce Van Allen
Abel Sanchez
Michael Watkins (Secretary)

Staff Present

Faris Sabbah
Sage Leibenson

Absent

None.

2.0 PLEDGE OF ALLEGIANCE

Michael Watkins (Secretary) led the Pledge of Allegiance.

3.0 APPROVAL OF AGENDA

It was M.S.C (Van Allen/Filicetti) to approve the Agenda.

Ayes:	Barr, Filicetti, Nichols, Roth, Sales, Sanchez, Van Allen
Nays:	None
Abstain:	None
Absent:	None

4.0 PUBLIC COMMENT

Dr. Nicky Ramos-Beban, Executive Director, Integrative Leadership Academy (ILA), came before the Board to officially submit an appeal in response to the denial by the San Lorenzo Valley Unified School District for ILA to open a charter school in the San Lorenzo Valley.

5.0 SWEARING-IN CEREMONY

Michael Watkins (Secretary) formally acknowledged and thanked the following elected officials present at the meeting:

Jack O'Connell, State Superintendent of Public Instruction
Jennifer Holm, Trustee, PVUSD Board of Education
Kristin Petersen, Vice Mayor, City of Capitola
Deb Tracy-Proulx, Trustee, SCCS Board of Education
George Wylie, Trustee, SLVUSD Board of Education
John Leopold, Supervisor, Santa Cruz County
Lowell Hurst, Councilmember, City of Watsonville
Sandy Brown, Councilmember, City of Santa Cruz
Ramon Gomez on behalf of Greg Caput, Supervisor, Santa Cruz County
Patty Threet, Trustee, SCCS Board of Education
Cynthia Matthews, Councilmember, City of Santa Cruz
Justin Cummings, Vice Mayor, City of Santa Cruz
Martine Watkins, Mayor, City of Santa Cruz
Bruce McPherson, Supervisor, Santa Cruz County
Ryan Coonerty, Supervisor, Santa Cruz County
Karen Osmundson, Board President, PVUSD Board of Education

5.1 Dr. Faris Sabbah

Michael Watkins invited attendees to acknowledge incoming Superintendent Faris Sabbah. Lowell Hurst, Jack O'Connell, Reccca Hadley, Laurie Bruton, Patricia Unrhue, Lupe Rivas, Maria Torres, and Mary Hart congratulated Faris Sabbah on his new appointment.

Michael Watkins briefly honored and swore in Dr. Faris Sabbah as Santa Cruz County's newly elected Superintendent of Schools.

Superintendent Faris Sabbah thanked Michael Watkins for his invaluable leadership and thanked the attendees for their ongoing support.

6.0 ADJOURNMENT

Dana Sales (President) adjourned the meeting at 5:35 p.m.

SUPERINTENDENT’S RECOMMENDATION FOR BOARD ACTION

SUBJECT:

Consent Agenda: Routine Budget Revisions

DEPARTMENT/PROGRAM:

Business/Administration

ACTION REQUESTED:

Board Approval

PREVIOUS STAFF/BOARD ACTION:

None.

BACKGROUND INFORMATION AND/OR STATEMENT OF NEED:

Detailed revisions and narrative follow this page.

FISCAL IMPLICATIONS:

Adjusts 2018-2019 Spending Plan

CONTACT PERSON(S):

Jean Gardner, Senior Director, Fiscal Services

Rebecca Olker, Director, Fiscal Services




BOARD OF EDUCATION
Ms. Jane Royer Barr
Ms. Rose Filicetti
Ms. Sandra Nichols
Ms. Sue Roth
Mr. Dana M. Sales
Mr. Abel Sanchez
Mr. Bruce Van Allen

400 Encinal Street, Santa Cruz, CA 95060 • 831-466-5600 • FAX 831-466-5607 • www.santacruzcoe.org

MEMO

DATE: January 17, 2019

TO: Santa Cruz County Board of Education
Dr. Faris Sabbah, County Superintendent of Schools

FROM: Mary Hart 
Deputy Superintendent, Business Services
Jean Gardner
Senior Director of Fiscal Services

RE: December Budget Revisions

Budget revisions in December reflected an increase in projected revenues for **\$65,047** and an increase in expenditures in the amount of **\$77,560**, resulting in a net decrease to fund balance of **\$12,513**.

There were adjustments made to revenue, salaries, benefits, services and supplies necessary to more closely match projected estimates for the year, which were the result of communications with departments and fiscal analysis. The majority of the increases in revenue and expense are as a result of two new grants for Multi-Tiered System of Support (MTSS) and the Phenomenon Summit as noted in the (attached) Budget Variance Detail report.

Should you have any questions, please feel free to contact us.

MH:rao
3 attachments

CC: Rebecca Olker

Santa Cruz County Office of Education
Budget Variance Summary for December, 2018
January 17, 2019 Board Meeting

	2018-2019	2018-19	DECEMBER		2018-19
Description	Adopted Budget	Board Meeting 12/20/18	Unrestricted	Restricted	Board Meeting 01/17/2019
REVENUE					
Local Control Funding Formula	27,242,923.00	27,490,928.93			27,490,928.93
Federal Revenues	7,405,876.00	7,544,933.89			7,544,933.89
State Revenues	7,932,026.13	8,236,759.96			8,236,759.96
Local Revenues	11,747,300.77	13,131,078.04		65,047.37	13,196,125.41
TOTAL REVENUE	54,328,125.90	56,403,700.82	-	65,047.37	56,468,748.19
EXPENDITURES					
Certificated Salaries	10,967,873.70	11,144,615.48	42,001.42		11,186,616.90
Classified Salaries	11,221,565.40	11,655,398.00	16,063.00	5,461.96	11,676,922.96
Employee Benefits	12,229,612.37	12,333,686.86			12,333,686.86
Books and Supplies	3,356,295.73	3,993,225.73	(25,229.06)	14,636.26	3,982,632.93
Services, Other Operating Expenses	9,188,678.00	10,879,557.17	(9,524.05)	(149,267.81)	10,720,765.31
Capital Outlay	698,115.00	869,920.09		183,418.81	1,053,338.90
Other Outgo	6,624,756.00	6,624,756.00			6,624,756.00
Interprogram Support	(69,289.00)	(76,579.59)	(23,311.31)	23,311.31	(76,579.59)
TOTAL EXPENDITURES	54,217,627.20	57,424,579.74	-	77,560.53	57,502,140.27
INTERFUND TRANSFERS					
Transfers In	-	-			-
Transfers Out	45,000.00	45,000.00			45,000.00
TOTAL INTERFUND TRANSFERS	45,000.00	45,000.00	-	-	45,000.00
FUND BALANCE					
Beginning Fund Balance	22,520,870.72	24,721,020.22			24,721,020.22
Net Increase/(Decrease)	65,498.70	(1,065,878.92)		(12,513.16)	(1,078,392.08)
ENDING FUND BALANCE	22,586,369.42	23,655,141.30	-	(12,513.16)	23,642,628.14
Pacheco Bill Compliance:					
There were no individual consulting agreements in excess of \$25,000 that required a budget revision during the month of December, 2018.					

Budget Variance Detail for
December, 2018
January 17, 2019 Board Meeting

Description (Object Code Range)	Res	Program	2018-19	2018-19	Variance		2018-19	2018-19
			Adopted Budget	Approved 12/20/18	Unrestricted	Restricted	Board Meeting 1/17/19	Approved 1/17/19
REVENUE								
Local Control Funding Formula (8010-8099)			27,242,923.00					
Total Local Control Funding Formula			27,242,923.00	27,490,928.93	-	-	27,490,928.93	27,490,928.93
Federal Revenues (8100-8299)			7,405,875.00					
Total Federal Revenues			7,405,875.00	7,544,933.89	-	-	7,544,933.89	7,544,933.89
State Revenues (8300-8599)			7,932,026.13					
Total State Revenues			7,932,026.13	8,236,759.96	-	-	8,236,759.96	8,236,759.96
Local Revenues (8600-8799)			11,747,300.77					
SET UP PHEONOMENON SUMMIT BUDGET	9010	OTHER RESTRICTED LOCAL				12,000.00		
SET UP MTSS GRANT	9010	OTHER RESTRICTED LOCAL				50,000.00		
SET UP AHS FEE BASED BUDGET	9010	OTHER RESTRICTED LOCAL				647.37		
TO COVER CREDENTIAL CLASS EXPENSES	9010	OTHER RESTRICTED LOCAL				2,400.00		
Total Local Revenues			11,747,300.77	13,131,078.04	-	65,047.37	13,196,125.41	13,196,125.41
Other Financing Sources (8900-8997)								
Total Other Financing Sources			-	0.00	-	-	0.00	0.00
TOTAL REVENUE			54,328,125.90	56,403,700.82	-	65,047.37	56,468,748.19	56,468,748.19
BEGINNING FUND BALANCE (8999)			22,520,870.72					
Total Beginning Fund Balance			22,520,870.72	24,721,020.22	-	-	24,721,020.22	24,721,020.22
TOTAL REVENUE PLUS BEGINNING BALANCE			76,848,996.62	81,124,721.04	-	65,047.37	81,189,768.41	81,189,768.41
EXPENDITURES								
Certificated Salaries (1000-1999) TO COVER EWA	0620	COUNTY COMMUNITY SCHOOLS	10,967,873.70		42,001.42			
Total Certificated Salaries			10,967,873.70	11,144,615.48	42,001.42	-	11,186,616.90	11,186,616.90
Classified Salaries (2000-2999) TO COVER PROJECT COORDINATOR & STUDENT WORKERS TO COVER PRF TO COVER INC IN PRF	0030 0621 9010	EDUCATIONAL SERVICES COUNTY COMMUNITY SUPPLEMENTAL OTHER RESTRICTED LOCAL	11,221,565.40		12,264.00 3,799.00	5,461.96		
Total Classified Salaries			11,221,565.40	11,655,398.00	16,063.00	5,461.96	11,676,922.96	11,676,922.96
Employee Benefits (3000-3999)			12,229,612.37					
Total Employee Benefits			12,229,612.37	12,333,686.86	-	-	12,333,686.86	12,333,686.86
Books and Supplies (4000-4999) TO COVER MISC EXPENSES ADJUST DIRECT/INDIRECT COSTS TO BALANCE	0030 0060	EDUCATIONAL SERVICES ADMINISTRATION	3,358,295.73		(2,739.95) 23,311.31			

**Budget Variance Detail for
December, 2018
January 17, 2019 Board Meeting**

Description (Object Code Range)	Res	Program	2018-19	2018-19	Variance		2018-19	2018-19
			Adopted Budget	Approved 12/20/18	Unrestricted	Restricted	Board Meeting 1/17/19	Approved 1/17/19
TO COVER MISC EXPENSES	0620	COUNTY COMMUNITY SCHOOLS			(42,001.42)			
TO COVER INC IN PRF	0621	COUNTY COMMUNITY SUPPLEMENTAL			(3,799.00)			
TO COVER PRF	9010	OTHER RESTRICTED LOCAL				3,031.08		
SET UP AG PRODUCTION PROGRAMS AT RHS	9010	OTHER RESTRICTED LOCAL				183.22		
TO COVER CREDENTIAL CLASS EXPENSES	9010	OTHER RESTRICTED LOCAL				2,198.60		
TO COVER NEGATIVE BALANCES	9010	OTHER RESTRICTED LOCAL				(1,500.00)		
TO COVER SUPPLIES AT 399 ENCINAL	9010	OTHER RESTRICTED LOCAL				9,000.00		
TO SET UP AHS FEE BASED BUDGET	9010	OTHER RESTRICTED LOCAL				1,723.36		
Total Books and Supplies			3,355,295.73	3,993,225.73	(25,229.00)	14,536.26	3,982,632.93	3,982,632.93
Services, Other Operating Expenses (5000-5999)								
TO COVER NEGATIVE BALANCES	0030	EDUCATIONAL SERVICES	9,188,678.00		(9,524.05)			
TO COVER PROP 39 LIGHTING RETROFIT ON ENCINAL	6230	CALIF CLEAN ENERGY JOBS ACT				(200,271.81)		
SET UP PHENOMENON SUMMIT BUDGET	9010	OTHER RESTRICTED LOCAL				2,500.00		
TO COVER ENCOMPASS CONTRACT	9010	OTHER RESTRICTED LOCAL				45,804.00		
TO COVER BRUCE NEUSTADTER CONTRACT	9010	OTHER RESTRICTED LOCAL				1,200.00		
TO COVER EXPENSES	9010	OTHER RESTRICTED LOCAL				1,500.00		
Total Services, Other Operating Expenses			9,188,678.00	10,679,557.17	(9,524.05)	(149,267.81)	10,720,765.31	10,720,765.31
Capital Outlay (6000-6999)								
TO COVER PROP 39 LIGHTING RETROFIT ON ENCINAL	6230	CALIF CLEAN ENERGY JOBS ACT	698,115.00			183,418.81		
Total Capital Outlay			698,115.00	698,920.09	-	183,418.81	1,053,338.90	1,053,338.90
Other Outgo (7100-7299, 7400-7499)			6,624,756.00					
Total Other Outgo			6,624,756.00	6,624,756.00	-	-	6,624,756.00	6,624,756.00
Interprogram Support Services (7300-7399)								
ADJUST DIRECT/INDIRECT COSTS TO BALANCE	0060	ADMINISTRATION	(69,269.00)		(23,311.31)			
TO COVER PROP 39 LIGHTING RETROFIT ON ENCINAL	6230	CALIF CLEAN ENERGY JOBS ACT				16,853.00		
SET UP PHENOMENON SUMMIT BUDGET	9010	OTHER RESTRICTED LOCAL				1,006.96		
TO SET UP AHS FEE BASED BUDGET	9010	OTHER RESTRICTED LOCAL				212.17		
TO COVER SUPPLIES AT 399 ENCINAL	9010	OTHER RESTRICTED LOCAL				825.00		
TO COVER CREDENTIAL CLASS EXPENSES	9010	OTHER RESTRICTED LOCAL				201.40		
SET UP MTSS GRANT	9010	OTHER RESTRICTED LOCAL				4,196.00		
SET UP AG PRODUCTION PROGRAM AT RHS	9010	OTHER RESTRICTED LOCAL				18.78		
Total Interprogram Support			(69,269.00)	(76,579.59)	(23,311.31)	23,311.31	(76,579.59)	(76,579.59)
Interfund Transfers Out (7600-7629)			45,000.00					
Total Interfund Transfers Out			45,000.00	45,000.00	-	-	45,000.00	45,000.00
TOTAL EXPENDITURES			54,262,627.20	57,469,579.74	-	77,560.53	57,547,140.27	57,547,140.27
ENDING FUND BALANCE			22,586,369.42	23,655,141.30	-	(12,513.16)	23,642,628.14	23,642,628.14
Total Expenditures plus Ending Fund Balance (7999)			76,848,996.62	81,124,721.04	-	65,047.37	81,189,768.41	81,189,768.41
Ending Fund Balance Change Detail (7999):								
TO SET UP AHS FEE BASED BUDGETS	9010	OTHER RESTRICTED LOCAL	22,586,369.42			(492.80)		
TO COVER SUPPLIES AT 399 ENCINAL	9010	OTHER RESTRICTED LOCAL				(9,825.00)		
TO SET UP AHS FEE BASED BUDGETS	9010	OTHER RESTRICTED LOCAL				(795.36)		
TO COVER BRUCE NEUSTADTER CONTRACT	9010	OTHER RESTRICTED LOCAL				(1,200.00)		
SET UP AG PRODUCTION PROGRAM AT RHS	9010	OTHER RESTRICTED LOCAL				(200.00)		
Net Increase/(Decrease) in Ending Fund Balance			22,586,369.42	23,655,141.30	-	(12,513.16)	23,642,628.14	23,642,628.14

SUPERINTENDENT’S RECOMMENDATION FOR BOARD ACTION

SUBJECT:

Gifts and Donations

DEPARTMENT/PROGRAM:

Santa Cruz County Board of Education

ACTION REQUESTED:

Accept gifts and donations as follows:

<u>Program</u>	<u>Donor</u>	<u>Value</u>
Michael C. Watkins Alternative Education Scholarship Fund	Sara Clarenbach	\$35.00

PREVIOUS STAFF/BOARD ACTION:

None. An acknowledgement letter will be sent to the donor following Board Action.

BACKGROUND INFORMATION AND/OR STATEMENT OF NEED:

County Board of Education Policy P-3280, requires that all gifts and donations received by programs conducted by the County Superintendent of Schools be accepted by the County Board of Education.

FISCAL IMPLICATIONS:

Gifts/Donations received will be utilized by the programs to which they were donated.

CONTACT PERSON(S):

Faris Sabbah, Superintendent
Sage Leibenson, Executive Aide to the Superintendent

**SANTA CRUZ COUNTY
SUPERINTENDENT OF SCHOOLS**

**ANNUAL FINANCIAL REPORT
JUNE 30, 2018**

SANTA CRUZ COUNTY SUPERINTENDENT OF SCHOOLS

TABLE OF CONTENTS

JUNE 30, 2018

FINANCIAL SECTION

Independent Auditor's Report	2
Management's Discussion and Analysis	5
Basic Financial Statements	
Government-Wide Financial Statements	
Statement of Net Position	13
Statement of Activities	14
Fund Financial Statements	
Governmental Funds Balance Sheet	15
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	16
Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances	17
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities	18
Fiduciary Funds - Statement of Net Position	19
Fiduciary Funds – Statement of Changes in Net Position	20
Notes to Financial Statements	21

REQUIRED SUPPLEMENTARY INFORMATION

County School Service Fund - Budgetary Comparison Schedule	58
Special Education Pass Through Fund – Budgetary Comparison Schedule	59
Schedule of Changes in the County Office of Education's Net OPEB Liability and Related Ratios	60
Schedule of County Office of Education Contributions for OPEB	61
Schedule of OPEB Investment Returns	62
Schedule of the County Office of Education's Proportionate Share of the Net Pension Liability	63
Schedule of County Office of Education Contributions	64
Note to Required Supplementary Information	65

SUPPLEMENTARY INFORMATION

Schedule of Expenditures of Federal Awards	68
Local Education Agency Organization Structure	70
Schedule of Average Daily Attendance	71
Schedule of Instructional Time	72
Reconciliation of Annual Financial and Budget Report with Audited Financial Statements	73
Schedule of Financial Trends and Analysis	74
Schedule of Charter Schools	75
Combining Statements - Non-Major Governmental Funds	
Combining Balance Sheet	76
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	77
Note to Supplementary Information	78

SANTA CRUZ COUNTY SUPERINTENDENT OF SCHOOLS

TABLE OF CONTENTS

JUNE 30, 2018

INDEPENDENT AUDITOR'S REPORTS

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	81
Report on Compliance for Each Major Program and Report on Internal Control over Compliance required by the Uniform Guidance	83
Report on State Compliance	85

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Summary of Auditor's Results	89
Financial Statement Findings	90
Federal Awards Findings and Questioned Costs	91
State Awards Findings and Questioned Costs	92
Summary Schedule of Prior Audit Findings	93

FINANCIAL SECTION



VAVRINEK, TRINE, DAY & CO., LLP
Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

Governing Board
Santa Cruz County Superintendent of Schools
Santa Cruz, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Santa Cruz County Superintendent of Schools (SCCOE) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the SCCOE's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with 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 misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. 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; and the *2017-2018 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Santa Cruz County Superintendent of Schools, as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter - Change in Accounting Principles

As discussed in Note 1 and Note 15 to the financial statements, in 2018, the SCCOE adopted new accounting guidance, GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison schedules, schedule of changes in the County Office of Education's net OPEB liability and related ratios, schedule of County Office of Education contributions for OPEB, schedule of OPEB investment returns, schedule of the County Office of Education's proportionate share of the net pension liability, and the schedule of County Office of Education contributions as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with 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 Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Santa Cruz County Superintendent of School's basic financial statements. The accompanying supplementary information such as the combining and individual non-major fund financial statements and Schedule of Expenditures of Federal Awards, as required by *Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)* and the other supplementary information as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The accompanying supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 2018, on our consideration of the Santa Cruz County Superintendent of School'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 Santa Cruz County Superintendent of School'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 Santa Cruz County Superintendent of School's internal control over financial reporting and compliance.

Vavrinek, Trine, Day & Co LLP

Pleasanton, California
December 17, 2018

SANTA CRUZ COUNTY SUPERINTENDENT OF SCHOOLS

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

INTRODUCTION

Our discussion and analysis of the Santa Cruz County Office of Education's (SCCOE) financial performance provides an overview of the SCCOE's financial activities for the fiscal year ended June 30, 2018. It should be read in conjunction with the SCCOE's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- Total net position was \$18,283,414 on June 30, 2018.
- Overall revenues for the SCCOE were \$61,580,315 while expenditures were \$57,583,572.
- The total long-term obligations were \$9,129,143, which primarily includes \$8,862,102 of Certificates of Participation (COP) debt issuance.

OVERVIEW OF FINANCIAL STATEMENTS

This annual report consists of three parts – management's discussion and analysis (this section), the basic financial statements, and required supplementary information. The three sections together provide a comprehensive overview of the Santa Cruz County Office of Education. The basic financial statements are comprised of two kinds of statements that present financial information from different perspectives:

- **Government-wide financial statements**, which comprise the first two statements, provide both short-term and long-term information about the entity's overall financial position using the economic resources measurement focus and accrual basis of accounting.
- **Fund financial statements** focus on reporting the individual parts of the SCCOE operations in more detail. The fund financial statements comprise the remaining statements using the current resources measurement focus and modified accrual basis of accounting.
 - **Governmental funds** statements tell how general government services were financed in the short term as well as what remains for future spending.
 - **Fiduciary fund** statements provide information about the financial relationships in which the SCCOE acts solely as a trustee or agent for the benefit of others, to whom the resources belong.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The basic financial statements are followed by a section of required supplementary information that further explains and supports the financial statements.

SANTA CRUZ COUNTY SUPERINTENDENT OF SCHOOLS

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

Government-Wide Statements

The government-wide statements report information about the SCCOE as a whole, using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the SCCOE's net position and how they have changed. Net position – the difference between the assets and deferred inflows of resources, and liabilities and deferred outflows of resources – are one way to measure the SCCOE's financial health or position.

- Over time, increases or decreases in the SCCOE's net position are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the SCCOE, one needs to consider additional non-financial factors such as changes in enrollment, changes in the property tax base, changes in program funding by the Federal and State governments, and condition of facilities.

The government-wide financial statements of the SCCOE include government activities. Most of the SCCOE's basic services are included here, such as regular education, food service, maintenance and general administration. Property taxes, interest income, user fees, federal, state, and local grants as well as proceeds from bonds finance most of these activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the SCCOE's most significant funds, not the SCCOE as a whole. Funds are accounting devices that the SCCOE uses to keep track of specific sources of funding and spending for particular programs. Some funds are required to be established by state law and by bond covenants. The Board of Education establishes other funds to control and manage money for particular purposes or to show that the SCCOE is meeting legal responsibilities for using certain revenues. The SCCOE has two kinds of funds:

- Governmental funds - Most of the SCCOE's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps in the determination of whether there are more, or fewer financial resources that can be spent in the near future to finance the SCCOE's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information on the reconciliation schedules of the government funds statement that explains the relationship (or differences) between them.
- Fiduciary funds – the SCCOE is the trustee, or fiduciary, for assets that belong to others. This includes the charter school, Pacific Collegiate, Retiree Benefits Trust and JPA. The SCCOE is responsible for ensuring that assets reported in this fund are used only for their intended purposes and by those to whom the assets belong. All of the SCCOE's fiduciary activities are reported in a separate statement of fiduciary net position and a statement of changes in fiduciary net position, where applicable. We exclude these activities from the SCCOE-wide financial statements because the SCCOE cannot use the assets to finance its operations.

SANTA CRUZ COUNTY SUPERINTENDENT OF SCHOOLS

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

FINANCIAL ANALYSIS OF THE ENTITY AS A WHOLE

Net Position

The SCCOE's combined assets were \$64,185,470 on June 30, 2018. Net position for the same reporting period was \$18,283,414. See Table 1.

Table 1
Net Position

	Governmental Activities		Total Percentage Change
	2018	2017 (restated)	2018-17
Assets			
Deposits and investments	\$ 29,343,230	\$ 28,793,344	2%
Receivables	7,938,297	6,473,850	23%
Prepaid expenses	60,000	2,100	2757%
Net other postemployment benefit asset	161,228	-	100%
Capital assets not depreciated	4,096,775	4,026,779	2%
Capital assets, net of accumulated depreciation	22,586,210	23,930,087	-6%
TOTAL ASSETS	64,185,740	63,226,160	2%
 Deferred outflows of resources	 11,373,186	 6,517,748	 74%
Liabilities			
Accounts payable	5,079,155	6,661,696	-24%
Interest payable	22,532	23,448	-4%
Unearned revenue	2,696,289	3,038,258	-11%
Current portion of long-term obligations	346,109	335,377	3%
Noncurrent portion of long-term obligations	8,783,034	9,143,619	-4%
Net other postemployment benefit obligation	-	264,026	-100%
Aggregate net pension liability	34,571,108	28,682,462	21%
TOTAL LIABILITIES	51,498,227	48,148,886	7%
 Deferred inflows of resources	 5,777,285	 6,958,859	 -17%
Net Position			
Net investment in capital assets	17,798,351	19,216,635	-7%
Restricted for:			
Capital projects	486,514	480,696	1%
Educational programs	2,758,125	2,503,306	100%
Other activities	548,761	632,688	-13%
OPEB trust assets	161,228	-	100%
Unrestricted	(3,469,565)	(8,197,162)	-58%
TOTAL NET POSITION	\$ 18,283,414	\$ 14,636,163	25%

SANTA CRUZ COUNTY SUPERINTENDENT OF SCHOOLS

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

Changes in Net Position

The SCCOE's total Government Activities revenues were \$61,580,315. The total cost of all programs and services on the full accrual basis was \$57,933,064.

Table 2
Changes in Net Position

	Government Activities		Total Percentage
	2018	2017	Change 2018-17
Revenues			
Program Revenues			
Charges for services	\$ 5,478,575	\$ 5,305,826	3%
Operating and capital grants and contributions	14,681,403	19,818,221	-26%
General Revenues			
Property and other taxes	12,523,329	11,645,978	8%
Unrestricted federal and state revenue	24,519,312	19,739,546	24%
Interest and other miscellaneous revenue	4,377,696	2,668,268	64%
Total revenues	61,580,315	59,177,839	4%
Program Expenses			
Instruction	18,153,080	16,737,957	8%
Instruction-related activities	10,344,030	10,026,988	3%
Pupil services	3,188,894	3,495,600	-9%
General administration	6,810,708	6,658,811	2%
Plant services	2,966,847	2,758,316	8%
Ancillary services	21,251	18,387	16%
Community services	2,493,162	2,890,751	-14%
Interest on long-term debt	288,463	307,579	-1%
Other outgo	13,666,629	14,038,116	-3%
Total expenses	57,933,064	56,932,505	2%
Increase (Decrease) in net position	\$ 3,647,251	\$ 2,245,334	-62%

SANTA CRUZ COUNTY SUPERINTENDENT OF SCHOOLS

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

Governmental Activities

The cost of all governmental activities this year was \$57,933,064.

Table 3 presents the cost of each of the SCCOE's functions as well as each function's net cost (total cost less fees generated by the activities and intergovernmental aid). The net cost reflects what was funded by charges for services, operating grants and capital grants and contributions.

Table 3
Net Cost of Governmental Activities

	2018			Net Costs
	Total Cost of Services	Revenue from Operating/Capital Grants & Contributions	Revenue from Charges for Services and Sales	
Instruction	\$ 18,153,080	\$ 5,287,575	\$ 512,277	\$ (12,353,228)
Instruction-related activities	10,344,030	2,131,284	2,563,662	(5,649,084)
Pupil services	3,188,894	1,051,995	343,846	(1,793,053)
General administration	6,810,708	598,773	226,368	(5,985,567)
Plant services	2,966,847	456,757	462,254	(2,047,836)
Ancillary services	21,251	6,029	12,032	(3,190)
Community services	2,493,162	1,412,148	935,618	(145,396)
Interest on long term debt	288,463	-	-	(288,463)
Other outgo	13,666,629	3,736,842	422,518	(9,507,269)
TOTAL	<u>\$ 57,933,064</u>	<u>\$ 14,681,403</u>	<u>\$ 5,478,575</u>	<u>\$ (37,773,086)</u>

FINANCIAL ANALYSIS OF THE SCCOE'S FUNDS

The positive financial performance of the SCCOE as a whole is reflected in its governmental funds as well. As the SCCOE completed the year, its governmental funds reported a combined fund balance (modified accrual reporting method) of \$29,566,083.

General Fund Budgetary Highlights

Over the course of the year, the SCCOE revises its annual budget to reflect unexpected changes in revenues and expenditures. The final 2017-18 Budget was approved on June 21, 2018. A schedule of the SCCOE's original and final budget amounts compared with actual revenues and expenses are provided in the supplemental section of the audited financial report.

SANTA CRUZ COUNTY SUPERINTENDENT OF SCHOOLS

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

On June 30, 2018, the SCCOE had invested \$35,475,711 (historical costs) in capital assets, including buildings, portables, copy machines, vehicles and land purchases for future classroom sites (see Table 4 below). More detailed information about SCCOE's capital assets is presented in the notes to the financial statements.

Table 4
Capital Assets

	Governmental Activities		Total Percentage
	2018	2017	Change 2018-17
Land	\$ 4,026,778	\$ 4,026,779	0%
Land Improvements	83,952	60,732	38%
Buildings and Improvements	28,539,855	28,539,855	0%
Furniture and Equipment	2,755,129	2,756,720	-0.06%
Construction In Progress	69,997	-	100%
Totals at Historical Cost	35,475,711	35,384,086	0.26%
Total Accumulated Depreciation	8,792,726	7,427,220	18%
Net Capital Assets	\$ 26,682,985	\$ 27,956,866	-5%

Long-Term Obligations

At year end, the SCCOE had \$9,129,143 in long-term obligations, which consisted of compensated absences and Certificates of Participation as shown in Table 5. More detailed information about the SCCOE's debt is presented in the notes to the financial statements.

Table 5
Long-Term Obligations

	Governmental Activities		Percentage
	2018	2017	2018-17
Compensated Absences	\$ 267,041	\$ 281,517	-5%
Certificates of Participation (net)	8,862,102	9,197,479	-4%
Total Long-Term Obligations	\$ 9,129,143	\$ 9,478,996	-4%

SANTA CRUZ COUNTY SUPERINTENDENT OF SCHOOLS

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

SIGNIFICANT ACCOMPLISHMENTS OF FISCAL YEAR 2017-2018 ARE NOTED BELOW:

In Fiscal Year 2016/17, the Board approved the Career Advancement Charter (CAC) and in Fiscal Year 2017/18, the Santa Cruz County Office of Education opened CAC. The CAC's purpose is to capture youth and adults that did not finish high school and assist them with earning their high school diploma.

The program is currently being administered at Sequoia Community School after normal school hours, the county jail, Blaine Street Jail and the Rountree facility. The enrollment and attendance are being monitored closely to ensure the program is well received and is achieving the goals it set out to meet.

In fiscal year 2017/18, the enrollment was at 48 (as of the CalPADS collection date) and continued to grow throughout the year; by the P-2 Average Daily Attendance reporting period the reported ADA was 58.51.

By the end of its first year of operation, CAC graduated 44 students.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

It has now been five years since the implementation of the Local Control Funding Formula and the Local Control Accountability Plan. The SCCOE continues to receive the same funding level as in 2012/13 due to the collapse of the Tier III funds into the LCFF formula and the hold harmless status and is not expected to receive additional funding for an estimated eight more years.

In order to address the flat funding, the SCCOE has made strategic changes to programs and has been able to continue offering three of the significant programs that were previously funded under Tier III.

These program are:

The New Teacher Project: This program has become self-sufficient through a fee for services model and by acquiring a multi-year grant.

Career Technical Education Partnership (CTEP): In the 2017/18 Fiscal Year, the Santa Cruz County Office of Education and the local districts were in the third year of the Career Technical Education Partnership Consortium. School districts began to make future decisions on how they will educate the students across the county with the Career Technical Education courses after Fiscal Year 2018/19. Currently in the multi-year projection, the Santa Cruz County Office of Education has built in the continued agreement into the future with the districts picking up 100% of the cost. As the year has progressed it is clear there will be changes in the program starting in 2019/20.

Technology Information Center for Administrative Leadership (TICAL): This program has been able to sustain itself for the past three years using Carry Over funds that were received specifically for the program.

These changes have enabled the SCCOE to offer compensation that allows it to continue to attract highly qualified teachers and other staff by continuing to be competitive in the market.

SANTA CRUZ COUNTY SUPERINTENDENT OF SCHOOLS

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

CONTACTING THE SCCOE'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, parents, participants, investors and creditors with a general overview of the SCCOE's finances and to demonstrate the SCCOE's accountability for the money it receives. If you have questions about this report, or need additional financial information, please contact Mary Hart, Deputy Superintendent, Business Services, at (831) 466-5601.

SANTA CRUZ COUNTY SUPERINTENDENT OF SCHOOLS

STATEMENT OF NET POSITION JUNE 30, 2018

	Governmental Activities
ASSETS	
Deposits and investments	\$ 29,343,230
Receivables	7,938,297
Prepaid expenses	60,000
Net other postemployment benefit asset	161,228
Capital assets not depreciated	4,096,775
Capital assets, net of accumulated depreciation	22,586,210
Total Assets	64,185,740
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows of resources related to net other postemployment benefits (OPEB) asset	868,023
Deferred outflows of resources related to pensions	10,505,163
Total Deferred Outflows of Resources	11,373,186
LIABILITIES	
Accounts payable	5,079,155
Interest payable	22,532
Unearned revenue	2,696,289
Long Term Obligations	
Current portion of long-term obligations other than pensions	346,109
Noncurrent portion of long-term obligations other than pensions	8,783,034
Aggregate net pension liability	34,571,108
Total Liabilities	51,498,227
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows of resources related to pensions	5,777,285
Total Deferred Inflows of Resources	5,777,285
NET POSITION	
Net investment in capital assets	17,798,351
Restricted for:	
Capital projects	486,514
Educational programs	2,758,125
Other activities	548,761
OPEB trust assets	161,228
Unrestricted	(3,469,565)
Total Net Position	\$ 18,283,414

The accompanying notes are an integral part of these financial statements.

SANTA CRUZ COUNTY SUPERINTENDENT OF SCHOOLS

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2018

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Position
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental Activities:					
Instruction	\$ 18,153,080	\$ 512,277	\$ 5,281,757	\$ 5,818	\$ (12,353,228)
Instruction-related activities:					
Supervision of instruction	7,127,602	2,536,347	1,752,320	-	(2,838,935)
Instructional library, media, and technology	200,072	-	3,407	-	(196,665)
School site administration	3,016,356	27,315	375,557	-	(2,613,484)
Pupil services:					
Food services	70,711	-	32,755	-	(37,956)
All other pupil services	3,118,183	343,846	1,019,240	-	(1,755,097)
General administration:					
Data processing	1,276,527	-	-	-	(1,276,527)
All other general administration	5,534,181	226,368	598,773	-	(4,709,040)
Plant services	2,966,847	462,254	456,757	-	(2,047,836)
Ancillary services	21,251	12,032	6,029	-	(3,190)
Community services	2,493,162	935,618	1,412,148	-	(145,396)
Interest on long-term obligations	288,463	-	-	-	(288,463)
Other outgo	13,666,629	422,518	3,736,842	-	(9,507,269)
Total Governmental-Type Activities	\$ 57,933,064	\$ 5,478,575	\$ 14,675,585	\$ 5,818	(37,773,086)
General revenues and subventions:					
Property taxes, levied for general purposes					11,918,050
Taxes levied for other specific purposes					605,279
Federal and State aid not restricted to specific purposes					24,519,312
Interest and investment earnings					348,953
Interagency revenue					461
Miscellaneous					4,028,282
Subtotal, General Revenues					41,420,337
Change in Net Position					3,647,251
Net Position - Beginning, as restated					14,636,163
Net Position - Ending					\$ 18,283,414

The accompanying notes are an integral part of these financial statements.

SANTA CRUZ COUNTY SUPERINTENDENT OF SCHOOLS

GOVERNMENTAL FUNDS BALANCE SHEET

JUNE 30, 2018

	County School Service Fund	Special Ed Pass-through Fund	Non Major Governmental Funds	Total Governmental Funds
ASSETS				
Deposits and investments	\$ 27,819,559	\$ 616,095	\$ 907,576	\$ 29,343,230
Receivables	6,917,462	778,918	241,917	7,938,297
Due from other funds	339,241	-	91,405	430,646
Prepaid expenses	60,000	-	-	60,000
Total Assets	<u>\$ 35,136,262</u>	<u>\$ 1,395,013</u>	<u>1,240,898</u>	<u>\$ 37,772,173</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 4,161,941	\$ 869,130	\$ 48,084	\$ 5,079,155
Due to other funds	91,405	-	339,241	430,646
Unearned revenue	2,633,992	-	62,297	2,696,289
Total Liabilities	<u>6,887,338</u>	<u>869,130</u>	<u>449,622</u>	<u>8,206,090</u>
Fund Balances:				
Nonspendable	62,800	-	-	62,800
Restricted	2,719,170	525,883	525,469	3,770,522
Committed	1,200,000	-	-	1,200,000
Assigned	21,746,944	-	265,807	22,012,751
Unassigned	2,520,010	-	-	2,520,010
Total Fund Balances	<u>28,248,924</u>	<u>525,883</u>	<u>791,276</u>	<u>29,566,083</u>
Total Liabilities and Fund Balances	<u>\$ 35,136,262</u>	<u>\$ 1,395,013</u>	<u>\$ 1,240,898</u>	<u>\$ 37,772,173</u>

The accompanying notes are an integral part of these financial statements.

SANTA CRUZ COUNTY SUPERINTENDENT OF SCHOOLS

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION JUNE 30, 2018

Total Fund Balance - Governmental Funds		\$ 29,566,083
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 as assets in governmental funds.		
The cost of capital assets is	\$ 35,475,711	
Accumulated depreciation is	<u>(8,792,726)</u>	
Net Capital Assets		26,682,985
In governmental funds, unmatured interest on long-term obligations is recognized in the period when it is due. On the government-wide financial statements, unmatured interest on long-term obligations is recognized when it is incurred.		(22,532)
Deferred outflows of resources related to pensions represent a consumption of net position in a future period and is not reported in the COE's funds. Deferred outflows of resources related to pensions at year-end consist of:		
Pension contributions subsequent to measurement date	2,974,492	
Net change in proportionate share of net pension liability	473,279	
Differences between projected and actual earnings on pension plan investments	659,617	
Differences between expected and actual experience in the measurement of the total pension liability.	740,456	
Changes of assumptions	<u>5,657,319</u>	
Total Deferred Outflows of Resources Related to Pensions		10,505,163
Deferred inflows of resources related to pensions represent an acquisition of net position that applies to a future period and is not reported in the COE's funds. Deferred inflows of resources related to pensions at year-end consist of:		
Net change in proportionate share of net pension liability	(4,869,488)	
Differences between projected and actual earnings on pension plan investments	(412,895)	
Differences between expected and actual experience in the measurement of the total pension liability.	(270,402)	
Changes of assumptions	<u>(224,500)</u>	
Total Deferred Inflows of Resources Related to Pensions		(5,777,285)
Net postemployment benefit (OPEB) asset is not a current financial resource; therefore, it is not reported in the governmental activities		161,228
Deferred outflows of resources related to OPEB represent a consumption of net position in a future period and is not reported in the COE's funds. Deferred outflows of resources related to OPEB at year-end consist of OPEB contributions subsequent to measurement date.		868,023
Net pension liability is not due and payable in the current period, and is not reported as a liability in the funds.		(34,571,108)
Long-term obligations at year-end consist of:		
Compensated absences (vacations)	(267,041)	
Certificates of participation	<u>(8,862,102)</u>	
Total Long-Term Obligations		(9,129,143)
Total Net Position - Governmental Activities		<u>\$ 18,283,414</u>

The accompanying notes are an integral part of these financial statements.

SANTA CRUZ COUNTY SUPERINTENDENT OF SCHOOLS

GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES FOR THE YEAR ENDED JUNE 30, 2018

	County School Service Fund	Special Education Pass-through Fund	Non Major Governmental Funds	Total Governmental Funds
REVENUES				
Local Control Funding Formula	\$ 27,308,520	\$ -	\$ 523,021	\$ 27,831,541
Federal sources	12,122,789	981,161	267,795	13,371,745
Other state sources	4,402,133	5,026,930	666,967	10,096,030
Other local sources	10,144,239	24,107	112,653	10,280,999
Total Revenues	53,977,681	6,032,198	1,570,436	61,580,315
EXPENDITURES				
Current				
Instruction	17,393,715	-	211,127	17,604,842
Instruction-related activities:				
Supervision of instruction	7,223,452	-	-	7,223,452
Instructional library, media and technology	201,798	-	-	201,798
School site administration	2,973,665	-	80,034	3,053,699
Pupil services:				
Food services	-	-	71,662	71,662
All other pupil services	3,160,114	-	-	3,160,114
General administration:				
Data processing	1,223,753	-	-	1,223,753
All other general administration	5,204,426	-	66,382	5,270,808
Plant services	2,871,137	-	-	2,871,137
Ancillary services	21,536	-	-	21,536
Community services	1,600,394	-	926,294	2,526,688
Other outgo	7,560,313	6,106,316	-	13,666,629
Capital Outlay	62,698	-	-	62,698
Principal	335,377	-	-	335,377
Interest and other	289,379	-	-	289,379
Total Expenditures	50,121,757	6,106,316	1,355,499	57,583,572
Excess (Deficiency) of				
Revenues Over Expenditures	3,855,924	(74,118)	214,937	3,996,743
Other Financing Sources (Uses):				
Transfers in	-	-	62,955	62,955
Transfers out	(62,955)	-	-	(62,955)
Net Financing Sources (Uses)	(62,955)	-	62,955	-
NET CHANGE IN FUND BALANCES	3,792,969	(74,118)	277,892	3,996,743
Fund Balance - Beginning	24,455,955	600,001	513,384	25,569,340
Fund Balance - Ending	\$ 28,248,924	\$ 525,883	\$ 791,276	\$ 29,566,083

The accompanying notes are an integral part of these financial statements.

SANTA CRUZ COUNTY SUPERINTENDENT OF SCHOOLS

GOVERNMENTAL FUNDS, RECONCILIATION OF THE STATEMENT OF ACTIVITIES TO THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES FOR THE YEAR ENDED JUNE 30, 2018

Total Net Change in Fund Balances - Governmental Funds		\$ 3,996,743
Amounts Reported for Governmental Activities in the Statement of Activities are Different Because:		
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures; however, for governmental activities, those costs are shown in the Statement of Net Position and allocated over their estimated useful lives as annual depreciation expenses in the Statement of Activities.		
This is the amount by which depreciation exceeds capital outlays in the period.		
Depreciation expense	\$ (1,363,523)	
Adjustments	(1,985)	
Capital outlays	<u>91,627</u>	
Net Expense Adjustment		(1,273,881)
In the Statement of Activities, certain operating expenses, such as compensated absences (vacations) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). Vacation earned was less than the amounts used.		14,476
In the governmental funds, pension costs are based on employer contributions made to pension plans during the year. However, in the Statement of Activities, pension expense is the net effect of all changes in the deferred outflows and net pension liability during the year.		(719,657)
In the governmental funds, OPEB costs are based on employer contributions made to OPEB plans during the year. However, in the Statement of Activities, OPEB expense is the net effect of all changes in the deferred outflows, deferred inflows, and net OPEB asset during the year.		1,293,277
Payment of principal on long-term liabilities is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Position and does not affect the Statement of Activities.		335,377
Interest on long-term debt is recorded as an expenditure in the funds when it is due; however, in the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due, net of any issuance costs.		916
Change in Net Position of Governmental Activities		<u>\$ 3,647,251</u>

The accompanying notes are an integral part of these financial statements.

SANTA CRUZ COUNTY SUPERINTENDENT OF SCHOOLS

FIDUCIARY FUNDS STATEMENT OF NET POSITION JUNE 30, 2018

	Retiree Benefits Trust	Agency Funds
ASSETS		
Deposits and investments	\$ 8,398,700	\$ 2,590,336
Total Assets	<u>8,398,700</u>	<u>2,590,336</u>
LIABILITIES		
Due to other agency	-	2,590,336
Total Liabilities	<u>-</u>	<u>\$ 2,590,336</u>
NET POSITION		
Restricted for postemployment benefits other than pensions	8,398,700	
Total Net Position	<u>\$ 8,398,700</u>	

The accompanying notes are an integral part of these financial statements.

SANTA CRUZ COUNTY SUPERINTENDENT OF SCHOOLS

FIDUCIARY FUNDS STATEMENT OF CHANGES IN NET POSITION FOR THE YEAR ENDED JUNE 30, 2018

	Retiree Benefits Trust
ADDITIONS	
Employer contributions	\$ 595,554
Net increase in fair market value of investments	617,977
Total Additions	<u>1,213,531</u>
DEDUCTIONS	
Benefit payments	445,554
Administrative expense	4,047
Other expenditures	2,958
Total Deductions	<u>452,559</u>
Change in Net Position	760,972
Net Position - Beginning	7,637,728
Net Position - Ending	<u><u>\$ 8,398,700</u></u>

The accompanying notes are an integral part of these financial statements.

SANTA CRUZ COUNTY SUPERINTENDENT OF SCHOOLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The Santa Cruz County Office of Education (SCCOE) was organized circa 1861 under the laws of the State of California. The SCCOE operates under a locally elected seven-member Board and provides educational services to grades K-12 as mandated by the State and/or Federal agencies or local agreements. The SCCOE is the administrative unit for one Special Educational Local Plan Area (SELPA) and operates special education classes at nine school sites within the County of Santa Cruz. The SCCOE coordinates the Career Technical Education Partnership for four school districts, operates Alternative Education programs at seventeen school sites around the county, including four court programs and twenty community school programs. In addition, SCCOE has two charter schools in the county that it oversees and offers Medical and Dental programs for Adults wishing to continue their education.

A reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure the financial statements are not misleading. The primary government of the SCCOE consists of all funds, departments, boards, and agencies that are not legally separate from the SCCOE. The SCCOE determined that there are no potential component units that meet the criteria for inclusion within the reporting entity.

Other Related Entities

Charter School The SCCOE has approved a Charter for Santa Cruz County Career Advancement Charter School pursuant to *Education Code* Section 47605. The Santa Cruz County Career Advancement Charter School is operated by the SCCOE, and its financial activities are presented in the Charter School special revenue fund. The Santa Cruz County Career Advancement Charter School is operated by the SCCOE and not considered a component unit of the SCCOE. The SCCOE receives revenue on behalf of the Santa Cruz County Career Advancement Charter School which it passes on to the Charter. This activity is accounted for in the Charter Schools Fund.

Charter School The SCCOE is the chartering agency for the Pacific Collegiate Charter School (the charter school), a public benefit corporation organized under the Internal Revenue Code Section 501(c)(3). As the chartering agency, SCCOE has certain oversight responsibilities to ensure that the Charter School is in compliance with applicable Charter School laws and regulations. However, the SCCOE is not liable for the debts or obligations of the Charter School. The SCCOE receives revenue on behalf of the Charter School and makes payments for the Charter School's salaries and benefits. The payments of amounts on behalf of and to the Charter School are included in these financial statements as an agency fund as the Charter School is not a component unit of SCCOE. The Pacific Collegiate Charter School's financial activity is presented in a separate report provided by the Pacific Collegiate Charter School.

Basis of Presentation - Fund Accounting

The accounting system is organized and operated on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. The SCCOE's funds are grouped into three broad fund categories: governmental, proprietary, and fiduciary. Currently there are no proprietary funds in use.

SANTA CRUZ COUNTY SUPERINTENDENT OF SCHOOLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Governmental Funds Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the SCCOE's major and non-major governmental funds:

Major Governmental Funds

County School Service Fund The County School Service Fund is the chief operating fund for the SCCOE. It is used to account for the ordinary operations of the SCCOE. All transactions except those accounted for in another fund are accounted for in this fund.

Two funds currently defined as special revenue funds in the California State Accounting Manual (CSAM) do not meet the GASB Statement No. 54 special revenue fund definition. Specifically Fund 14, Deferred Maintenance Fund and Fund 17, Special Reserve Fund for Other Than Capital Outlay Projects, are not substantially composed of restricted or committed revenue sources. While these funds are authorized by statute and will remain open for internal reporting purposes, these funds function effectively as an extension of the County School Service Fund, and accordingly have been combined with the County School Service Fund for presentation in these audited financial statements.

As a result, the County School Service Fund reflects an increase in assets, fund balance, revenues and expenditures of \$3,527,903, \$3,527,903, \$238,838, and \$0, respectively.

Special Education Pass-Through Fund A Special Education Pass-Through Fund, a special revenue fund, was established in 2011-12. This fund is used by the Administrative Unit (SCCOE) of a multi-Agency Special Education Local Plan Area (SELPA) to account for Special Education revenue passed through to other member districts.

Non-Major Governmental Funds

Special Revenue Funds The Special Revenue Funds are established to account for the proceeds from specific revenue sources (other than trusts, major capital projects, or debt service) that are restricted or committed to the financing of particular activities, that compose a substantial portion of the inflows of the fund, and that are reasonably expected to continue. Additional resources are restricted, committed, or assigned to the purpose of the fund may also be reported in the fund.

Charter Schools Fund The Charter Schools Fund may be used by authorizing county offices and districts to account separately for the operating activities of county office-operated charter schools that would otherwise be reported in the the authorizing COE's General Fund.

Child Development Fund The Child Development Fund is used to account separately for Federal, State, and local revenues to operate child development programs and is to be used only for expenditures for the operation of child development programs.

SANTA CRUZ COUNTY SUPERINTENDENT OF SCHOOLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Cafeteria Fund The Cafeteria Fund is used to account separately for Federal, State, and local resources to operate the food service program (*Education Code* Sections 38090-38093) and is used only for those expenditures authorized by the governing board as necessary for the operation of the SCCOE's food service program (*Education Code* Sections 38091 and 38100).

Capital Project Funds The Capital Project funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and other capital assets (other than those financed by proprietary funds and trust funds).

County School Facilities Fund The County School Facilities Fund, a capital project fund, is established pursuant to *Education Code* Section 17070.43 to receive apportionments from the 1998 State School Facilities Fund (Proposition 1A), the 2002 State School Facilities Fund (Proposition 47), the 2004 State School Facilities Fund (Proposition 55), the 2006 State School Facilities Fund (Proposition 1D), or the 2016 State School Facilities Fund (Proposition 51) authorized by the State Allocation Board for new school facility construction, modernization projects, and facility hardship grants, as provided in the Leroy F. Greene School Facilities Act of 1998 (*Education Code* Section 17070 et seq.).

Fiduciary Funds Fiduciary funds are used to account for assets held in trustee or agent capacity for others that cannot be used to support the SCCOE's own programs. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds, and agency funds. The key distinction between trust and agency funds is that trust funds are subject to a trust agreement that affects the degree of management involvement and the length of time that the resources are held.

Trust funds are used to account for the assets held by the SCCOE under a trust agreement for individuals, private organizations, or other governments and are therefore, not available to support the SCCOE's own programs. SCCOE's trust fund is the Retiree Benefits Trust. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Such funds have no equity accounts since all assets are due to individuals or entities at some future time. The SCCOE's agency fund accounts for activities of the Pacific Collegiate Charter School, and the Special Education Coordinating Agency..

Basis of Accounting - Measurement Focus

Government-Wide Financial Statements The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This is basically the same approach used in private sector financial statements, but differs from the manner in which governmental fund financial statements are prepared.

The government-wide statement of activities presents a comparison between expenses, both direct and indirect, and program revenues for each governmental function, and exclude fiduciary activity. Direct expenses are those that are specifically associated with a service, program, or department and are therefore, clearly identifiable to a particular function. The SCCOE does not allocate indirect expenses to functions in the Statement of Activities, except for depreciation. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program or business segment is self-financing or draws from the general revenues of the SCCOE. Eliminations have been made to minimize the double counting of internal activities.

SANTA CRUZ COUNTY SUPERINTENDENT OF SCHOOLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Net position should be reported as restricted when constraints placed on net position are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The net position restricted for other activities result from special revenue funds and the restrictions on their use.

Fund Financial Statements Fund financial statements report detailed information about the SCCOE. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column.

Governmental Funds All governmental funds are accounted for using the flow of current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures, and changes in fund balance reports on the sources (revenues and other financing sources) and uses (expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements, therefore, include reconciliations with brief explanations to better identify the relationship between the government-wide financial statements, prepared using the economic resources measurement focus and the accrual basis of accounting, and the governmental fund financial statements, prepared using the flow of current financial resources measurement focus and the modified accrual basis of accounting.

Fiduciary Funds Fiduciary funds are accounted for using the flow of economic resources measurement focus and the accrual basis of accounting. Fiduciary funds are excluded from the government-wide financial statements because they do not represent resources of the SCCOE.

Revenues – Exchange and Non-Exchange Transactions Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter, to be used to pay liabilities of the current fiscal year. Generally, available is defined as collectible within 45 or 60 days. However, to achieve comparability of reporting among California Local Education Agencies (LEAs) and so as not to distort normal revenue patterns, with specific respect to reimbursement grants and corrections to State-aid apportionments, the California Department of Education has defined available for LEAs as collectible within one year. The following revenue sources are considered to be both measurable and available at fiscal year-end: State apportionments, interest, certain grants, and other local sources.

Non-exchange transactions, in which the SCCOE receives value without directly giving equal value in return, include property taxes, certain grants, entitlements, and donations. Revenue from property taxes is recognized in the fiscal year in which the taxes are received. Revenue from certain grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include time and purpose restrictions. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

SANTA CRUZ COUNTY SUPERINTENDENT OF SCHOOLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Unearned Revenue Unearned revenue arises when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period or when resources are received by the SCCOE prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the SCCOE has a legal claim to the resources, the liability for unearned revenue is removed from the balance sheet and revenue is recognized.

Certain grants received before the eligibility requirements are met are recorded as unearned revenue. On the governmental fund financial statements, receivables that will not be collected within the available period are also recorded as unearned revenue.

Expenses/Expenditures On the accrual basis of accounting, expenses are recognized at the time they are incurred. The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable, and typically paid within 90 days. Principal and interest on long-term obligations, which has not matured, are recognized when paid in the governmental funds as expenditures. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds but are recognized in the entity-wide statements.

Investments

Investments held at June 30, 2018, with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost. Fair values of investments in County investment pools are determined by the program sponsor.

Restricted Assets

Restricted assets arise when restrictions on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. Restricted assets in the County School Service Fund represent investments required by State covenants to be set aside by the SCCOE for the purpose of satisfying certain requirements of the entitlement.

Prepaid Expenditures (Expenses)

Prepaid expenditures (expenses) represent amounts paid in advance of receiving goods or services. The SCCOE has the option of reporting expenditure in governmental funds for prepaid items either when purchased or during the benefiting period. The SCCOE has chosen to report the expenditures when paid.

Capital Assets and Depreciation

The accounting and reporting treatment applied to the capital assets associated with a fund is determined by its measurement focus. Capital assets are long-lived assets of the SCCOE. The SCCOE maintains a capitalization threshold of \$5,000. The SCCOE does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized, but are expensed as incurred.

SANTA CRUZ COUNTY SUPERINTENDENT OF SCHOOLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

When purchased, such assets are recorded as expenditures in the governmental funds and capitalized in the government-wide statement of net position. The valuation basis for capital assets is historical cost, or where historical cost is not available, estimated historical cost based on replacement cost.

Depreciation is computed using the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are as follows: land improvements, 5 years; buildings and improvements, 25 years; furniture and equipment, 5-8 years.

Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables". These amounts are eliminated in the government-wide statement of net position.

Compensated Absences

Compensated absences are accrued as a liability as the benefits are earned. The entire compensated absence liability is reported on the government-wide statement of net position. For governmental funds, the current portion of unpaid compensated absences is recognized upon the occurrence of relevant events such as employee resignations and retirements that occur prior to year-end that have not yet been paid with expendable available financial resources. These amounts are reported in the fund from which the employees who have accumulated leave are paid.

Sick leave is accumulated without limit for each employee at the rate of one day for each month worked. Leave with pay is provided when employees are absent for health reasons; however, the employees do not gain a vested right to accumulated sick leave. Employees are never paid for any sick leave balance at termination of employment or any other time. Therefore, the value of accumulated sick leave is not recognized as a liability in the SCCOE's financial statements. However, credit for unused sick leave is applicable to all classified school members who retire after January 1, 1999. At retirement, each member will receive .004 year of service credit for each day of unused sick leave. Credit for unused sick leave is applicable to all certificated employees and is determined by dividing the number of unused sick days by the number of base service days required to complete the last school year, if employed full-time.

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities, and long-term obligations are reported in the government-wide fund financial statements. In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the governmental funds.

However, claims and judgments, compensated absences, special termination benefits, and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the governmental fund financial statements only to the extent that they are due for payment during the current year. Bonds, capital leases, and other long-term obligations are recognized as liabilities in the governmental fund financial statements when due.

SANTA CRUZ COUNTY SUPERINTENDENT OF SCHOOLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Debt Issuance Costs, Premiums and Discounts

In the government-wide financial statements, long-term obligations are reported as liabilities in the governmental fund statement of net position. Debt premiums and discounts, as well as prepaid bond insurance costs are amortized over the life of the bonds using the straight-line method. Issuance costs other than prepaid bond insurance is expensed as incurred.

In governmental fund financial statements, bond premiums and discounts, as well as debt issuance costs are recognized in the current period. The face amount of the debt is reported as other financing sources. Premiums received on debt issuance are also reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds, are reported as debt service expenditures.

Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position also reports deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The SCCOE reports deferred outflows of resources for pension related items, and for OPEB related items.

In addition to liabilities, the Statement of Net Position reports a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The SCCOE reports deferred charges for pension related items.

Pensions

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the California State Teachers Retirement System (CalSTRS) and the California Public Employees' Retirement System (CalPERS) plan for schools (Plans) and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by CalSTRS and CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Member contributions are recognized in the period in which they are earned. Investments are reported at fair value.

Postemployment Benefits Other Than Pensions (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the SCCOE Plan and additions to/deductions from the SCCOE Plan's fiduciary net position have been determined on the same basis as they are reported by the SCCOE Plan. For this purpose, the SCCOE Plan recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for money market investments and participating interest-earning investment contracts that have a maturity at the time of purchase of one year or less, which are reported at cost.

SANTA CRUZ COUNTY SUPERINTENDENT OF SCHOOLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Fund Balances - Governmental Funds

As of June 30, 2018, fund balances of the governmental funds are classified as follows:

Nonspendable - amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted - amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Committed - amounts that can be used only for specific purposes determined by a formal action of the SCCOE's highest level of decision making authority. The Superintendent is the highest level of decision-making authority for the SCCOE. Commitments may be established, modified, or rescinded only through resolutions or other action as approved by the governing board.

Assigned - amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. Under the SCCOE's practice, only the Deputy Superintendent of Business Services may assign amounts for specific purposes.

Unassigned - all other spendable amounts. It is the SCCOE's practice to maintain an amount equal to at least 3 percent of the County School Service Fund annual expenditures and other financing uses for Economic Uncertainties.

Spending Order Policy

When expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the SCCOE considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the SCCOE considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the governing board has provided otherwise in its commitment or assignment actions.

Net Position

Net position represents the difference between assets and liabilities. Net position net of investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the SCCOE or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The SCCOE first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds.

SANTA CRUZ COUNTY SUPERINTENDENT OF SCHOOLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Property Tax

Secured property taxes attach as an enforceable lien on property as of January 1. Taxes are payable in two installments on November 1 and February 1 and become delinquent on December 10 and April 10, respectively. Unsecured property taxes are payable in one installment on or before August 31. The County of Santa Cruz bills and collects the taxes on behalf of the SCCOE. Local property tax revenues are recorded when received.

Change in Accounting Principles

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The primary objective of this Statement is to improve accounting and financial reporting by State and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by State and local governmental employers about financial support for OPEB that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

This Statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, establishes new accounting and financial reporting requirements for OPEB plans.

The SCCOE has implemented the provisions of this Statement as of June 30, 2018.

In March 2017, the GASB issued Statement No. 85, *Omnibus 2017*. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). Specifically, this Statement addresses the following topics:

- Blending a component unit in circumstances in which the primary government is a business-type activity that reports in a single column for financial statement presentation;
- Reporting amounts previously reported as goodwill and "negative" goodwill;
- Classifying real estate held by insurance entities;
- Measuring certain money market investments and participating interest-earning investment contracts at amortized cost;
- Timing of the measurement of pension or OPEB liabilities and expenditures recognized in financial statements prepared using the current financial resources measurement focus;

SANTA CRUZ COUNTY SUPERINTENDENT OF SCHOOLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

- Recognizing on behalf payments for pensions or OPEB in employer financial statements;
- Presenting payroll-related measures in required supplementary information for purposes of reporting by OPEB plans and employers that provide OPEB;
- Classifying employer-paid member contributions for OPEB;
- Simplifying certain aspects of the alternative measurement method for OPEB; and
- Accounting and financial reporting for OPEB provided through certain multiple-employer defined benefit OPEB plans.

The SCCOE has implemented the provisions of this Statement as of June 30, 2018.

In May 2017, the GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*. The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance.

The SCCOE has implemented the provisions of this Statement as of June 30, 2018.

New Accounting Pronouncements

In November 2016, the GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement.

This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. This Statement requires that recognition occur when the liability is both incurred and reasonably estimable. The determination of when the liability is incurred should be based on the occurrence of external laws, regulations, contracts, or court judgments, together with the occurrence of an internal event that obligates a government to perform asset retirement activities. Laws and regulations may require governments to take specific actions to retire certain tangible capital assets at the end of the useful lives of those capital assets, such as decommissioning nuclear reactors and dismantling and removing sewage treatment plants. Other obligations to retire tangible capital assets may arise from contracts or court judgments. Internal obligating events include the occurrence of contamination, placing into operation a tangible capital asset that is required to be retired, abandoning a tangible capital asset before it is placed into operation, or acquiring a tangible capital asset that has an existing ARO.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Early implementation is encouraged.

SANTA CRUZ COUNTY SUPERINTENDENT OF SCHOOLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.

This Statement establishes criteria for identifying fiduciary activities of all State and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Early implementation is encouraged.

In June 2017, the 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 December 15, 2019. Early implementation is encouraged.

In April 2018, the GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt.

This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established.

This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses.

For notes to financial statements related to debt, this Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Early implementation is encouraged.

SANTA CRUZ COUNTY SUPERINTENDENT OF SCHOOLS

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period.

This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5–22 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund.

This Statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged. The requirements of this Statement should be applied prospectively.

NOTE 2 - DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2018, are classified in the accompanying financial statements as follows:

Governmental funds	\$ 29,343,230
Fiduciary funds	10,989,036
Total Deposits and Investments	<u>\$ 40,332,266</u>

Deposits and investments as of June 30, 2018, consist of the following:

Cash on hand and in banks	\$ 3,316
Cash in revolving	2,800
Investments	40,326,150
Total Deposits and Investments	<u>\$ 40,332,266</u>

Policies and Practices

The SCCOE is authorized under California Government Code to make direct investments in local agency bonds, notes, or warrants within the State; U.S. Treasury instruments; registered State warrants or treasury notes; securities of the U.S. Government, or its agencies; bankers acceptances; commercial paper; certificates of deposit placed with commercial banks and/or savings and loan companies; repurchase or reverse repurchase agreements; medium term corporate notes; shares of beneficial interest issued by diversified management companies, certificates of participation, obligations with first priority security; and collateralized mortgage obligations.

SANTA CRUZ COUNTY SUPERINTENDENT OF SCHOOLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Investment in County Treasury - The SCCOE is considered to be an involuntary participant in an external investment pool as the SCCOE is required to deposit all receipts and collections of monies with their County Treasurer (*Education Code* Section 41001). The fair value of the SCCOE's investment in the Pool is reported in the accounting financial statements at amounts based upon the SCCOE's pro-rata share of the fair value provided by the County Treasurer for the entire portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by the County Treasurer, which is recorded on the amortized cost basis.

General Authorizations

Limitations as they relate to interest rate risk, credit risk, and concentration of credit risk are indicated in the schedules below:

Authorized Investment Type	Maximum Remaining Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Local Agency Bonds, Notes, Warrants	5 years	None	None
Registered State Bonds, Notes, Warrants	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Banker's Acceptance	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20% of base	None
Medium-Term Corporate Notes	5 years	30%	None
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	20%	10%
Mortgage Pass-Through Securities	5 years	20%	None
County Pooled Investment Funds	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None
Joint Powers Authority Pools	N/A	None	None

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The SCCOE has a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The SCCOE manages its exposure to interest rate risk by investing in the county pool and/or having the Pool purchase a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

SANTA CRUZ COUNTY SUPERINTENDENT OF SCHOOLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Weighted Average Maturity

The SCCOE monitors the interest rate risk inherent in its portfolio by measuring the weighted average maturity of its portfolio. Information about the weighted average maturity of the SCCOE's portfolio is presented in the following schedule:

Investment Type	Fair Value	Weighted Average Maturity in Days
County Treasury Investment Pool	\$ 31,927,450	194
California Employers' Retiree Benefit Trust	8,398,700	Not Applicable
Total	<u>\$ 40,326,150</u>	

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by the California Government Code, the SCCOE's investment policy, or debt agreements, and the actual rating as of the year-ended for each investment type.

Investment Type	Fair Value	Minimum Legal Rating	Rating as of Year End		
			AAA	AA	Unrated
County Treasury Investment Pool	\$ 31,927,450	N/A	\$ -	\$ -	\$ 31,927,450
California Employers' Retiree Benefit Trust	8,398,700	N/A	-	-	8,398,700
Total	<u>\$ 40,326,150</u>		<u>\$ -</u>	<u>\$ -</u>	<u>\$ 40,326,150</u>

N/A - Not Applicable

Custodial Credit Risk - Deposits

This is the risk that in the event of a bank failure, the SCCOE's deposits may not be returned to it. The SCCOE does not have a policy for custodial credit risk for deposits. However, the California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2018, the SCCOE had no bank balance that was exposed to custodial credit risk.

SANTA CRUZ COUNTY SUPERINTENDENT OF SCHOOLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

NOTE 3 - FAIR VALUE MEASUREMENTS

The SCCOE categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value. The following provides a summary of the hierarchy used to measure fair value:

Level 1 - Quoted prices in active markets for identical assets that the SCCOE has the ability to access at the measurement date. Level 1 assets may include debt and equity securities that are traded in an active exchange market and that are highly liquid and are actively traded in over-the-counter markets.

Level 2 - Observable inputs other than Level 1 prices such as quoted prices for similar assets in active markets, quoted prices for identical or similar assets in markets that are not active, or other inputs that are observable, such as interest rates and curves observable at commonly quoted intervals, implied volatilities, and credit spreads. For financial reporting purposes, if an asset has a specified term, a Level 2 input is required to be observable for substantially the full term of the asset.

Level 3 - Unobservable inputs should be developed using the best information available under the circumstances, which might include the SCCOE's own data. The SCCOE should adjust that data if reasonable available information indicates that other market participants would use different data or certain circumstances specific to the SCCOE are not available to other market participants.

Uncategorized - Investments in the Santa Cruz County Treasury Investment Pool are not measured using the input levels above because the SCCOE's transactions are based on a stable net asset value per share. All contributions and redemptions are transacted at \$1.00 net asset value per share.

The SCCOE's fair value measurements are as follows at June 30, 2018:

Investment Type	Fair Value	Fair Value Measurements Using			Uncategorized
		Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	
County Treasury Investment Pool	\$ 31,927,450	\$ -	\$ -	\$ -	\$ 31,927,450
California Employers' Retiree Benefit Trust	8,398,700	-	-	-	8,398,700
Total	\$ 40,326,150	\$ -	\$ -	\$ -	\$ 40,326,150

All assets have been valued using a market approach, with quoted market prices.

SANTA CRUZ COUNTY SUPERINTENDENT OF SCHOOLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

NOTE 4 - RECEIVABLES

Receivables at June 30, 2018, consisted of intergovernmental grants, entitlements, interest and other local sources. All receivables are considered collectible in full.

	County School Service Fund	Special Education Pass-through Fund	Non-Major Governmental Funds	Total
Federal Government				
Categorical aid	\$ 592,784	\$ 290,954	\$ 85,780	\$ 969,518
State Government				
Apportionment	335,675	190,633	85,073	611,381
Categorical aid	-	297,331	69,235	366,566
Lottery	50,532	-	1,655	52,187
Other State	323,665	-	-	323,665
Other Local Sources	5,614,806	-	174	5,614,980
Total	<u>\$ 6,917,462</u>	<u>\$ 778,918</u>	<u>\$ 241,917</u>	<u>\$ 7,938,297</u>

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2018, was as follows:

	Balance July 01, 2017	Additions/ Adjustments	Deductions/ Adjustments	Balance June 30, 2018
Governmental Activities				
Capital Assets Not Being Depreciated:				
Land	\$ 4,026,779	\$ (1)	\$ -	\$ 4,026,778
Construction in Progress	-	69,997	-	69,997
Total Capital Assets Not Being Depreciated	<u>4,026,779</u>	<u>69,996</u>	<u>-</u>	<u>4,096,775</u>
Capital Assets Being Depreciated:				
Land Improvements	60,732	23,220	-	83,952
Buildings and Improvements	28,539,855	-	-	28,539,855
Furniture and Equipment	2,756,720	-	1,591	2,755,129
Total Capital Assets Being Depreciated	<u>31,357,307</u>	<u>23,220</u>	<u>1,591</u>	<u>31,378,936</u>
Total Capital Assets	<u>35,384,086</u>	<u>93,216</u>	<u>1,591</u>	<u>35,475,711</u>
Less Accumulated Depreciation:				
Land Improvements	60,887	-	(1,435)	62,322
Buildings and Improvements	5,501,366	1,156,510	2	6,657,874
Furniture and Equipment	1,864,967	207,013	(550)	2,072,530
Total Accumulated Depreciation	<u>7,427,220</u>	<u>1,363,523</u>	<u>(1,983)</u>	<u>8,792,726</u>
Governmental Activities Capital Assets, Net	<u>\$ 27,956,866</u>	<u>\$ (1,270,307)</u>	<u>\$ 3,574</u>	<u>\$ 26,682,985</u>

SANTA CRUZ COUNTY SUPERINTENDENT OF SCHOOLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Depreciation expense was charged as a direct expense to governmental functions as follows:

Instruction	\$ 789,139
Instructional library, media, and technology	952
School site administration	3,178
All other administration	347,789
Data processing	69,012
Plant services	153,453
Total Depreciation Expenses Governmental Activities	<u>\$ 1,363,523</u>

NOTE 6 - INTERFUND TRANSACTIONS

Interfund receivable and payable balances arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed. Interfund receivable and payable at June 30, 2018, between major and non-major governmental funds are as follows:

Due To	Due From		
	County School Service Fund	Non-Major Governmental Funds	Total
County School Service Fund	\$ -	\$ 91,405	\$ 91,405
Non-Major Governmental Funds	339,241	-	339,241
Total	<u>\$ 339,241</u>	<u>\$ 91,405</u>	<u>\$ 430,646</u>

All balances resulted from the time lag between the date that (1) interfund goods and services were provided or reimbursable expenditures occurred, (2) transactions were recorded in the accounting system, and (3) payments between funds were made in the subsequent fiscal year.

Operating Transfers

Interfund transfers for the year ended June 30, 2018 consisted of the following:

Transfer To	Transfer From	
	County School Service Fund	Total
Non-Major Governmental Funds	<u>\$ 62,955</u>	<u>\$ 62,955</u>
The County School Service Fund transferred to the Cafeteria Fund to support operations.		\$ 29,101
The County School Service Fund transferred to the Child Development Fund to support operations.		33,854
Total		<u>\$ 62,955</u>

SANTA CRUZ COUNTY SUPERINTENDENT OF SCHOOLS

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

NOTE 7 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2018, consisted of the following:

	County School Service Fund	Special Education Pass-through Fund	Non-Major Governmental Fund	Total Governmental Fund
Vendor payables	\$ 2,858,514	\$ 869,130	\$ 44,971	\$ 3,772,615
Salaries and benefits	1,303,427	-	3,113	1,306,540
Total	<u>\$ 4,161,941</u>	<u>\$ 869,130</u>	<u>\$ 48,084</u>	<u>\$ 5,079,155</u>

NOTE 8 - UNEARNED REVENUE

Unearned revenue at June 30, 2018, consists of the following:

	County School Service Fund	Non-Major Governmental Funds	Total
Federal financial assistance	\$ 21,579	\$ -	\$ 21,579
State categorical aid	2,505,732	62,297	2,568,029
Other local	106,681	-	106,681
Total	<u>\$ 2,633,992</u>	<u>\$ 62,297</u>	<u>\$ 2,696,289</u>

NOTE 9 - LONG-TERM OBLIGATIONS

Summary

The changes in the SCCOE's long-term obligations during the year consisted of the following:

	Balance July 1, 2017 as restated	Additions	Deductions	Balance June 30, 2018	Due in One Year
Certificates of participation	\$ 9,197,479	\$ -	\$ 335,377	\$ 8,862,102	\$ 346,109
Compensated absences	281,517	-	14,476	267,041	-
Total	<u>\$ 9,478,996</u>	<u>\$ -</u>	<u>\$ 349,853</u>	<u>\$ 9,129,143</u>	<u>\$ 346,109</u>

Payments on the Certificates of Participation are made by the County School Service Fund. The compensated absences will be paid for by the fund for which the employee worked.

SANTA CRUZ COUNTY SUPERINTENDENT OF SCHOOLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Certificates of Participation

In May 2007, the Santa Cruz County Office of Education issued certificates of participation in the amount of \$11,605,000 with interest rates ranging from 3.60 to 4.62 percent. During June 2016, the certificates of participation were refinanced in the amount of \$9,510,983 with interest rates of 3.175 percent. Interest with respect to the Certificates will be payable semiannually on each June 1 and December 1, commencing December 15, 2016, and maturing on June 15, 2037. As of June 30, 2018, the principal balance outstanding was \$8,862,102.

Year Ending June 30,	Principal	Interest	Total
2019	\$ 346,109	\$ 278,646	\$ 624,755
2020	357,185	267,570	624,755
2021	368,616	256,139	624,755
2022	380,413	244,343	624,756
2023	392,587	232,169	624,756
2024-2028	2,159,623	964,154	3,123,777
2029-2033	2,528,021	595,756	3,123,777
2034-2037	2,329,548	169,475	2,499,023
Total	<u>\$ 8,862,102</u>	<u>\$ 3,008,252</u>	<u>\$ 11,870,354</u>

Accumulated Unpaid Employee Vacation

The long-term portion of accumulated unpaid employee vacation for the SCCOE at June 30, 2018, amounted to \$267,041.

Net Other Post Employment Benefit (OPEB) Asset

For the fiscal year ended June 30, 2018, the SCCOE reported net OPEB asset, deferred outflows of resources, deferred inflows of resources, and OPEB expense for the following plan:

OPEB Plan	Net OPEB Asset	Deferred Outflows of Resources	Deferred Inflows of Resources	OPEB Expense
SCCOE Plan	<u>\$ 161,228</u>	<u>\$ 868,023</u>	<u>\$ -</u>	<u>\$ 132,584</u>

SANTA CRUZ COUNTY SUPERINTENDENT OF SCHOOLS

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

The details of the plan are as follows:

COE Plan

Plan Administration

Management of the Plan is vested in the SCCOE management. Management of the trustee assets is vested with CalPERS.

Plan Membership

At June 30, 2017, the Plan membership consisted of the following:

Inactive employees or beneficiaries currently receiving benefits payments	51
Active employees	226
	<u>277</u>

Benefits Provided

The Plan provides medical, dental and vision insurance benefits to eligible retirees and their spouses. Benefits are provided through a third-party insurer, and the full cost of benefits is covered by the Plan. The SCCOE's governing board has the authority to establish and amend the benefit terms as contained within the negotiated labor agreements.

Contributions

The contribution requirements of the Plan members and the SCCOE are established and may be amended by the SCCOE, the Santa Cruz County Education Association/CTA/NEA (SCCEA/CTA/NEA) the local California School Employees Association (CSEA), and unrepresented groups. The required contribution is based on projected pay-as-you-go financing requirements, with an additional amount to prefund benefits as determined annually through the agreements with the SCCOE, SCCEA/CTA/NEA, CSEA, and the unrepresented groups. For fiscal year 2017-2018, the SCCOE contributed \$1,463,577 to the Plan, of which \$868,023 was used for current premiums and \$595,554 was used to fund the OPEB Trust.

Investment

Investment Policy

The Plan's policy in regard to the allocation of invested assets is established and may be amended by the governing board by a majority vote of its members. It is the policy of the SCCOE to pursue an investment strategy that reduces risks through the prudent diversification for the portfolio across a broad selection of distinct asset classes. The Plan's investment policy discourages the use of cash equivalents, except for liquidity purposes, and aims to refrain from dramatically shifting asset class allocation over short time spans. The following was the governing board's adopted asset allocation policy as of June 30, 2017:

SANTA CRUZ COUNTY SUPERINTENDENT OF SCHOOLS

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

Asset Class	Target Allocation
US Large Cap	43%
US Small Cap	23%
Long-Term Corporate Bonds	12%
Long-Term Government Bonds	6%
Treasury Inflation Protected Securities	5%
US Real Estate	8%
All Commodities	3%

Rate of Return

For the year ended June 30, 2017, the annual money-weighted rate of return on investments, net of investment expense, was 8.35 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Net OPEB Asset of the COE

The SCCOE's net OPEB asset of \$161,228 was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB asset was determined by an actuarial valuation as of that date. The components of the net OPEB asset of the SCCOE at June 30, 2017, were as follows:

Total OPEB liability	\$ 7,476,500
Plan fiduciary net position	(7,637,728)
SCCOE's net OPEB asset	<u>\$ (161,228)</u>
Plan fiduciary net position as a percentage of the total OPEB asset	<u>102.16%</u>

Actuarial Assumptions

The total OPEB liability in the June 30, 2017 actuarial valuation was determined using the following assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.75 percent
Salary increases	2.75 percent, average including inflation
Investment rate of return	7.0 percent, net of OPEB plan investment expense, including inflation
Health care cost trend rates	4.0 percent for 2017

SANTA CRUZ COUNTY SUPERINTENDENT OF SCHOOLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Mortality rates were based on the 2009 CalSTRS Mortality Table for certificated employees and the 2014 CalPERS Active Mortality for Miscellaneous Employees Table for classified employees. Mortality rates vary by age and sex. (Unisex mortality rates are not often used as individual OPEB benefits do not depend on the mortality table used.) If employees die prior to retirement, past contributions are available to fund benefits for employees who live to retirement. After retirement, death results in benefit termination or reeducation. Although higher mortality rates reduce service costs, the mortality assumption is not likely to vary from employer to employer.

The actual assumptions used in the June 30, 2017 valuation were based on the results of an actual experience study for the period July 1, 2016 to June 30, 2017.

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of 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. Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation as of June 30, 2017, (see the discussion of the Plan's investment policy) are summarized in the following table:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>
US Large Cap	7.7950%
US Small Cap	7.7950%
Long-Term Corporate Bonds	5.2950%
Long-Term Government Bonds	4.5000%
Treasury Inflation Protected Securities	7.7950%
US Real Estate	7.7950%
All Commodities	7.7950%

Discount Rate

The discount rate used to measure the total OPEB liability was 7.0 percent. The projection of cash flows used to determine the discount rate assumed that the SCCOE contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

SANTA CRUZ COUNTY SUPERINTENDENT OF SCHOOLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Changes in the Net OPEB Liability

	Increase (Decrease)		
	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Asset
	(a)	(b)	(a) - (b)
Balance at June 30, 2016	\$ 7,061,297	\$ 6,797,271	\$ 264,026
Service cost	381,780	-	381,780
Interest	491,261	-	491,261
Contributions-employer	-	557,838	(557,838)
Net investment income	-	740,457	(740,457)
Benefit payments	(457,838)	(457,838)	-
Net change in total OPEB liability	415,203	840,457	(425,254)
Balance at June 30, 2017	<u>\$ 7,476,500</u>	<u>\$ 7,637,728</u>	<u>\$ (161,228)</u>

Sensitivity of the Net OPEB Asset to Changes in the Discount Rate

Net OPEB asset of the SCCOE, as well as what the SCCOE's net OPEB asset/(liability) would be if it were calculated using a discount rate that is one percent lower or higher than the current rate:

Discount Rate	Net OPEB Asset
1% decrease (6.0%)	\$ 451,440
Current discount rate (7.0%)	166,228
1% increase (8.0%)	(692,225)

Sensitivity of the Net OPEB Asset to Changes in the Healthcare Cost Trend Rates

Net OPEB asset of the SCCOE, as well as what the SCCOE's net OPEB asset/ (liability) would be if it were calculated using healthcare cost trend rates that are one percent lower or higher than the current healthcare costs trend rates:

Healthcare Cost Trend Rate	Asset
1% decrease (3.0%)	\$ (1,268,579)
Current healthcare cost trend rate (4.0%)	(161,228)
1% increase (5.0%)	1,156,104

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources related to OPEB

For the year ended June 30, 2018, the SCCOE recognized OPEB expense of \$132,584. At June 30, 2018, the SCCOE reported deferred outflows of resources for OPEB contributions subsequent to measurement date of \$828,023.

SANTA CRUZ COUNTY SUPERINTENDENT OF SCHOOLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

NOTE 10 – FUND BALANCE

Fund balances are composed of the following elements:

	County School Service Fund	Special Education Pass-through Fund	Non-Major Governmental Funds	Total
Nonspendable				
Revolving cash	\$ 2,800	\$ -	\$ -	\$ 2,800
Prepaid expenditures	60,000	-	-	60,000
Total Nonspendable	62,800	-	-	62,800
Restricted				
Legally restricted programs	-	525,883	38,955	564,838
Capital projects	2,719,170	-	486,514	3,205,684
Total Restricted	2,719,170	525,883	525,469	3,770,522
Committed				
Debt service	1,200,000	-	-	1,200,000
Total Committed	1,200,000	-	-	1,200,000
Assigned				
Small District Program	1,836	-	-	1,836
SMAA Administration	1,234,743	-	-	1,234,743
Classified Credential Grant	126,416	-	-	126,416
Mandated Cost Program	1,787,520	-	-	1,787,520
Safety Program	67,681	-	-	67,681
Education & Administrative Operations	14,194,380	-	-	14,194,380
SMAA Program	468,874	-	-	468,874
Special Projects	200,000	-	-	200,000
Deferred Maintenance	2,413,221	-	-	2,413,221
LACP Oversight	38,109	-	-	38,109
Alternative Education	530,759	-	-	530,759
Lottery	683,405	-	-	683,405
Child Development Program	-	-	22,878	22,878
Educational Program	-	-	242,929	242,929
Total Assigned	21,746,944	-	265,807	22,012,751
Unassigned				
Reserve for economic uncertainties	2,520,010	-	-	2,520,010
Total Unassigned	2,520,010	-	-	2,520,010
Total	\$ 28,248,924	\$ 525,883	\$ 791,276	\$ 29,566,083

SANTA CRUZ COUNTY SUPERINTENDENT OF SCHOOLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

NOTE 11 - RISK MANAGEMENT

Property and Liability

The SCCOE 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. During fiscal year ending June 30, 2018, the SCCOE was a member in and procured coverage through the Southern Peninsula Region Property and Liability Insurance Group for property and liability insurance coverage. Settled claims have not exceeded this commercial coverage in any of the past three years. There has not been a significant reduction in coverage from the prior year.

Workers' Compensation

For fiscal year 2017-2018, the SCCOE was a member in and procured coverage through the Santa Cruz-San Benito County Schools Insurance Group, a workers' compensation insurance purchasing pool. The intent of the Santa Cruz-San Benito County Schools Insurance Group is to achieve the benefit of a reduced premium for the SCCOE by virtue of its grouping and representation with other participants in the Santa Cruz-San Benito County Schools Insurance Group. The workers' compensation experience of the participating SCCOEs is calculated as one experience and a common premium rate is applied to all SCCOEs in the Santa Cruz-San Benito County Schools Insurance Group. Each participant pays its workers' compensation premium based on its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings. A participant will then either receive money from or be required to contribute to the "equity-pooling fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the Santa Cruz-San Benito County Schools Insurance Group.

NOTE 12 - EMPLOYEE RETIREMENT SYSTEMS

Qualified employees are covered under multiple-employer defined benefit pension plans maintained by agencies of the State of California. Academic employees are members of the California State Teachers' Retirement System (CalSTRS) and classified employees are members of the California Public Employees' Retirement System (CalPERS).

For the fiscal year ended June 30, 2018 the SCCOE reported net pension liabilities, deferred outflows of resources, deferred, inflows of resources, and pension expense for each of the above plans as follows:

Pension Plan	Collective Net Pension Liability	Collective Deferred Outflows of Resources	Collective Deferred Inflows of Resources	Collective Pension Expense
CalSTRS	\$ 15,503,260	\$ 4,292,504	\$ 4,978,262	\$ 608,819
CalPERS	19,067,848	6,212,659	799,023	3,085,330
Total	<u>\$ 34,571,108</u>	<u>\$ 10,505,163</u>	<u>\$ 5,777,285</u>	<u>\$ 3,694,149</u>

SANTA CRUZ COUNTY SUPERINTENDENT OF SCHOOLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

The details of each plan are as follows:

California State Teachers' Retirement System (CalSTRS)

Plan Description

The SCCOE contributes to the State Teachers Retirement Plan (STRP) administered by the California State Teachers' Retirement System (CalSTRS). STRP is a cost-sharing multiple-employer public employee retirement system defined benefit pension plan. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law.

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2016 annual actuarial valuation report, Defined Benefit Program Actuarial Valuation. This report and CalSTRS audited financial information are publically available reports that can be found on the CalSTRS website under Publications at:

<http://www.calstrs.com/member-publications>.

Benefits Provided

The STRP provides retirement, disability and survivor benefits to beneficiaries. Benefits are based on members' final compensation, age and years of service credit. Members hired on or before December 31, 2012, with five years of credited service are eligible for the normal retirement benefit at age 60. Members hired on or after January 1, 2013, with five years of credited service are eligible for the normal retirement benefit at age 62. The normal retirement benefit is equal to 2.0 percent of final compensation for each year of credited service.

The STRP is comprised of four programs: Defined Benefit Program, Defined Benefit Supplement Program, Cash Balance Benefit Program and Replacement Benefits Program. The STRP holds assets for the exclusive purpose of providing benefits to members and beneficiaries of these programs. CalSTRS also uses plan assets to defray reasonable expenses of administering the STRP. Although CalSTRS is the administrator of the STRP, the state is the sponsor of the STRP and obligor of the trust. In addition, the state is both an employer and non-employer contributing entity to the STRP.

The SCCOE contributes exclusively to the STRP Defined Benefit Program, thus disclosures are not included for the other plans.

SANTA CRUZ COUNTY SUPERINTENDENT OF SCHOOLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

The STRP provisions and benefits in effect at June 30, 2018, are summarized as follows:

	STRP Defined Benefit Program	
	On or before December 31, 2012	On or after January 1, 2013
Hire date		
Benefit formula	2% at 60	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	60	62
Monthly benefits as a percentage of eligible compensation	2.0% - 2.4%	2.0% - 2.4%
Required employee contribution rate	10.25%	9.205%
Required employer contribution rate	14.43%	14.43%
Required state contribution rate	9.328%	9.328%

Contributions

Required member, SCCOE and State of California contributions rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. The contributions rates are expressed as a level percentage of payroll using the entry age normal actuarial method. In accordance with AB 1469, employer contributions into the CalSTRS will be increasing to a total of 19.1 percent of applicable member earnings phased over a seven-year period. The contribution rates for each plan for the year ended June 30, 2018, are presented above and the SCCOE's total contributions were \$1,363,011.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2018, the SCCOE reported a liability for its proportionate share of the net pension liability that reflected a reduction for State pension support provided to the SCCOE. The amount recognized by the SCCOE as its proportionate share of the net pension liability, the related state support and the total portion of the net pension liability that was associated with the SCCOE were as follows:

Total net pension liability, including State share:

COE's proportionate share of net pension liability	\$	15,503,260
State's proportionate share of the net pension liability associated with the COE		9,171,598
Total	\$	<u>24,674,858</u>

SANTA CRUZ COUNTY SUPERINTENDENT OF SCHOOLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

The net pension liability was measured as of June 30, 2017. The SCCOE's proportion of the net pension liability was based on a projection of the SCCOE's long-term share of contributions to the pension plan relative to the projected contributions of all participating school SCCOE's and the State, actuarially determined. The SCCOE's proportionate share for the measurement period June 30, 2017 and June 30, 2016, respectively was 0.0168 percent and 0.0169 percent, resulting in a net decrease in the proportionate share of 0.0001 percent of the collective net pension liability.

For the year ended June 30, 2018, the SCCOE recognized pension expense of \$608,819. In addition, SCCOE recognized pension expense and revenue of \$760,142 for support provided by the State. At June 30, 2018, the SCCOE 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
Pension contributions subsequent to measurement date	\$ 1,363,011	\$ -
Net change in proportionate share of net pension liability	-	4,294,965
Difference between projected and actual earnings on pension plan investments	-	412,895
Differences between expected and actual experience in the measurement of the total pension liability	57,333	270,402
Changes in assumptions	2,872,160	-
Total	<u>\$ 4,292,504</u>	<u>\$ 4,978,262</u>

The deferred outflows of resources related to pensions resulting from SCCOE contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the subsequent fiscal year.

The deferred outflows/(inflows) of resources related to the difference between projected and actual earnings on pension plan investments will be amortized over a closed five-year period and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2019	\$ (343,254)
2020	259,743
2021	37,453
2022	(366,837)
Total	<u>\$ (412,895)</u>

SANTA CRUZ COUNTY SUPERINTENDENT OF SCHOOLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

The deferred outflows/(inflows) of resources related to the net change in proportionate share of net pension liability, differences between expected and actual experience in the measurement of the total pension liability, and changes of assumptions will be amortized over the Expected Average Remaining Service Life (EARSL) of all members that are provided benefits (active, inactive, and retirees) as of the beginning of the measurement period. The EARSL for the measurement period is 7 years and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2019	\$ (521,350)
2020	(521,350)
2021	(521,350)
2022	(521,349)
2023	(23,370)
Thereafter	472,895
Total	<u>\$ (1,635,874)</u>

Actuarial Methods and Assumptions

Total pension liability for STRP was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2016 and rolling forward the total pension liability to June 30, 2017. The financial reporting actuarial valuation as of June 30, 2016, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2016
Measurement date	June 30, 2017
Experience study	July 1, 2010 through June 30, 2015
Actuarial cost method	Entry age normal
Discount rate	7.10%
Investment rate of return	7.10%
Consumer price inflation	2.75%
Wage growth	3.50%

CalSTRS uses a generational mortality assumption, which involves the use of a base mortality table and projection scales to reflect expected annual reductions in mortality rates at each age, resulting in increases in life expectancies each year into the future. The base mortality tables are CalSTRS custom tables derived to best fit the patterns of mortality among its members. The projection scale was set equal to 110 percent of the ultimate improvement factor from the Mortality Improvement Scale (MP-2016) table, issued by the Society of Actuaries.

SANTA CRUZ COUNTY SUPERINTENDENT OF SCHOOLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. The best estimate ranges were developed using capital market assumptions from CalSTRS general investment consultant (Pension Consulting Alliance-PCA) as an input to the process. The actuarial investment rate of return assumption was adopted by the board in February 2017 in conjunction with the most recent experience study. For each future valuation, CalSTRS consulting actuary (Milliman) reviews the return assumption for reasonableness based on the most current capital market assumptions. Best estimates of 20-year geometrically-linked real rates of return and the assumed asset allocation for each major asset class for the year ended June 30, 2017, are summarized in the following table:

The assumed asset allocation is based on Teachers' Retirement Board of the California State Teachers' Retirement System (board) policy for target asset allocation in effect on February 2, 2012, the date the current experience study was approved by the board. Best estimates of 10-year geometric real rates of return and the assumed asset allocation for each major asset class used as input to develop the actuarial investment rate of return are summarized in the following table:

Asset Class	Assumed Asset Allocation	Long-Term Expected Real Rate of Return
Global equity	47%	6.30%
Fixed income	12%	0.30%
Real estate	13%	5.20%
Private equity	13%	9.30%
Absolute Return/Risk Mitigating Strategies	9%	2.90%
Inflation sensitive	4%	3.80%
Cash/liquidity	2%	-1.00%

Discount Rate

The discount rate used to measure the total pension liability was 7.10 percent. The projection of cash flows used to determine the discount rate assumed the contributions from plan members and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.10 percent) and assuming that contributions, benefit payments and administrative expense occurred midyear. Based on these assumptions, the STRP's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine total pension liability.

The following presents the SCCOE's proportionate share of the net pension liability calculated using the current discount rate as well as what the net pension liability would be if it were calculated using a discount rate that is one percent lower or higher than the current rate:

Discount Rate	Net Pension Liability
1% decrease (6.10%)	\$ 22,763,708
Current discount rate (7.10%)	15,503,260
1% increase (8.10%)	9,610,915

SANTA CRUZ COUNTY SUPERINTENDENT OF SCHOOLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

California Public Employees Retirement System (CalPERS)

Plan Description

Qualified employees are eligible to participate in the School Employer Pool (SEP) under the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Law.

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2016 annual actuarial valuation report, Schools Pool Actuarial Valuation. This report and CalPERS audited financial information are publically available reports that can be found on the CalPERS website under Forms and Publications at <https://www.calpers.ca.gov/page/forms-publications>.

Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of service credit, a benefit factor and the member's final compensation. Members hired on or before December 31, 2012, with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. Members hired on or after January 1, 2013, with five years of total service are eligible to retire at age 52 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after five years of service. The Basic Death Benefit is paid to any member's beneficiary if the member dies while actively employed. An employee's eligible survivor may receive the 1957 Survivor Benefit if the member dies while actively employed, is at least age 50 (or 52 for members hired on or after January 1, 2013), and has at least five years of credited service. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

The CalPERS provisions and benefits in effect at June 30, 2018, are summarized as follows:

	School Employer Pool (CalPERS)	
	On or before December 31, 2012	On or after January 1, 2013
Hire date	December 31, 2012	January 1, 2013
Benefit formula	2% at 55	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	55	62
Monthly benefits as a percentage of eligible compensation	1.1% - 2.5%	1.0% - 2.5%
Required employee contribution rate	7.00%	6.50%
Required employer contribution rate	15.531%	15.531%

SANTA CRUZ COUNTY SUPERINTENDENT OF SCHOOLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Total plan contributions are calculated through the CalPERS annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The SCCOE is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. The contributions rates are expressed as percentage of annual payroll. The contribution rates for each plan for the year ended June 30, 2018, are presented above and the total SCCOE contributions were \$1,611,481.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

As of June 30, 2018, the SCCOE reported net pension liabilities for its proportionate share of the CalPERS net pension liability totaling \$19,067,848. The net pension liability was measured as of June 30, 2017. The SCCOE's proportion of the net pension liability was based on a projection of the SCCOE's long-term share of contributions to the pension plan relative to the projected contributions of all participating school SCCOE's, actuarially determined. The SCCOE's proportionate share of the proportionate share for the measurement period June 30, 2017 and June 30, 2016, respectively was 0.0799 percent and 0.0760 percent, respectively, resulting in a net increase in the proportionate share of 0.0039 percent.

For the year ended June 30, 2018, the SCCOE recognized pension expense of \$3,085,330. At June 30, 2018, the SCCOE 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
Pension contributions subsequent to measurement date	\$ 1,611,481	\$ -
Net change in proportionate share of net pension liability	473,279	574,523
Difference between projected and actual earnings on pension plan investments	659,617	-
Differences between expected and actual experience in the measurement of the total pension liability	683,123	-
Changes of assumptions	2,785,159	224,500
Total	<u>\$ 6,212,659</u>	<u>\$ 799,023</u>

SANTA CRUZ COUNTY SUPERINTENDENT OF SCHOOLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

The deferred outflows of resources related to pensions resulting from SCCOE contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the subsequent fiscal year.

The deferred outflows/(inflows) of resources related to the difference between projected and actual earnings on pension plan investments will be amortized over a closed five-year period and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2019	\$ (17,872)
2020	761,055
2021	277,641
2022	(361,207)
Total	<u>\$ 659,617</u>

The deferred outflows/(inflows) of resources related to the net change in proportionate share of net pension liability, differences between expected and actual experience in the measurement of the total pension liability, and changes of assumptions will be amortized over the Expected Average Remaining Service Life (EARS�) of all members that are provided benefits (active, inactive, and retirees) as of the beginning of the measurement period. The EARS� for the measurement period is 3.9 years and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2019	\$ 867,147
2020	1,165,274
2021	1,110,117
Total	<u>\$ 3,142,538</u>

SANTA CRUZ COUNTY SUPERINTENDENT OF SCHOOLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Actuarial Methods and Assumptions

Total pension liability for the SEP was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2016, and rolling forward the total pension liability to June 30, 2017. The financial reporting actuarial valuation as of June 30, 2016, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2016
Measurement date	June 30, 2017
Experience study	July 1, 1997 through June 30, 2011
Actuarial cost method	Entry age normal
Discount rate	7.15%
Investment rate of return	7.15%
Consumer price inflation	2.75%
Wage growth	Varies by entry age and service

The mortality table used was developed based on CalPERS-specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first ten years) and the long-term (11+ years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the rounded single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equal to the single equivalent rate calculated above and adjusted to account for assumed administrative expenses. The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Assumed Asset Allocation	Long-term Expected Real Rate of Return
Global equity	47%	5.38%
Global debt securities	19%	2.27%
Inflation assets	6%	1.39%
Private equity	12%	6.63%
Real estate	11%	5.21%
Infrastructure and Forestland	3%	5.36%
Liquidity	2%	-0.90%

SANTA CRUZ COUNTY SUPERINTENDENT OF SCHOOLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Discount Rate

The discount rate used to measure the total pension liability was 7.15 percent. The projection of cash flows used to determine the discount rate assumed the contributions from plan members and employers will be made at statutory contribution rates. Based on these assumptions, the School Employer Pool fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine total pension liability.

The following presents the SCCOE's proportionate share of the net pension liability calculated using the current discount rate as well as what the net pension liability would be if it were calculated using a discount rate that is one percent lower or higher than the current rate:

Discount rate	Liability
1% decrease (6.15%)	\$ 28,054,914
Current discount rate (7.15%)	\$ 19,067,848
1% increase (8.15%)	\$ 11,612,323

Social Security

As established by Federal law, all public sector employees who are not members of their employer's existing retirement system (CalSTRS or CalPERS) must be covered by Social Security or an alternative plan. Contributions made by the SCCOE and an employee vest immediately. The SCCOE contributes 6.2 percent of an employee's gross earnings. An employee is required to contribute 4 percent of his or her gross earnings to the pension plan.

On Behalf Payments

The State of California makes contributions to CalSTRS on behalf of the SCCOE. These payments consist of State County School Service Fund contributions to CalSTRS in the amount of \$760,142 (9.328 percent of the second previous annual payroll). Contributions are no longer appropriated in the annual Budget Act for the legislatively mandated benefits to CalPERS. Therefore, there is no on-behalf contribution rate for CalPERS. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, these amounts have been recorded in these financial statements. On behalf payments have not been included in the calculation of available reserves, or included in the budgeted amounts reported in the *County School Service Fund - Budgetary Comparison Schedule*.

NOTE 13 - COMMITMENTS AND CONTINGENCIES

Grants

The SCCOE received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the County School Service Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the SCCOE at June 30, 2018.

SANTA CRUZ COUNTY SUPERINTENDENT OF SCHOOLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Litigation

The SCCOE is involved in various litigation arising from the normal course of business. In the opinion of management and legal counsel, the disposition of all litigation pending is not expected to have a material adverse effect on the overall financial position of the SCCOE at June 30, 2018.

NOTE 14 - PARTICIPATION IN PUBLIC ENTITY RISK POOLS AND JOINT POWER AUTHORITIES

The SCCOE is a member of the Self-Insured Schools of California III (SISC); Santa Cruz County Schools' Health Insurance Group (SCCSHIG), Santa Cruz-San Benito County Schools' Insurance Group (SIG), and the Southern Peninsula Region Property and Liability Insurance Group (SPRIG) public entity risk pools and the North Santa Cruz County Special Education Local Plan Area joint powers authorities (JPA's). The SCCOE pays an annual premium to the applicable entity for its health, workers' compensation, and property liability coverage. The relationships between the SCCOE, the pools, and the JPA's are such that they are not component units of the SCCOE for financial reporting purposes.

These entities have budgeting and financial reporting requirements independent of member units and their financial statements are not presented in these financial statements; however, fund transactions between the entities and the SCCOE are included in these statements. Audited financial statements are generally available from the respective entities.

During the year ended June 30, 2018, the SCCOE made payments of \$6,249,480, \$561,573, 379,581, and \$129,080 to SISC, Santa Cruz County Schools Health Insurance Group, Santa Cruz-San Benito County Schools' Insurance Group, and Southern Peninsula Region Property and Liability Insurance Group (including re-insurance through SAFER), respectively for health, workers' compensation, and property liability coverage.

NOTE 15 – RESTATEMENT OF PRIOR YEAR NET POSITION

The SCCOE adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, in the current year. As a result, the effect on the current fiscal year is as follows:

Government-Wide Financial Statements

Net Position - Beginning	\$ 19,858,146
Inclusion of OPEB liability from the adoption of GASB Statement No. 75	<u>(5,221,983)</u>
Net Position - Beginning as Restated	<u><u>\$ 14,636,163</u></u>

REQUIRED SUPPLEMENTARY INFORMATION

SANTA CRUZ COUNTY SUPERINTENDENT OF SCHOOLS

COUNTY SCHOOL SERVICE FUND BUDGETARY COMPARISON SCHEDULE FOR THE YEAR ENDED JUNE 30, 2018

	Budgeted Amounts		Actual	Variances - Positive (Negative) Final to Actual
	Original	Final		
REVENUES				
Local Control Funding Formula	\$ 26,967,091	\$ 27,242,923	\$ 27,308,520	\$ 65,597
Federal sources	7,208,008	7,651,235	12,122,789	4,471,554
Other State sources	6,203,700	5,231,891	4,402,133	(829,758)
Other local sources	10,940,727	12,526,070	10,144,239	(2,381,831)
Total Revenues¹	51,319,526	52,652,119	53,977,681	1,325,562
EXPENDITURES				
Current				
Certificated salaries	10,918,472	10,595,323	10,447,082	148,241
Classified salaries	10,795,320	10,870,027	11,069,028	(199,001)
Employee benefits	11,480,832	12,053,817	11,733,375	320,442
Books and supplies	2,293,547	1,532,657	974,861	557,796
Services and operating expenditures	8,368,155	9,045,050	7,687,097	1,357,953
Other outgo	5,922,633	5,930,207	7,493,931	(1,563,724)
Capital outlay	160,115	126,500	91,627	34,873
Debt service - principal	346,109	332,377	335,377	(3,000)
Debt service - interest	278,647	512,670	289,379	223,291
Total Expenditures¹	50,563,830	50,998,628	50,121,757	876,871
Excess (Deficiency) of Revenues				
Over Expenditures	755,696	1,653,491	3,855,924	2,202,433
Other Financing Sources (Uses):				
Transfers out	(120,800)	(78,569)	(62,955)	15,614
Net Financing Sources (Uses)	(120,800)	(78,569)	(62,955)	15,614
NET CHANGE IN FUND BALANCES	634,896	1,574,922	3,792,969	2,218,047
Fund Balance - Beginning	24,455,955	24,455,955	24,455,955	-
Fund Balance - Ending	\$ 25,090,851	\$ 26,030,877	\$ 28,248,924	\$ 2,218,047

¹ On behalf payments of \$750,545 are included in the final budget and actual revenues and expenditures. The consolidation of Fund 14 Deferred Maintenance and Fund 17, Special Reserve Fund for Other Than Capital Outlay Projects into the County School Service Fund as a result of GASB 54 implementation, are included in this schedule.

See accompanying note to required supplementary information

SANTA CRUZ COUNTY SUPERINTENDENT OF SCHOOLS

**SPECIAL EDUCATION PASS-THROUGH FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2018**

	Budgeted Amounts			Variances - Positive (Negative) Final to Actual
	Original	Final	Actual	
REVENUES				
Federal sources	\$ 3,601,161	\$ 3,601,161	\$ 981,161	\$ (2,620,000)
Other State sources	5,072,842	5,072,842	5,026,930	(45,912)
Other local sources	-	-	24,107	24,107
Total Revenues	8,674,003	8,674,003	6,032,198	(2,641,805)
EXPENDITURES				
Current				
Other outgo	8,674,003	8,674,003	6,106,316	2,567,687
Total Expenditures	8,674,003	8,674,003	6,106,316	2,567,687
Excess (Deficiency) of Revenues Over Expenditures	-	-	(74,118)	(74,118)
NET CHANGE IN FUND BALANCES	-	-	(74,118)	(74,118)
Fund Balance - Beginning	600,001	600,001	600,001	-
Fund Balance - Ending	\$ 600,001	\$ 600,001	\$ 525,883	\$ (74,118)

See accompanying note to required supplementary information

SANTA CRUZ COUNTY SUPERINTENDENT OF SCHOOLS

SCHEDULE OF CHANGES IN THE COUNTY OFFICE OF EDUCATION'S NET OPEB ASSET AND RELATED RATIOS FOR THE YEAR ENDED JUNE 30, 2018

	2018
Total OPEB Liability	
Service cost	\$ 381,780
Interest	491,261
Benefit payments	(457,838)
Net change in total OPEB liability	415,203
Total OPEB liability - beginning	7,061,297
Total OPEB liability - ending (a)	<u>\$ 7,476,500</u>
 Plan Fiduciary Net Position	
Contributions - employer	\$ 557,838
Net investment income	740,457
Benefit payments	(457,838)
Net change in plan fiduciary net position	840,457
Plan fiduciary net position - beginning	6,797,271
Plan fiduciary net position - ending (b)	<u>\$ 7,637,728</u>
 COE's net OPEB asset - ending (a) - (b)	<u>\$ (161,228)</u>
 Plan fiduciary net position as a percentage of the total OPEB liability	<u>102.16%</u>
 Covered-employee payroll	<u>\$ 21,998,183</u>
 COE's net OPEB asset as a percentage of covered-employee payroll	<u>-0.73%</u>

Note: In the future, as data becomes available, ten years of information will be presented.

See accompanying note to required supplementary information

SANTA CRUZ COUNTY SUPERINTENDENT OF SCHOOLS

SCHEDULE OF COUNTY OFFICE OF EDUCATION CONTRIBUTIONS FOR OPEB FOR THE YEAR ENDED JUNE 30, 2018

	2018
Actuarially determined contribution	Not Available
Contributions in relation to the actuarially determined contribution	\$ 557,838
Covered employee payroll	\$ 21,998,183
Contribution as a percentage of covered employee payroll	<u>-2.536%</u>

Note: In the future, as data become available, ten years of information will be presented.

See accompanying note to required supplementary information

SANTA CRUZ COUNTY SUPERINTENDENT OF SCHOOLS

SCHEDULE OF OPEB INVESTMENT RETURNS FOR THE YEAR ENDED JUNE 30, 2018

	2018
Annual money-weighted rate of return, net of investment expense	<u>8.35%</u>

Note: In the future, as data becomes available, ten years of information will be presented.

See accompanying note to required supplementary information

SANTA CRUZ COUNTY SUPERINTENDENT OF SCHOOLS

SCHEDULE OF THE COUNTY OFFICE OF EDUCATION'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY FOR THE YEAR ENDED JUNE 30, 2018

Fiscal Year Measurement Date as of June 30, CalSTRS	2018 6/30/2017	2017 6/30/2016	2016 6/30/2015	2015 6/30/2014
SCCOE's proportion of the net pension liability	0.0168%	0.0169%	0.0213%	0.0258%
SCCOE's proportionate share of the net pension liability	\$ 15,503,260	\$ 13,672,572	\$ 14,359,551	\$ 15,084,573
State's proportionate share of the net pension liability associated with the SCCOE	9,171,598	7,783,552	7,594,619	9,108,717
Total	\$ 24,674,858	\$ 21,456,124	\$ 21,954,170	\$ 24,193,290
SCCOE's covered - employee payroll	\$ 8,958,810	\$ 8,863,027	\$ 9,494,981	\$ 11,592,138
SCCOE's proportionate share of the net pension liability as a percentage of its covered - employee payroll	173.05%	154.27%	151.23%	130.13%
Plan fiduciary net position as a percentage of the total pension liability	69%	70%	74%	77%
CalPERS				
SCCOE's proportion of the net pension liability	0.0799%	0.0760%	0.0800%	0.0878%
SCCOE's proportionate share of the net pension liability	\$ 19,067,848	\$ 15,009,890	\$ 11,794,608	\$ 9,970,401
SCCOE's covered - employee payroll	\$ 9,686,705	\$ 8,789,784	\$ 8,800,872	\$ 9,190,072
SCCOE's proportionate share of the net pension liability as a percentage of its covered - employee payroll	1.968455527	170.77%	134.02%	108.49%
Plan fiduciary net position as a percentage of the total pension liability	72%	74%	79%	83%

Note: In the future, as data become available, ten years of information will be presented.

See accompanying note to required supplementary information

SANTA CRUZ COUNTY SUPERINTENDENT OF SCHOOLS

SCHEDULE OF COUNTY OFFICE OF EDUCATION CONTRIBUTIONS FOR THE YEAR ENDED JUNE 30, 2018

	2018	2017	2016	2015
CalSTRS				
Contractually required contribution	\$ 1,363,011	\$ 1,112,652	\$ 918,955	\$ 868,687
Contributions in relation to the contractually required contribution	1,363,011	1,112,652	918,955	868,687
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
SCCOE's covered - employee payroll	<u>\$ 9,561,423</u>	<u>\$ 8,958,810</u>	<u>\$ 8,863,027</u>	<u>\$ 9,494,981</u>
Contributions as a percentage of covered - employee payroll	<u>14.26%</u>	<u>12.42%</u>	<u>10.37%</u>	<u>9.15%</u>
CalPERS				
Contractually required contribution	\$ 1,611,481	\$ 1,343,511	\$ 1,037,482	\$ 1,036,441
Contributions in relation to the contractually required contribution	1,611,481	1,343,511	1,037,482	1,036,441
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
SCCOE's covered - employee payroll	<u>\$ 10,403,962</u>	<u>\$ 9,686,705</u>	<u>\$ 8,789,783</u>	<u>\$ 8,800,872</u>
Contributions as a percentage of covered - employee payroll	<u>15.49%</u>	<u>13.87%</u>	<u>11.80%</u>	<u>11.78%</u>

Note : In the future, as data become available, ten years of information will be presented.

See accompanying note to required supplementary information

SANTA CRUZ COUNTY SUPERINTENDENT OF SCHOOLS

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION FOR THE YEAR ENDED JUNE 30, 2018

NOTE 1 - PURPOSE OF SCHEDULES

Budgetary Comparison Schedules

The SCCOE employs budget control by object codes and by individual appropriation accounts. Budgets are prepared on the modified accrual basis of accounting in accordance with accounting principles generally accepted in the United State of America as prescribed by the Governmental Accounting Standards Board and provisions of the California *Education Code*. The governing board is required to hold a public hearing and adopt an operating budget no later than July 1 of each year. The adopted budget is subject to amendment throughout the year to give consideration to unanticipated revenue and expenditures primarily resulting from events unknown at the time of budget adoption with the legal restriction that expenditures cannot exceed appropriations by major object account.

The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts after all budget amendments have been accounted for.

These schedules present information for the original and final budgets and actual results of operations, as well as the variances from the final budget to actual results of operations.

Schedule of Changes in the County Office of Education's Net OPEB Asset and Related Ratios

This schedule presents information on the SCCOE's changes in the net OPEB asset, including beginning and ending balances, the plan's fiduciary net position, and the net OPEB asset. In the future, as data becomes available, ten years of information will be presented.

Change in Benefit Terms – There were no changes in benefit terms since the previous valuation.

Change of Assumptions – There were no changes in assumptions since the previous valuation.

Schedule of County Office of Education Contributions for OPEB

This schedule presents information on the SCCOE's actuarially determined contribution, contributions in relation to the actuarially determined contribution, and any excess or deficiency related to the actuarially determined contribution. In the future, as data becomes available, ten years of information will be presented.

Schedule of OPEB Investment Returns

This schedule presents information on the annual money-weighted rate of return on OPEB plan investments. In future years, as data becomes available, ten years of information will be presented.

Schedule of the County Office of Education's Proportionate Share of the Net Pension Liability

This schedule presents information on the SCCOE's proportionate share of the net pension liability (NPL), the plans' fiduciary net position and, when applicable, the State's proportionate share of the NPL associated with the SCCOE. In the future, as data becomes available, ten years of information will be presented.

SANTA CRUZ COUNTY SUPERINTENDENT OF SCHOOLS

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION FOR THE YEAR ENDED JUNE 30, 2018

Changes in Benefit Terms – There were no changes in benefit terms since the previous valuations for both CalSTRS and CalPERS.

Changes of Assumptions – The CalSTRS plan rate of investment return assumption was changed from 7.60 percent to 7.10 percent since the previous valuation. The CalPERS plan rate of investment return assumption was changed from 7.65 percent to 7.15 percent since the previous valuation.

Schedule of County Office of Education Contributions

This schedule presents information on the SCCOE's required contribution, the amounts actually contributed, and any excess or deficiency related to the required contribution. In the future, as data becomes available, ten years of information will be presented.

SUPPLEMENTARY INFORMATION

SANTA CRUZ COUNTY SUPERINTENDENT OF SCHOOLS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2018

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures	Pass-Through to Subrecipients
U.S. DEPARTMENT OF EDUCATION				
Passed through California Department of Education (CDE):				
Elementary and Secondary Education Act				
Title I, Part A, Basic Grants Low-Income and Neglected	84.010	14981	\$ 206,837	\$ -
Title I, Basic School Support, Statewide System	84.010	14416	85,482	-
Title I, Part D, Subpart 2, Local Delinquent Programs	84.010	14357	125,700	-
Subtotal Title I			418,019	-
Title II, Part A, Improving Teacher Quality Local Grants	84.367	14341	21,664	-
Title X McKinney-Vento Homeless Children Assistance Grants	84.196	14332	37,638	-
Special Education IDEA Cluster				
IDEA Basic Local Assistance Entitlement	84.027	13379	395,505	530,087
IDEA Mental Health Services, Part B	84.027	14468	17,476	206,072
IDEA Preschool Local Entitlement, Part B	84.027A	13682	-	244,002
IDEA Preschool Staff Development	84.173A	13431	120	1,000
Subtotal Special Education Cluster			413,101	981,161
Special Education - Grants for Infants and Families				
IDEA Early Intervention Grants	84.181	23761	102,304	-
Passed through California Department of Rehabilitation (DOR):				
State Vocational Rehabilitation Services Program	84.126A	[1]	96,931	-
Total U.S Department of Education			1,089,657	981,161
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES				
Passed through California Department of Health Care Services:				
Medicaid Cluster				
Medi-Cal Billing Option	93.778	10013	5,816	-
Medi-Cal Administrative Activities (MAA)	93.778	10060	489,403	7,556,500
Subtotal Medicaid Cluster			495,219	7,556,500
Passed through California Department of Education:				
CCDF Cluster				
Child Care and Development Block Grant	93.575	13946	53,117	-
Child Care and Development Block Grant	93.575	14130	39,553	-
Child Care and Development Block Grant	93.575	14140	6,340	-
Child Care and Development Block Grant	93.575	13942	26,000	-
Child Care and Development Block Grant	93.575	14092	22,175	-
Child Care and Development Block Grant	93.575	14990	57,079	-
Child Care and Development Block Grant	93.575	14869	29,871	-
Subtotal CCDF Cluster			234,135	-
Passed through Stanislaus County of Education:				
Migrant Head Start	93.600	[1]	1,358,067	-
Total U.S Department of Health and Human Services			2,087,421	7,556,500

See accompanying note to supplementary information.

SANTA CRUZ COUNTY SUPERINTENDENT OF SCHOOLS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED) FOR THE YEAR ENDED JUNE 30, 2018

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures	Pass-Through to Subrecipients
U.S. DEPARTMENT OF LABOR				
Passed through California Department of Education (CDE):				
WIOA Cluster				
WIA/WIOA Youth Activities	17.259	10055	816,270	-
Total WIOA Cluster			816,270	-
Total U.S Department of Labor			816,270	-
U.S. DEPARTMENT OF AGRICULTURE				
Passed through California Department of Education (CDE):				
Child Nutrition Cluster				
National School Lunch	10.553	13390	31,499	-
Subtotal Child Nutrition Cluster			31,499	-
Total U.S Department of Agriculture			31,499	-
Total Federal Programs			\$ 4,024,847	\$ 8,537,661

[1] Pass-Through Entity Identifying Number not available

See accompanying note to supplementary information.

SANTA CRUZ COUNTY SUPERINTENDENT OF SCHOOLS

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE JUNE 30, 2018

ORGANIZATION

Santa Cruz County is comprised of ten school districts and the County Office of Education. Within Santa Cruz County, there are thirty-six elementary schools, twelve middle schools, nine special education sites (run by the SCCOE, PVUSD has special education classrooms at all three schools sites), eight high schools, two continuation schools, one community school, seventeen Alternative Education sites and thirteen charter schools. The SCCOE is also the administrative agency for one Special Education Local Plan Area (SELPA) and coordinates the Career Technical Education Partnership for four school districts.

GOVERNING BOARD

MEMBER	OFFICE	TERM EXPIRES
Bruce Van Allen	President	2018
Sue Roth	Vice President	2018
Abel Sanchez	Member	2018
Rose Filicetti	Member	2018
Sandra Nichols	Member	2020
Jane Royer Barr	Member	2020
Dana Sales	Member	2020

ADMINISTRATION

NAME	TITLE
Michael C. Watkins	Superintendent
Mary Hart	Deputy Superintendent, Business Services
Mary Anne James	Associate Superintendent, Educational Services
Faris Sabbah	Deputy Superintendent of Schools

See accompanying note to supplementary information.

SANTA CRUZ COUNTY SUPERINTENDENT OF SCHOOLS

SCHEDULE OF AVERAGE DAILY ATTENDANCE FOR THE YEAR ENDED JUNE 30, 2018

	Final Report	
	Second Period Report	Annual Report
ELEMENTARY		
Probation referred, on probation or parole, expelled	18.64	19.10
Total Elementary	18.64	19.10
SECONDARY		
Juvenile halls, homes, and camps	64.49	68.07
Probation referred, on probation or parole, expelled	690.66	746.98
Total Secondary	755.15	815.05
Total ADA	773.79	834.15
CHARTER SCHOOL		
Regular ADA (Non classroom based)		
Ninth through twelfth	58.51	63.64
Total Regular ADA (Non-classroom based)	58.51	63.64

See accompanying note to supplementary information.

SANTA CRUZ COUNTY SUPERINTENDENT OF SCHOOLS

SCHEDULE OF INSTRUCTIONAL TIME FOR THE YEAR ENDED JUNE 30, 2018

Santa Cruz County Superintendent of Schools does not participate on the longer instructional day incentive. It receives funding for the longer year funding only through the special education funding model. SCCOE is in compliance with the longer year requirement as it has 180 instructional days.

See accompanying note to supplementary information.

SANTA CRUZ COUNTY SUPERINTENDENT OF SCHOOLS

RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT WITH AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

There were no adjustments to the Unaudited Actual Financial Report, which required reconciliation to the audited financial statements at June 30, 2018.

See accompanying note to supplementary information.

SANTA CRUZ COUNTY SUPERINTENDENT OF SCHOOLS

SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2018

	(Budget) 2019 ¹	2018	2017	2016
COUNTY SCHOOL SERVICE FUND 3				
Revenues	\$ 54,363,126	\$ 53,977,681	\$ 46,631,835	\$ 47,641,826
Other sources and transfers in	-	-	-	9,984,983
Total Revenues and Other Sources	54,363,126	53,977,681	46,631,835	57,626,809
Expenditures	54,556,571	50,121,757	42,637,850	53,720,954
Other uses and transfers out	45,000	62,955	37,728	53,905
Total Expenditures and Other Uses	54,601,571	50,184,712	42,675,578	53,774,859
INCREASE (DECREASE) IN FUND BALANCE	\$ (238,445)	\$ 3,792,969	\$ 3,956,257	\$ 3,851,950
ENDING FUND BALANCE	\$ 28,298,104	\$ 28,248,924	\$ 24,455,955	\$ 20,499,698
AVAILABLE RESERVES ²	\$ 2,546,010	\$ 2,520,010	\$ 2,492,260	\$ 2,398,908
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO	4.67%	5.02%	5.85%	4.47%
LONG-TERM OBLIGATIONS ⁴	\$ 8,783,034	\$ 9,129,143	\$ 9,743,022	\$ 9,772,159
AVERAGE DAILY ATTENDANCE AT ANNUAL	830	834	888	854

The County School Service Fund balance has increased by \$7,749,226 over the past two years. The fiscal year 2018-2019 budget projects a decrease of \$238,445. For a COE this size, the State recommends available reserves of at least 3 percent of total County School Service Fund expenditures, transfers out, and other uses (total outgo).

The SCCOE has incurred operating surpluses in the past three years and anticipates incurring an operating deficit during the 2018-2019 fiscal year. Total long-term obligations have decreased by \$643,016 over the past two years.

Average daily attendance has decreased by 20 over the past two years. A decrease in ADA is anticipated during fiscal year 2018-2019.

¹ Budget 2019 is included for analytical purposes and has not been subjected to audit.

² Available reserves include all unassigned fund balances including all amounts reserved for economic uncertainties contained in the Special Reserve Fund for Other Than Capital Projects.

³ County School Service Fund amounts include activity related to the consolidation of the Deferred Maintenance Fund and the Special Reserve Fund for Other Than Capital Projects as required by GASB Statement No. 54.

⁴ Long-term obligations have been restated due to the implementation of GASB Statement No. 75.

See accompanying note to supplementary information.

SANTA CRUZ COUNTY SUPERINTENDENT OF SCHOOLS

SCHEDULE OF CHARTER SCHOOLS FOR THE YEAR ENDED JUNE 30, 2018

<u>Name of Charter School</u>	<u>Included in Audit Report</u>
Pacific Collegiate School	No
Santa Cruz County Career Advancement Charter School	Yes

See accompanying note to supplementary information.

SANTA CRUZ COUNTY SUPERINTENDENT OF SCHOOLS

NON-MAJOR GOVERNMENTAL FUNDS COMBINING BALANCE SHEET JUNE 30, 2018

	Charter School Fund	Child Development Fund	Cafeteria Fund	County School Facilities Fund	Total Non-Major Governmental Funds
ASSETS					
Deposits and investments	\$ 372,687	\$ 45,856	\$ 2,519	\$ 486,514	\$ 907,576
Receivables	38,955	195,398	7,564	-	241,917
Due from other funds	62,305	29,100	-	-	91,405
Total Assets	<u>\$ 473,947</u>	<u>\$ 270,354</u>	<u>\$ 10,083</u>	<u>\$ 486,514</u>	<u>\$ 1,240,898</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 3,375	\$ 44,709	\$ -	\$ -	\$ 48,084
Due to other funds	188,688	140,470	10,083	-	339,241
Unearned revenue	-	62,297	-	-	62,297
Total Liabilities	<u>192,063</u>	<u>247,476</u>	<u>10,083</u>	<u>-</u>	<u>449,622</u>
Fund Balances:					
Restricted	38,955	-	-	486,514	525,469
Assigned	242,929	22,878	-	-	265,807
Total Fund Balance	<u>281,884</u>	<u>22,878</u>	<u>-</u>	<u>486,514</u>	<u>791,276</u>
Total Liabilities and Fund Balances	<u>\$ 473,947</u>	<u>\$ 270,354</u>	<u>\$ 10,083</u>	<u>\$ 486,514</u>	<u>\$ 1,240,898</u>

See accompanying note to supplementary information.

SANTA CRUZ COUNTY SUPERINTENDENT OF SCHOOLS

NON-MAJOR GOVERNMENTAL FUNDS COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES FOR THE YEAR ENDED JUNE 30, 2018

	Charter School Fund	Child Development Fund	Cafeteria Fund	County School Facilities Fund	Total Non-Major Governmental Funds
REVENUES					
Revenue limit sources	\$ 523,021	\$ -	\$ -	\$ -	\$ 523,021
Federal sources	-	236,296	31,499	-	267,795
Other State sources	48,552	616,415	2,000	-	666,967
Other local sources	1,472	104,387	976	5,818	112,653
Total Revenues	573,045	957,098	34,475	5,818	1,570,436
EXPENDITURES					
Current					
Instruction	211,127	-	-	-	211,127
Instruction-related activities:					
School site administration	80,034	-	-	-	80,034
Pupil services:					
Food services	-	-	71,662	-	71,662
General administration:					
All other general administration	-	62,620	3,762	-	66,382
Community services	-	926,294	-	-	926,294
Total Expenditures	291,161	988,914	75,424	-	1,355,499
Excess (Deficiency) of					
Revenues Over Expenditures	281,884	(31,816)	(40,949)	5,818	214,937
Other Financing Sources (Uses):					
Transfers in	-	29,101	33,854	-	62,955
Net Financing Sources (Uses)	-	29,101	33,854	-	62,955
NET CHANGE IN FUND BALANCES	281,884	(2,715)	(7,095)	5,818	277,892
Fund Balance - Beginning	-	25,593	7,095	480,696	513,384
Fund Balance - Ending	\$ 281,884	\$ 22,878	\$ -	\$ 486,514	791,276

See accompanying note to supplementary information.

SANTA CRUZ COUNTY SUPERINTENDENT OF SCHOOLS

NOTE TO SUPPLEMENTARY INFORMATION FOR THE YEAR ENDED JUNE 30, 2018

NOTE 1 - PURPOSE OF SCHEDULES

Schedule of Expenditures of Federal Awards

The accompanying schedule of expenditures of Federal awards includes the Federal grant activity of the SCCOE and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of the Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements. The SCCOE has not elected to use the ten percent de minimis cost rate as covered in Section 200.414 Indirect (F&A) costs of the Uniform Guidance

The following schedule provides reconciliation between revenues reported on the Statement of Revenues, Expenditures and Changes in Fund Balance and the related expenditures reported on the Schedule of Expenditures of Federal Awards. The reconciling amounts consist of Medi-Cal Billing Option and Medi-Cal Administrative Activities funds that have been recorded in the current period as revenues that have not been fully expended as of June 30, 2018. These unspent balances are reported as assigned ending balances within the County School Service Fund.

Description	CFDA Number	Amount
Total Federal Revenues Statement of Revenues, Expenditures and Changes in Fund Balance:		\$ 13,371,745
Medi-Cal Billing Option	93.778	5,816
Medi-Cal Administrative Activities (MAA)	93.778	<u>(815,053)</u>
Total Schedule of Expenditures of Federal Awards		<u>\$ 12,562,508</u>

Local Education Agency Organization Structure

This schedule provides information about the SCCOE's boundaries and schools operated, members of the governing board, and members of the administration.

Schedule of Average Daily Attendance (ADA)

Average daily attendance (ADA) is a measurement of the number of pupils attending classes of the SCCOE. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionments of State funds are made to local educational agencies. This schedule provides information regarding the attendance of students at various grade levels and in different programs.

Schedule of Instructional Time

Education Code Section 46201.5 extended the longer instructional day incentive funding for County Offices of Education that provide special day classes. The SCCOE does not participate in the incentive funding for increasing instructional time as provided by the Incentives for Longer Instruction Day. The SCCOE does participate in the longer year funding for special education classes.

SANTA CRUZ COUNTY SUPERINTENDENT OF SCHOOLS

NOTE TO SUPPLEMENTARY INFORMATION FOR THE YEAR ENDED JUNE 30, 2018

Reconciliation of Annual Financial and Budget Report with Audited Financial Statements

This schedule provides the information necessary to reconcile the fund balance of all funds reported on the Unaudited Actual Financial Report to the audited financial statements.

Schedule of Financial Trends and Analysis

This schedule discloses the SCCOE's financial trends by displaying past years' data along with current year budget information. These financial trend disclosures are used to evaluate the SCCOE's ability to continue as a going concern for a reasonable period of time.

Schedule of Charter Schools

This schedule lists all Charter Schools chartered by the Santa Cruz County Office of Education, and displays information for each Charter School on whether or not the Charter School is included in the County Office of Education audit.

Non-Major Governmental Funds - Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balances

The Non-Major Governmental Funds Combining Balance Sheet and Combining Statement of Revenues, Expenditures and Changes in Fund Balances is included to provide information regarding the individual funds that have been included in the Non-Major Governmental Funds column on the Governmental Funds Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balances.

INDEPENDENT AUDITOR'S REPORTS



**INDEPENDENT AUDITOR'S 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***

Governing Board
Santa Cruz County Superintendent of Schools
Santa Cruz, California

We have audited, in accordance with the 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, each major fund, and the aggregate remaining fund information of Santa Cruz County Superintendent of Schools' (the SCCOE) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Santa Cruz County Superintendent of Schools' basic financial statements, and have issued our report thereon dated December 17, 2018.

Emphasis of Matter - Change in Accounting Principles

As discussed in Note 1 and Note 15 to the financial statements, in 2018, the SCCOE adopted new accounting guidance, GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Santa Cruz County Superintendent of Schools' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Santa Cruz County Superintendent of Schools' internal control. Accordingly, we do not express an opinion on the effectiveness of Santa Cruz County Superintendent of Schools' 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 SCCOE's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Santa Cruz County Superintendent of Schools' 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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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 SCCOE'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 SCCOE's internal control and compliance. Accordingly, this communication is not suitable for any other purpose

Vavrinek, Trine, Day & Co LLP

Pleasanton, California
December 17, 2018



VAVRINEK, TRINE, DAY & CO., LLP
Certified Public Accountants

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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
EACH MAJOR PROGRAM AND REPORT ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

Governing Board
Santa Cruz County Superintendent of Schools
Santa Cruz, California

Report on Compliance for Each Major Federal Program

We have audited Santa Cruz County Superintendent of Schools' (SCCOE) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Santa Cruz County Superintendent of Schools' major Federal programs for the year ended June 30, 2018. Santa Cruz County Superintendent of Schools' major Federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the Federal statutes, regulations, and the terms and conditions of its Federal awards applicable to its Federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Santa Cruz County Superintendent of Schools' major Federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about Santa Cruz County Superintendent of Schools' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major Federal program. However, our audit does not provide a legal determination of Santa Cruz County Superintendent of Schools' compliance.

Opinion on Each Major Federal Program

In our opinion, Santa Cruz County Superintendent of Schools complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the year ended June 30, 2018.

Report on Internal Control Over Compliance

Management of Santa Cruz County Superintendent of Schools is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Santa Cruz County Superintendent of Schools' internal control over compliance with the types of requirements that could have a direct and material effect on each major Federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major Federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Santa Cruz County Superintendent of Schools' internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Vavrinek, Trine, Day & Co LLP

Pleasanton, California
December 17, 2018



VAVRINEK, TRINE, DAY & CO., LLP
Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Governing Board
Santa Cruz County Superintendent of Schools
Santa Cruz, California

Report on State Compliance

We have audited Santa Cruz County Superintendent of Schools' (SCCOE) compliance with the types of compliance requirements as identified in the *2017-2018 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* that could have a direct and material effect on each of the Santa Cruz County Superintendent of Schools' State government programs as noted below for the year ended June 30, 2018.

Management's Responsibility

Management is responsible for compliance with the requirements of State laws, regulations, and the terms and conditions of its State awards applicable to its State programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance of each of the Santa Cruz County Superintendent of Schools' State programs based on our audit of the types of compliance requirements referred to above. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *2017-2018 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. These standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the applicable government programs noted below. An audit includes examining, on a test basis, evidence about Santa Cruz County Superintendent of Schools' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions. Our audit does not provide a legal determination of Santa Cruz County Superintendent of Schools' compliance with those requirements.

Unmodified Opinion

In our opinion, Santa Cruz County Superintendent of Schools' complied, in all material respects, with the compliance requirements referred to above that are applicable to the government programs noted below that were audited for the year ended June 30, 2018.

In connection with the audit referred to above, we selected and tested transactions and records to determine the Santa Cruz County Superintendent of Schools' compliance with the State laws and regulations applicable to the following items:

	Procedures Performed
LOCAL EDUCATION AGENCIES OTHER THAN CHARTER SCHOOLS	
Attendance	Yes
Teacher Certification and Misassignments	Yes
Kindergarten Continuance	No, see below
Independent Study	Yes
Continuation Education	No, see below
Instructional Time	No, see below
Instructional Materials	Yes
Ratios of Administrative Employees to Teachers	No, see below
Classroom Teacher Salaries	No, see below
Early Retirement Incentive	No, see below
Gann Limit Calculation	Yes
School Accountability Report Card	Yes
Juvenile Court Schools	Yes
Middle or Early College High Schools	No, see below
K-3 Grade Span Adjustment	No, see below
Transportation Maintenance of Effort	No, see below
Apprenticeship: Related and Supplemental Instruction	No, see below
SCHOOL DISTRICTS, COUNTY OFFICES OF EDUCATION, AND CHARTER SCHOOLS	
Educator Effectiveness	Yes
California Clean Energy Jobs Act	Yes
After/Before School Education and Safety Program:	
General Requirements	No, see below
After School	No, see below
Before School	No, see below
Proper Expenditure of Education Protection Account Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control Accountability Plan	Yes
Independent Study - Course Based	No, see below
CHARTER SCHOOLS	
Attendance	Yes
Mode of Instruction	No, see below
Non Classroom-Based Instruction/Independent Study for Charter Schools	Yes
Determination of Funding for Non Classroom-Based Instruction	Yes
Annual Instruction Minutes Classroom-Based	No, see below
Charter School Facility Grant Program	No, see below

The SCCOE's kindergarten students are retained using an Individualized Education Program based on the identified special needs; therefore, we did not perform procedures related to Kindergarten Continuance.

The SCCOE does not offer a Continuation Education Program; therefore, we did not perform procedures related to the Continuation Education Attendance Program.

The SCCOE is not required to meet the Instructional Time, Ratio of Administrative Employees to Teachers, and Classroom Teacher Salaries requirements; therefore we did not perform procedures related to Instructional Time, Ratio of Administrative Employees to Teachers and Classroom Teacher Salaries.

The SCCOE did not offer an Early Retirement Incentive Program during the current year; therefore, we did not perform procedures related to the Early Retirement Incentive Program.

The SCCOE does not have offer a Middle or Early College High School Program; therefore, we did not perform procedures related to the Middle or Early College High School Program.

The SCCOE is not required to meet the K-3 Grade Span Adjustment and Transportation Maintenance of Effort requirements; therefore we did not perform procedures related to the K-3 Grade Span Adjustment and Transportation Maintenance of Effort.

The SCCOE does not offer an Apprenticeship Program; therefore we did not perform procedures related to the Apprenticeship Program.

The SCCOE does not offer an After/Before School Education and Safety Program; therefore, we did not perform any procedures related to the After/Before School Education and Safety Program.

The SCCOE does not offer an Independent Study-Course Based Program; therefore, we did not perform any procedures related to the Independent Study-Course Based Program.

The SCCOE's Charter School is Non Classroom Based/Independent Study instruction; therefore, we did not perform any procedures related to Charter School Classroom Based Instruction.

The SCCOE does not participate in the Charter School Facility Grant Program; therefore we did not perform any procedures related to the Charter School Facility Grant Program.

Vavinek, Trine, Day & Co LLP

Pleasanton, California
December 17, 2018

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

SANTA CRUZ COUNTY SUPERINTENDENT OF SCHOOLS

SUMMARY OF AUDITOR'S RESULTS FOR THE YEAR ENDED JUNE 30, 2018

FINANCIAL STATEMENTS

Type of auditor's report issued:	<u>Unmodified</u>
Internal control over financial reporting:	
Material weakness(es) identified?	<u>No</u>
Significant deficiency(ies) identified?	<u>None reported</u>
Noncompliance material to financial statements noted?	<u>No</u>

FEDERAL AWARDS

Internal control over major Federal programs:	
Material weakness(es) identified?	<u>No</u>
Significant deficiency(ies) identified?	<u>None reported</u>
Type of auditor's report issued on compliance for major Federal programs:	<u>Unmodified</u>

Any audit findings disclosed that are required to be reported in accordance with
Section 510(a) of OMB Circular A-133?

No

Identification of major Federal programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
<u>93.600</u>	<u>Migrant Headstart</u>
<u>93.778</u>	<u>Medicaid Cluster</u>

Dollar threshold used to distinguish between Type A and Type B programs:
Auditee qualified as low-risk auditee?

\$ 750,000
Yes

STATE AWARDS

Type of auditor's report issued on compliance for programs:	<u>Unmodified</u>
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SANTA CRUZ COUNTY SUPERINTENDENT OF SCHOOLS

**FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2018**

None reported.

SANTA CRUZ COUNTY SUPERINTENDENT OF SCHOOLS

**FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2018**

None reported.

SANTA CRUZ COUNTY SUPERINTENDENT OF SCHOOLS

**STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2018**

None reported.

SANTA CRUZ COUNTY SUPERINTENDENT OF SCHOOLS

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2018

There were no audit findings reported in the prior year's schedule of financial statement findings.

SUPERINTENDENT'S RECOMMENDATION FOR BOARD ACTION

SUBJECT:

Cypress Charter Proposal

DEPARTMENT/PROGRAM:

Santa Cruz County Board of Education

ACTION REQUESTED:

Direct staff to proceed with the development of a charter petition to be presented at the February 21, 2019 Board meeting.

PREVIOUS STAFF/BOARD ACTION:

None.

BACKGROUND INFORMATION AND/OR STATEMENT OF NEED:

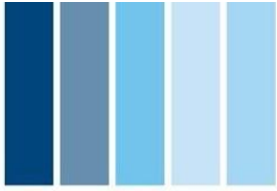
The Board will be presented with a report about the prospect of a new charter school to be established at the current site of Cypress Charter High School, and will be asked whether or not to bring forward a formal petition for its implementation for the Board's review at the next Regular Board Meeting on February 21, 2019.

FISCAL IMPLICATIONS:

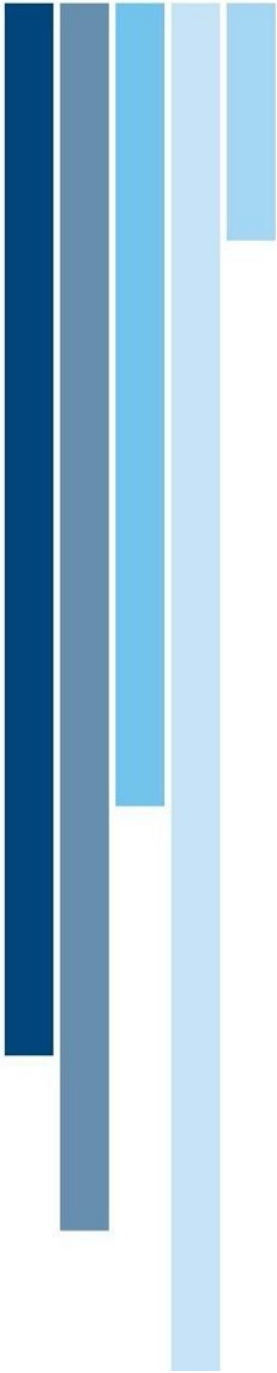
No significant impact to staff is anticipated in the preparation of the report and so no fiscal impact is projected.

CONTACT PERSON(S):

Faris Sabbah, Superintendent



Board Report Cypress Charter School



**Prepared by the County Office of Education
Jan 17, 2018**

Table of Contents

Executive Summary	2
Demographics	3
Academic Performance	4
Finances	7
Facilities	8
Network Resources	11
Human Resources	12
Special Education Services	14
Communication Plan	15
Legal Process	16

Executive Summary

The Live Oak School District and Cypress Charter School have approached the County Office of Education (the “COE”) regarding the possibility of closing Cypress at the end of the 2018-2019 school year so that the Charter School may reopen for the 2019-2020 school year under the chartering authority of the Santa Cruz County Board of Education.

Cypress currently serves approximately 111 students in grades 9 through 12. The charter (“Charter”) was originally granted by the District’s Board of Trustees (the “District Board”) in 2003, and was renewed for additional five year terms in 2008, 2013, and 2018. The current term of the Charter will expire in June 2023. The Charter school provides important and effective services to students in Santa Cruz County.

The county Board of Education requested additional information about Cypress Charter school. This report intends to provide additional clarity about the current state of the school, and the implications of the proposal to transition the school under the authority of the County Board of Education.

The review team studied school academic performance, graduation rates, finances, facilities, network Resources, Human Resources, and developed a more thorough legal analysis of the process.

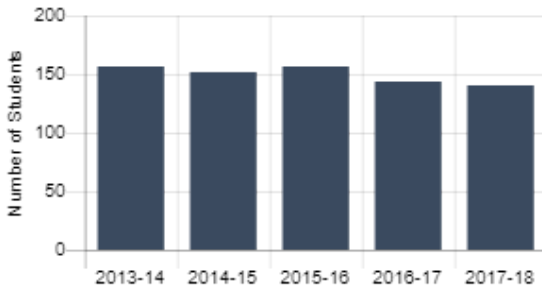
We anticipate a top end cost of \$110,000 in repairs and \$20,000 for technology upgrades. Further, to make the school fiscally sound and sustainable, we would need to increase enrollment to 145 (ADA of 135) without significant increased to staffing. This would require a focused effort on student recruitment

Recommendation

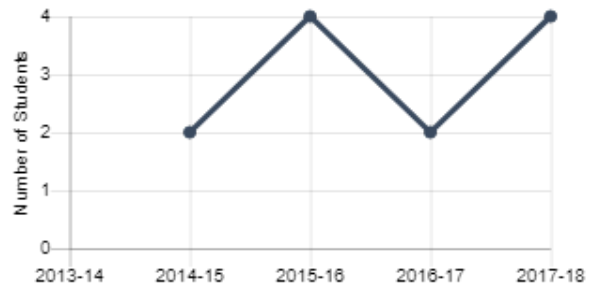
We are recommending that the County Board of Education approve a motion for the supporting the COE staff in bringing forth a Charter petition to be submitted for review on February 21, 2019.

Demographics

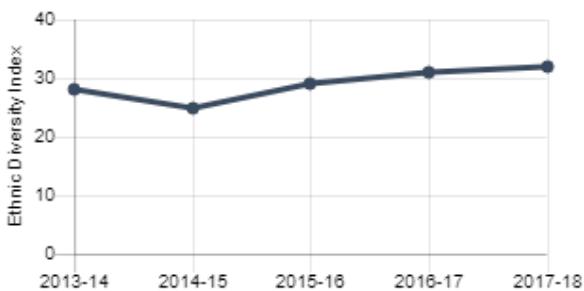
Enrollment over time



English Learners



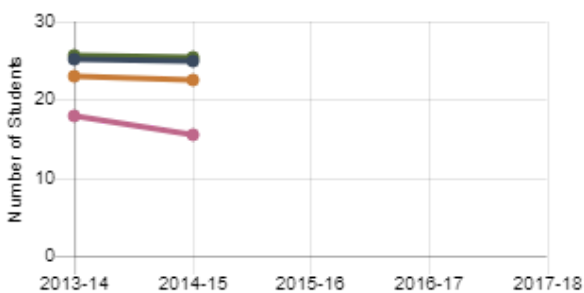
Ethnic Diversity



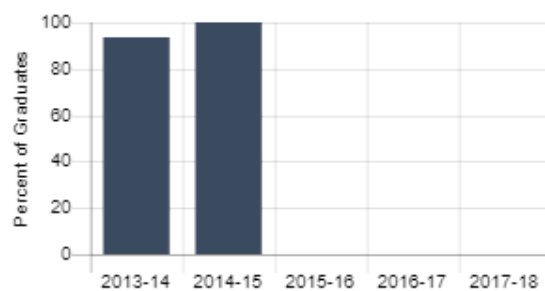
Unduplicated Pupil Count of Free/Reduced-Price Meals, English Learners & Foster Youth



Average Class Size



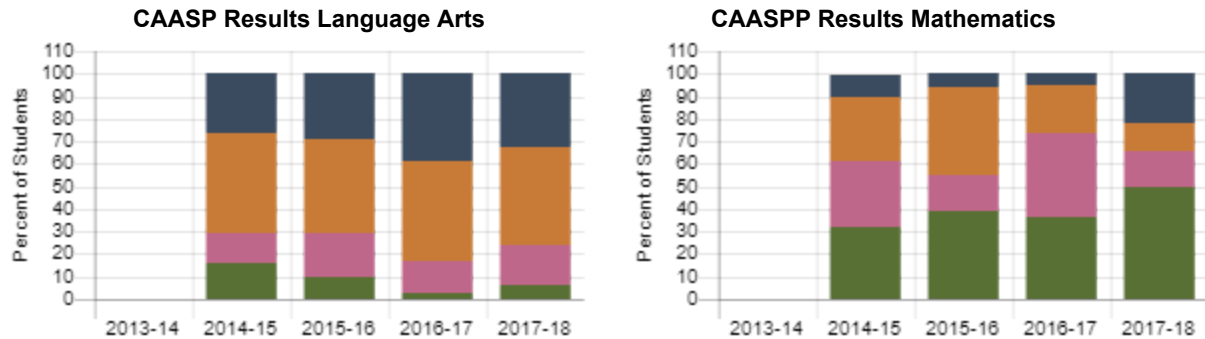
Graduates Meeting UC/CSU Course Requirements



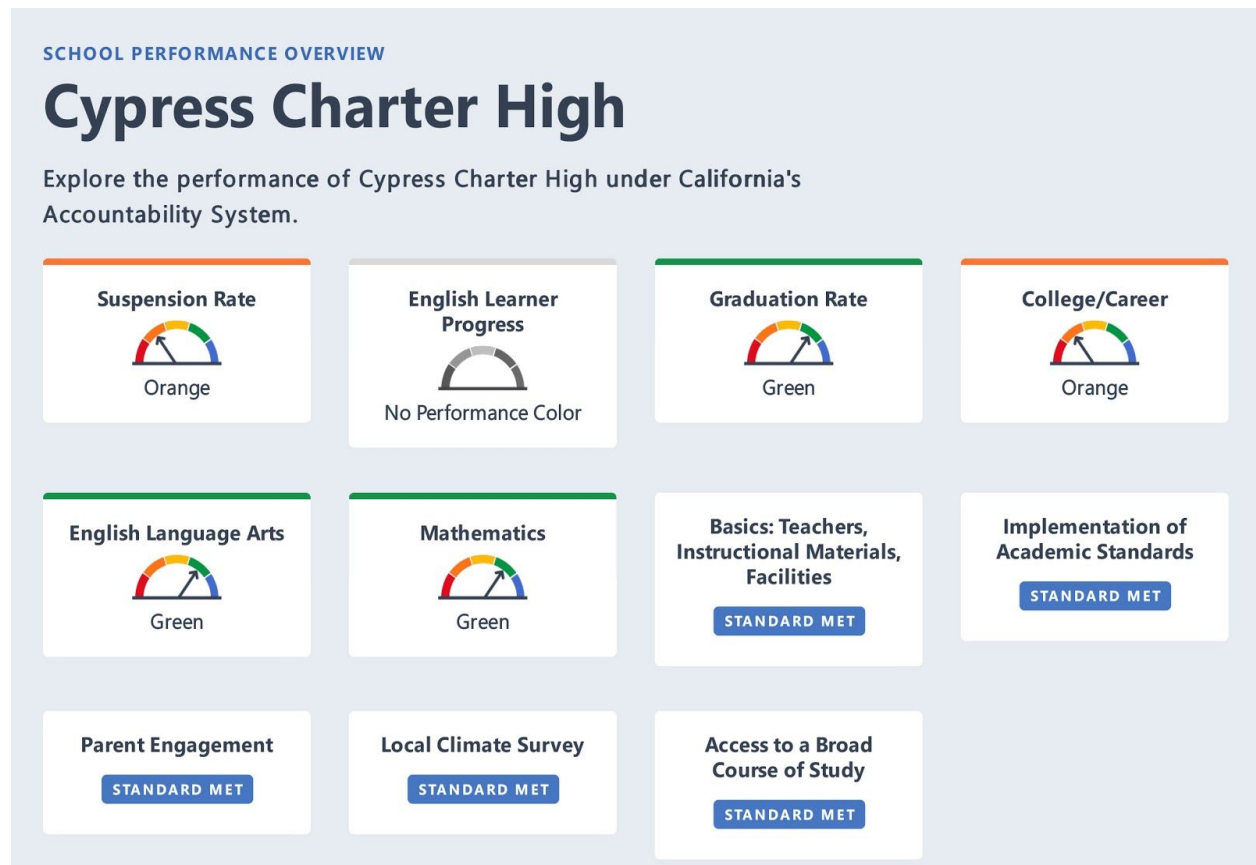
Source: <http://www.ed-data.org/school/Santa-Cruz/Live-Oak-Elementary/Cypress-Charter-High>

Academic Performance

Cypress' performance on the most recent dashboards shows strong indicators in English Language Arts, Mathematics, and Graduation Rates (all green). Areas of improvement include Suspension Rates, College and Career Readiness (orange). Further, they have met all standards in Teachers, Instructional Materials, Facilities, Implementation of Academic Standards, Parent Engagement, Local Climate Survey, and Access to a Broad Course of Study.



Source: <http://www.ed-data.org/school/Santa-Cruz/Live-Oak-Elementary/Cypress-Charter-High>



Source: <https://www.caschooldashboard.org/reports/44697650100305/2018>

Additional Local Information

- Local data for graduation rate
 - 2016: 94%
 - 2017: 97%
 - 2018 94%
- CDE College and Career Readiness Indicators
 - Class of 2018:
 - 44% Prepared
 - 35% Approaching
 - 21% Not Prepared
 - Class of 2017:
 - 50% Prepared
 - 28% Approaching
 - 22% Not Prepared
 - Class of 2016:
 - 56% Prepared
 - 22% Approaching
 - 22% Not Prepared
- **SAT/PSAT DATA**
 - **Class of 2019**
 - SAT: % Meeting Benchmark (16 unique testers/ Multiple test dates)
 - English: 94%
 - Math: 56%
 - PSAT/NMSQT: % Meeting Benchmark (38 testers/ Fall 2017)
 - English: 76% (State 58%)
 - Math: 37% (State 36%)
 - **Class of 2020**
 - PSAT 10: % Meeting Benchmark (29 testers/Spring 2018)
 - English: 62% (State 58%)
 - Math: 38% (State 35%)
 - PSAT/NMSQT % Meeting Benchmark (31 testers/Fall 2018)
 - English: 84 % (State 60%)
 - Math: 45% (State 36%)
 - **Class of 2021**
 - PSAT 9 % Meeting Benchmark (26 testers/Spring 2018)
 - English: 62% (State 55%)
 - Math: 58% (State 44%)

Two years ago the staff decided they needed a consistent tool for measuring student progress and skill level in math. We settled on the MDTP testing platform, and we began giving our students the same test 2 times a year to both measure their current level and to provide

information on student growth. Because of the small student body, and the high ratio of students moving in and out of the program, the school does not yet have good data for individual students. It is hoped that by the end of the 2018-2019 school year the school be able to look at growth trends for individuals.

Highlights from last year's data: 9th graders in 2017-2018, 70% of students were rated above critical level in Data Analysis, Exponents and Functions. Areas of growth for that group would be Geometry, and Fractions.

10th graders in 2017-2018, Data Analysis and Exponents were also strong 70% and 50% were rated at above critical level, and Geometry and Fractions were also weak with this group.

As a response to this data the team investigated an integrated curriculum that was more robust for Geometry, and is currently piloting the CPM curriculum. When the data for this year's testing is available it will be interesting to see if the curriculum change improves scores for those 9th graders who continued with us into 10th grade.

Accreditation and a-g Courses

The school is in the final year of its 6th year approval (with a mid term revisit in May 2016). The school would need to request an One Day Initial Visit. There are three possible outcomes of an initial visit - Three Year Accreditation, Three Year Candidacy Status, Denial of Accreditation. All courses with the exception of the Freshman Core are a-g approved. An updated a-g course list would need to be created with a new CDS code.

Finances

The Multi-Year projection (MYP) has been prepared with a gradual increase in enrollment and ADA. A robust outreach process will need to be put in place to increase enrollment. The staffing level used in the projection is the staffing level in place today. This level is carried out through the MYP. The staffing costs have been adjusted within the MYP for step/column, statutory and health benefits. Other known costs have also been included in the MYP. Staffing levels and facilities will need to be reviewed as the project progresses to ensure we are serving the students attracted to the school to their best potential.

Our review concluded that if enrollment is increased to 145, with an ADA of 135, and maintain current staffing levels, the school will be fiscally solvent and maintain a 3% reserve.

CYPRESS CHARTER SCHOOL

	18-19	19/20	20/21	21/22	22/23
	Notes: Increase Enrollment to 120, ADA to 111 district charged no 1% oversite. No salary increase except step/col/HW/STRS/PERS	Notes: Increase Enrollment to 135, ADA to 125 and Oversite 1%. No salary increase except step/col/HW/STRS/PERS, technology. No change in expenditures, reduced onetime revenues.	Notes: Increase Enrollment to 145, ADA to 135 and Oversite 1%. No salary increase except step/col/HW/STRS/PERS. No change in expenditures,	Notes: Increase in enrollment to 155 and ADA 144. Added COLA, step/column,STRS/PERS/HW 1% admin. 5% HW, technology	Notes: Increase in enrollment to 160 and ADA 150. Added COLA, step/column,STRS/PERS/HW, technology 1% admin
	Fund 09 Cypress	Fund 09 Cypress	Fund 09 Cypress	Fund 09 Cypress	Fund 09 Cypress
Total Revenue	1,155,660	1,300,795	1,427,259	1,570,500	1,686,095
Total Expenditures	1,164,791	1,250,572	1,281,632	1,303,281	1,328,755
Total Transfers	(75,765)	(75,765)	(75,765)	(75,765)	(75,589)
Beginning Balance	120,691	35,795	10,253	80,115	271,569
Net Increase (Decrease) in Fund Balance	(84,896)	(25,542)	69,862	191,454	281,751
Ending Fund Balance	35,795	10,253	80,115	271,569	553,320
Components of Ending Fund Balance:					
Nonspendable 3% reserve	37,217	39,790	40,722	41,371	42,130
over/under reserve	(1,422)	(29,537)	39,393	230,198	511,190
Certificated teaching and Principal FTE	9.16	9.16	9.16	9.16	9.16
Classified FTE	1.65	1.65	1.65	1.65	1.65



Fiscally sound

Facilities

Through the use of the Facilities Inspection Tool (FIT) the Director of Maintenance, Operations, and Facilities determined Cypress Charter currently has five portables, four classrooms, and one administration office. The overall condition of the site is good, the portables are 15 + years old, and the life cycles of the several components of the portables are due or overdue. The carpet in one of the rooms needs replacing with the additional rooms needing replacement in two to three years. The cost to replace carpets in each portable approximately \$3000 per portable. There are no current signs of roof issues but they are 15 years old, and we would assume there would be issues in the next few years. Roof replacement per portable is approximately \$13,000 to \$15,000 each which would total \$75,000. This approximate cost includes that gutter and downspouts. The exterior paint of all the portables is due with an estimated cost \$15,000. Additional FIT findings are bulleted below:

- interior walls are in good shape
- ceiling lights have all been replaced
- cabinets and furniture are in good condition
- no sign of any pest/vermin
- alarms and fire protection are in working order good however, extinguishers will need to be not signed off monthly
- no hazardous materials are visible
- portable 3 has ceiling tiles that indicate a roof leak
- heat pumps have been maintained and are in very good condition
- no indication of any sewer problems
- all electrical outlets and panels show no sign of issues
- window and doors are all in good condition although the doors may need paint
- no sign of any structural issues
- the decking that encompasses the entire center of the campus is in good shape, although the decking screws are coming up they will need to be replaced as they get loose, the decking needs to be power washed to rid of the dirt between the boards
- the Gender Neutral restroom threshold needs to be modified as to not allow rain to seep into the restroom
- there is no access to underneath the decking which is a bit odd, there is wiring (phone or data) going down and coming up from under the decking the district doesn't know how that was installed, further evaluation is needed

- there is one other portable used by Cypress but it is adjacent to the campus B5 next door to one of the COE's special ed program, it's a 960 sq. ft portable and in good condition just as the others.
- The site consists of a large lot that has room for more portables. There is no computer lab.

The estimated cost to upgrade the components would be about \$100,000 to \$110,000.

STATE OF CALIFORNIA FACILITY INSPECTION TOOL (FIT) SCHOOL FACILITY CONDITIONS EVALUATION (REV 05/09)										STATE ALLOCATION BOARD OFFICE OF PUBLIC SCHOOL CONSTRUCTION																										
SCHOOL DISTRICT/COUNTY OFFICE OF EDUCATION										SCHOOL SITE																										
SCHOOL NAME <i>Cypress Charter</i>										SCHOOL TYPE (GRADE LEVELS)																										
INSPECTOR'S NAME Santa Cruz C.O.E.										INSPECTOR'S TITLE Director, Maintenance Operations & Facilities																										
TIME OF INSPECTION										NAME OF DISTRICT REPRESENTATIVE ACCOMPANYING THE INSPECTOR(S) (IF APPLICABLE) George Lopez																										
WEATHER CONDITIONS AT TIME OF INSPECTION																																				
PART III: CATEGORY TOTALS AND RANKING (round all calculations to two decimal places)																																				
TOTAL NUMBER OF AREAS EVALUATED	CATEGORY TOTALS	A. SYSTEMS			B. INTERIOR		C. CLEANLINESS		D. ELECTRICAL		E. RESTROOMS/STAIRWAYS		F. SAFETY		G. STRUCTURAL		H. EXTERNAL																			
		GAS LEAKS	Mechanical	SEWERS	INTERIOR SURFACES	HOUSEKEEP- ING PROG.	PEST/VERMIN INFESTATION	ELECTRICAL	RESTROOMS	STAIRWAYS	FIRE SAFETY	FLOOR/DOOR MATERIALS	STRUCTURAL DAMAGE	ROOFS	PLAYGROUND EQUIPMENT	WINDOWS/DOORS DEFICIENCIES																				
		Number of "Y"s																																		
		Number of "Y"s																																		
		Number of "C"s																																		
		Number of "N"s																																		
Percent of System in Good Repair Number of "Y"s divided by (Total Areas - "N"s)"																																				
Total Percent per Category (Average of above)*																																				
Rank (Circle one) GOOD = 90% - 100% FAIR = 75% - 89% POOR = 50% - 74%																																				
<p>*Note: An extreme deficiency in any area automatically results in a "poor" ranking for that category and a zero for "Total Percent per Category".</p> <p>OVERALL RATING: DETERMINE AVERAGE PERCENTAGE OF 8 CATEGORIES ABOVE <i>good</i> SCHOOL RATING** <i>good</i></p> <p>**For School Rating, apply the Percentage Range below to the average percentage determined above, taking into account the rating Description below</p> <table border="1"> <thead> <tr> <th>PERCENTAGE</th> <th>DESCRIPTION</th> <th>RATING</th> </tr> </thead> <tbody> <tr> <td>90%-100%</td> <td>The school meets most or all standards of good repair. Deficiencies noted, if any, are not significant and/or impact a very small area of the school.</td> <td>EXEMPLARY</td> </tr> <tr> <td>80%-89.99%</td> <td>The school is maintained in good repair with a number of non-critical deficiencies noted. These deficiencies are isolated, and/or resulting from minor wear and tear, and/or in the process of being mitigated.</td> <td>GOOD</td> </tr> <tr> <td>75 %-89.99%</td> <td>The school is not in good repair. Some deficiencies noted are critical and/or widespread. Repairs and/or additional maintenance are necessary in several areas of the school site.</td> <td>FAIR</td> </tr> <tr> <td>50%-74.99%</td> <td>The school facilities are in poor condition. Deficiencies of various degrees have been noted throughout the site. Major repairs and maintenance are necessary throughout the campus.</td> <td>POOR</td> </tr> </tbody> </table> <p>COMMENTS AND RATING EXPLANATION: <i>back cases & storage cabinets need anchoring</i> <i>deck screws rusting - get Hinf 100SE.</i></p>																						PERCENTAGE	DESCRIPTION	RATING	90%-100%	The school meets most or all standards of good repair. Deficiencies noted, if any, are not significant and/or impact a very small area of the school.	EXEMPLARY	80%-89.99%	The school is maintained in good repair with a number of non-critical deficiencies noted. These deficiencies are isolated, and/or resulting from minor wear and tear, and/or in the process of being mitigated.	GOOD	75 %-89.99%	The school is not in good repair. Some deficiencies noted are critical and/or widespread. Repairs and/or additional maintenance are necessary in several areas of the school site.	FAIR	50%-74.99%	The school facilities are in poor condition. Deficiencies of various degrees have been noted throughout the site. Major repairs and maintenance are necessary throughout the campus.	POOR
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PART II: EVALUATION DETAIL

Date of Inspection: 11/10/19

School Name: Cypress Charter H-S

CATEGORY	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
AREA	GAS LEAKS	MECHANICAL	SEWER	INTERIOR SURFACES	HOUSEKEEPING EQUIP	PEST/VERMIN INFESTATION	ELECTRICAL	RESTROOM	SINKS/FOUNTAINS	FIRE SAFETY	HAZARDOUS MATERIALS	STRUCTURAL DAMAGE	ROOFS	PLAYGROUND/CHALK GROUNDS	WINDOWS/DOORS/SATISFACED
Portable Main Office	✓	✓	✓	✓	✓	✓	D	NA	NA	✓	✓	✓	✓	NA	✓
COMMENTS:	misuse of extension cord pas														
Portable 1 AB	✓	✓	✓	✓	✓	✓	✓	NA	NA	✓	✓	✓	✓	NA	✓
COMMENTS:	gas shut inside classroom but not one outside														
Portable 2	✓	✓	✓	D	✓	✓	✓	✓	✓	✓	✓	✓	✓	NA	✓
COMMENTS:	bookcases, storage cabinets not anchored to wall														
Portables 3	✓	✓	✓	✓	✓	✓	✓	✓	NA	✓	✓	✓	D	NA	✓
COMMENTS:	roof leak														
Portable 4	✓	✓	✓	✓	✓	✓	✓	NA	NA	✓	✓	✓	✓	NA	✓
COMMENTS:															
Portable 5	✓	✓	✓	✓	✓	✓	✓	NA	NA	✓	✓	✓	✓	NA	✓
COMMENTS:															
Portable 35	✓	✓	✓	✓	✓	✓	✓	NA	✓	✓	✓	✓	✓	NA	✓
COMMENTS:															
COMMENTS:															
COMMENTS:															

Marks: ✓ = Good Repair (When filling up the electronic version, please use ctrl+G); D = Deficiency; X = Extreme Deficiency; NA = Not Applicable
Use additional sheets as necessary.

All of their storage cabinets
book cases are NOT ANCHORED TO THE WALLS

Network Resources

To provide phone, internet, and other services we have two options:

- Option A: Rebuild Network with new point to point circuit back (or VPN router with cable modem drop) to COE-- put in new Wireless access points that we can manage and either install new switches/routers or contract with Live Oak to use existing network and install our on phone system
- Option B: Contract with Live Oak for basic network management of infrastructure -- we take control of content filter (we already provide content filtering services for Live Oak).

Need to review and possibly purchase or replace A/V for classrooms with our standard equipment. Yearly internet charges would total approximately \$7,200 per month.

Human Resources

The Santa Cruz County Office of Education's Human Resources department conducted a review of the Cypress Charter School's job descriptions, salary schedules, benefits and calendar work days.

JOB DESCRIPTIONS AND FTE

Current Cypress Staff

Hire Date	Job Title	Status	FTE
8/24/2009	Principal, High School	TENURED	1
8/15/2017	Counselor - High School	Prob 2	1
8/14/2018	Cypress Teacher/Mentor	Prob 1	0.5
8/14/2018	Cypress Teacher/Mentor	Prob 0	0.5
11/7/2018	Cypress Teacher/Mentor	Prob 1	1
2/2/2004	Cypress Teacher/Mentor	TENURED	1
8/17/2016	Cypress Teacher/Mentor	TENURED	1
8/29/2005	Cypress Teacher/Mentor	TENURED	1
8/27/2007	Cypress Teacher/Mentor	TENURED	1
8/14/2018	Cypress Teacher/Mentor	Prob 1	1
8/23/2012	Cypress Teacher/Mentor	TENURED	0.66
		Certificated FTE	9.66
9/28/2018	Instructional Aide II	Probationary	0.25
11/17/2015	Cypress Office Assistant	Permanent	0.525
10/27/2014	Cypress Secretary/Registrar	Permanent	0.875
		Classified FTE	1.65

The following positions would need to be established at SCCOE

- Director of Charter School job description would require approval from the County Superintendent.

- Teacher, Charter School would require approval from the Certificated CBA and County Superintendent.
- Academic Counselor position and compensation would require approval from the Certificated CBA and County Superintendent.
- Classified Administrative Support job descriptions are comparable.
- Instructional Assistant job descriptions are comparable.

SALARY SCHEDULES

The salary schedules for all positions are comparable with the SCCOE.

BENEFITS

Although there are differences in employer contributions and Live Oak is a tiered rate while the SCCOE is a composite rate, no employee will have a negative financial impact transferring to SCCOE benefit plans.

WORK CALENDARS

	Live Oak	SCCOE
Administration	218 days	222 days
Office staff	194/180 days	10/11/12 month
Instructional	187 days	185 days

HIRING PROCESS

Transfer opportunities will be made available to current SCCOE employees determined by classifications. Cypress Charter School employees would reapply with the SCCOE and would be eligible for membership with Collective Bargaining Units. All years of services would transfer to the SCCOE for salary placements for employees selected for employment. Selected employees would be required to serve a probationary period per contract language and merit rules.

The SCCOE will hold meetings with both collective bargaining units to discuss the proposal for a new charter school.

Special Education Services

Cypress is serving students identified with: Autism, Other Health Impairment, Emotional Disturbance, Specific Learning Disability. According to current IEPs, students are receiving Specialized Academic Instruction, Counseling, College Awareness, Career Awareness, Speech and Language, and Occupational Therapy(OT). Most Special Education students graduate on time. They perform well in English language arts but need additional support in mathematics. Absenteeism not an issue

The services and staff are paid for or provided by Live Oak. Cypress pays a proportionate amount of Live Oak's Special Education budget. Historically funding has shifted back and forth for OT and counseling due to a complex funding structure that may need to be re-evaluated.

- There is an Resource Specialist Program teacher on site, who also teaches general education mathematics and is split accordingly (approx .6 and .4).
- Speech Language Pathologist and Psych services are provided by Live Oak.
- OT is contracted through Pediatric Therapy.
- Counseling is contracted through Encompass Services.
- College and Career Counseling is provided by their on-site guidance personnel.

It remains unclear how outside placements or 1-1 support would be funded.

COE Services

It would probably be beneficial to keep a similar structure in place for on-site service providers and figure out how related services (OT, SLP, Counseling) would be provided and whether you would contract or share across other sites such as Alt Ed.

- Cypress also accesses the Director of Student Services for resources and support beyond Special Ed, which should be considered.
- For both gen ed and special ed, they reach out for facilitation of difficult meetings, questions, training and workshops, complex student issues, discipline issues, support with SEL at Tier 1.

Communication Plan

A Communication Plan would need to be developed to involve stakeholders in the transition process. This will involve Creating a stakeholder committee to develop goals and actions around communication including:

- Collecting data around stakeholders' preferred methods of communication
- Developing channels and frequency of communications
 - Social Media
 - Newsletters
 - Hard copy mailers
 - Calendars--digital and hard copy
- Conducting Townhall Q&A meetings to describe the process and answer questions/concerns

Legal Process



4 Lower Ragsdale Drive, Suite 200 Monterey, California 93940-5758
Telephone: (831) 646-1501 Fax: (831) 646-1801

DATE: January 11, 2019 **CLIENT/MATTER:** 268-201

TO: Faris Sabbah
Deputy Superintendent of Schools
Santa Cruz County Board of Education
Santa Cruz County Office of Education

FROM: Devon B. Lincoln
Claudia P. Weaver

RE: Opening Cypress Charter High School as Countywide Charter

The Santa Cruz County Office of Education (“COE”) has requested legal guidance regarding the requirements and procedures entailed in reopening Cypress Charter High School (“Cypress” or “Charter School”), which is currently chartered by Live Oak School District (“District”), as a countywide charter school.

As we understand it, the District and the Charter School have approached the COE regarding the possibility of closing Cypress at the end of the 2018-2019 school year so that the Charter School may reopen for the 2019-2020 school year under the chartering authority of the Santa Cruz County Board of Education (“BOE”).^[1]

Cypress currently serves approximately 111 students in grades 9 through 12. The charter (“Charter”) was originally granted by the District’s Board of Trustees (the “District Board”) in

2003, and was renewed for additional five year terms in 2008, 2013, and 2018. The current term of the Charter will expire in June 2023. As described in the current Charter, Cypress offers classroom-based instruction supplemented by community-based learning, job shadowing, service learning, mentorships, project-based learning, occupational training, online classes and concurrent enrollment at Cabrillo College. The Charter School offers some Advanced Placement and Honors coursework, as well as programs for remediation. The current Charter allows up to 20% of the student body to be enrolled solely in online classes at any one time (Petition, p. 9). The Charter School's graduation requirements are aligned with the University of California's "a-g" minimum admissions requirements. (Petition, p. 10).

Cypress is currently housed in District facilities. As discussed in greater detail below, the Charter School pays the District a *pro rata* share for use of the space, facilities, and utilities.

This memorandum provides an overview of the process entailed in closing and then reopening the Charter School as a countywide charter, and an outline of significant legal issues that warrant the BOE's consideration. Specifically, the memorandum discusses the following:

1. Closure of Cypress Charter High School
2. Drafting a new countywide charter petition
3. Deciding on a governance structure
4. Charter facilities
5. Transitioning employees
6. Arranging for special education services

1. CLOSURE OF CYPRESS CHARTER HIGH SCHOOL

Simultaneous with actions taken by the COE to reopen Cypress as a countywide charter school, the District will need to close the Charter School at the end of the 2018-2019 school year. In order to do so, the District and the Charter School must comply with the charter school closure procedures set out in Title 5, section 11962 of the California Code of Regulations (the "Regulations"). Our firm has had previous communications with an Education Programs Consultant with the California Department of Education ("CDE"), who provided supplemental guidance regarding the CDE's preferred procedures for closure.

A summary of regulatory and CDE requirements, as well as other recommendations intended to lessen the impact of the Charter School's closure on its families and staff follows. In addition to the steps outlined below, we further recommend that the District, together with the COE, develop a plan for effectively and timely communicating with Charter School students and parents throughout the closure and reopening process.

Step 1: Initial Resolution

To commence the closure of the Charter School, we recommend the District Board take action to adopt a resolution that details the District's intent to close the Charter School at the end of the 2018-2019 school year so it may be re-opened as a countywide charter school for the following school year. This resolution should:

- State that the Charter School will close at the end of the 2018-2019 school year;
- State that Cypress will, subject to the discretion of the COE, reopen as a countywide charter school beginning in the 2019-2020 school year;
- Direct the District Superintendent, and/or designee(s) to take all necessary actions to implement this decision;
- Designate the District as the "responsible entity" to conduct closure-related activities (Cal. Code Regs., tit. 5 ("5 C.C.R."), § 11962(a)); and
- State that all pupil records, state assessment results, special education records, and personnel records will continue to be maintained in accordance with applicable law. (5 C.C.R., § 19962(d)-(e).)

The District may also wish to include language in the resolution stating that the District will ensure that a final audit will be conducted of the Charter School within six months of closure, as required by the Regulations.

Step 2(A): Provide Notice to Parents/Guardians, the COE, and the SELPA

The District must provide notice of the Charter School's closure to the parents/guardians of all pupils in the Charter School, the COE, and the special education local plan area ("SELPA"). These notices must include:

- The date the Charter School will close;
- The name and contact information for the person to whom reasonable inquiries may be made regarding the closure;
- The pupils' school district of residence^[2]; and
- The manner in which parent(s)/guardian(s) may obtain copies of pupil records, including specific information on completed courses and credits that meet graduation requirements.

(5 C.C.R., § 11962(b).) Though not required by law, the District may also wish to provide a description of the circumstances of the closure, specifically indicating that the Charter School intends to reopen as a countywide charter school beginning in the 2019-2020 school year.

Although a specific timeline for these notices is not contemplated in the Regulations, we recommend providing these notices soon after the adoption of the Initial Resolution described in Step 1 of this memorandum.

Step 2(B): Provide Notice to the Charter School Employees' Retirement Systems

The District must also provide notice regarding the Charter School's closure to the retirement systems in which the Charter School's employees participate (e.g., Public Employees' Retirement System, State Teachers' Retirement System, and federal social security.) This notice must include:

- The date the Charter School will close;
- The name and contact information for the person to whom reasonable inquiries may be made regarding the closure; and
- The manner in which parent(s)/guardian(s) may obtain copies of pupil records, including specific information on completed courses and credits that meet graduation requirements.

(5 C.C.R., § 11962(b).) Again, though not required by law, the District may also wish to provide a description of the circumstances of the closure, specifically indicating that the Charter School intends to reopen as a countywide charter school beginning in the 2019-2020 school year. Please note that the Regulations appear to indicate that the notice to the employees' retirement systems must include "pupils' school districts of residence." (5 C.C.R., § 11962, subd. (b).) However, in light of federal and California student privacy laws we recommend the District not provide this information in this notice.

Although a specific timeline for these notices is not contemplated in the Regulations, we recommend providing these notices soon after the adoption of the Initial Resolution described in Step 1 of this memorandum. They can be provided at the same time as the notices the District is required to provide to parents/guardians, the COE and the SELPA, as discussed at Step 2(A).

Step 2(C): Provide Notice to the California Department of Education ("CDE")

The District must also provide notice regarding the Charter School's closure to the CDE. Pursuant to the Regulations and guidance from the CDE, this notice should include:

- The date the Charter School will close (5 C.C.R., § 11962(b)(1));
- A description of the circumstances of the closure (CDE guidance);
- The name and contact information for the person to whom reasonable inquiries may be made regarding the closure (5 C.C.R. § 11962(b)(2));
- The location of pupil records and personnel records (CDE guidance);
- The agenda/minutes of the Board approving the closure (CDE guidance). This likely will include the Resolution detailed in Step 1;
- The pupils' school districts of residence (5 C.C.R. § 11962(b)(3));
- The manner in which parents/guardians may obtain copies of pupil records, including specific information on completed courses and credits that meet graduation requirements (5 C.C.R. § 11962(b)(4)); and
- Written assurance that the final audit will be completed within six months of the closure date (CDE guidance).

This notice must be provided to the CDE *within ten calendar days of taking official action to close the Charter School*. (Ed. Code, § 47604.32(a)(5); 5 C.C.R., § 11962.1(d).) Therefore, we recommend sending this notice no later than ten calendar days after the District adopts the resolution described in Step 1 of this memorandum.

Step 3: Payment of Liabilities and Disposal of Net Assets

The District must ensure that all outstanding liabilities of the Charter School are “paid or otherwise addressed.” (5 C.C.R., § 11962(g).) Thereafter the District must ensure that any net assets remaining are properly disposed of, including but not limited to the following:

- The return of any grant funds and restricted categorical funds to their source in accordance with the terms of the grant or state and federal law, as appropriate, which may include submission of final expenditure reports for entitlement grants and the filing of any required Final Expenditure Reports and Final Performance Reports; and
- The return of any donated materials and property in accordance with any conditions established when the donation of such materials or property was accepted.

(*Id.*)

Step 4: Independent Final Audit

The District must ensure that an independent final audit is completed within six months of the closure of the Charter School. (5 C.C.R. § 11962(f)). The audit must include:

- An accounting of all financial assets, including cash and accounts receivable and an inventory of property, equipment, and other items of material value;
- An accounting of the liabilities, including accounts payable and any reduction in apportionments as a result of audit findings or other investigations, loans, and unpaid staff compensation; and
- An assessment of the disposition of any restricted funds received by or due to the Charter School.

(*Id.*)

We note that Cypress’s current Charter provides that, upon closure, any remaining assets will be transferred to the District. (Petition, p. 41.) The COE will need to consult with the District to determine whether these assets will be transferred from the District to the COE.

Step 5: Final Filing of Reports

The District should ensure the completion and filing of any annual reports outstanding and required pursuant to Education Code section 47604.33. (LCAP, financial reports, etc.).

Step 6: Recommended “Clean Up Resolution”

When all audits have been completed, we recommend adopting a final “clean-up resolution” that details the process the District followed, and memorializes that the District has met all of the requirements for charter school closure required by law.

2. DRAFTING A COUNTYWIDE CHARTER PETITION

In order to reopen Cypress as a countywide charter authorized by the BOE, the COE will need to either amend the current Cypress Charter or replace the Charter entirely. The Education Code sets out specific required elements of a countywide charter petition, which include the following:

1. Evidence that “the educational services to be provided by the charter school will offer services to a pupil population that will benefit from those services and cannot be served as well by a charter school that operates in only one school district in the county.” (Ed. Code, § 47605.6(a)(1).)
1. Signatures from a number of parents/guardians of pupils residing within the county equivalent to at least half of the number of students the Charter School estimates will enroll in its first year of operation, or signatures from at least one half of the number of teachers that the Charter School estimates will be employed during its first year of operation. (*Id.*)
1. A prominent statement indicating that a signature on the petition indicates meaningful interest in the Charter School.
1. A declaration of whether or not the Charter School shall be deemed the exclusive public employer of its employees for the purposes of the Educational Employment Relations Act (“EERA”).
1. Reasonably comprehensive descriptions of:
 - The educational program, which:
 - Identifies the school’s target student population

- Explains what it means to be an “educated person” in the 21st century and how learning best occurs
 - Enumerates goals that enable students to become “self-motivated, competent, and lifelong learners”
 - Designates annual student goals, including specific goals for ethnic subgroups, socioeconomically disadvantaged pupils, English learners, pupils with disabilities, foster youth, and homeless youth
 - Illustrates students goals pertaining to the following state priorities: (1) pupil access to standards-aligned instructional materials; (2) implementation of the academic content and performance standards adopted by the state board, including how English learners will access common core academic content standards; (3) parental involvement; (4) pupil achievement, as measured by statewide assessments, among other indicators; (5) pupil engagement, as measured by attendance rates, absenteeism rates, dropout rates, and graduation rates; (6) school climate, as measured by suspension and expulsion rates; (7) the extent to which pupils have access to and are enrolled in a course of study that includes, among other subjects, English, mathematics, social sciences, science, visual and performing arts, health, and physical education; and (8) pupil outcomes in these subjects
 - Explains how the school will inform parents about the transferability of courses to other public high schools
 - Describes how the school will inform parents whether each course meets college entrance requirements
- Measurable student outcomes, meaning the extent to which students attain the skills, knowledge, and aptitudes specified in the educational program; must address pupil academic achievement both schoolwide and for prominent subgroups.
 - The method by which pupil progress in meeting the designated pupil outcomes will be measured.
 - The location of each charter school facility.
 - The governance structure of the school, including the process to be followed that will ensure parental involvement.

- The qualifications to be met by individuals employed in the Charter School.
- The school procedures that will ensure the health and safety of the students and staff, including that each employee will furnish the school with a criminal record summary.
- The means by which the school will achieve a racial and ethnic balance among its pupils that is reflective of the general population residing within the territorial jurisdiction of the county.
- The manner in which annual, independent financial audits will be conducted in accordance with the state board's regulations.
- The procedures by which students can be suspended or expelled for disciplinary reasons or otherwise involuntarily removed for any reason. This must include an explanation of how the school will comply with state and federal due process.
- The manner by which staff members will be covered by the State Teachers' Retirement System, the Public Employees' Retirement System, or federal social security.
- Admission policies and procedures.
- The public school attendance alternatives for pupils residing within the county who choose not to attend the Charter School.
- The rights of COE employees, upon leaving the COE, to be employed by the Charter School, and any rights of return to the COE that an employee may have upon leaving the Charter School.
- The procedures to be used if the Charter School closes, which ensure a final audit to determine the disposition of all assets and liabilities, including plans for disposing of any net assets and for the maintenance and transfer of public records.

(Ed. Code, § 47605 (b)(5)(A)-(O).)

The Charter Schools Act gives charter schools broad exemptions from the Education Code, meaning that charter schools are not subject to some of the regulatory schemes applicable to traditional schools or their governing boards. While it is true that charter schools are exempt from certain provisions of the Education Code pursuant to the “mega waiver” found at Section 47610, it is our opinion that many other laws found outside of the Education Code are either expressly or implicitly applicable to charter schools. Accordingly, the Charter School’s revised or new petition should also provide assurances that the school intends to comply with such laws including, but not limited to:

- The Brown Act (Gov. Code, §§ 54950 *et seq.*);
- The Public Records Act (Gov. Code, §§ 6250 *et seq.*);
- State conflict of interest laws (the Political Reform Act (Gov. Code, §§ 87100 *et seq.*), and Gov. Code, §§ 1090 *et seq.*);
- The Child Abuse and Neglect Reporting Act (Pen. Code, §§ 11164 *et seq.*);
- The Individuals with Disabilities Education Rights Act (“IDEA”) (20 U.S.C. §§ 1400 *et seq.*);
- The Americans with Disabilities Acts (42 U.S.C. §§ 12101 *et seq.*);
- The U.S. Civil Rights Acts, including Title VII of the 1964 Civil Rights Act;
- The California Fair Employment and Housing Act (“FEHA”) (Gov. Code, §§ 12900 *et seq.*);
- The Age Discrimination in Employment Act (“ADEA”) (29 U.S.C. §§ 621 *et seq.*), Section 504 of the Rehabilitation Act of 1973 (29 U.S.C. §§ 794 *et seq.*); Education Code sections 220 *et seq.*;
- The Uniform Complaint Procedure (5 C.C.R., §§ 4600 *et seq.*);
- The Family Educational Rights and Privacy Act (“FERPA”) (20 U.S.C. §§ 1232g *et seq.*); and
- The No Child Left Behind Act (“NCLB”) (20 U.S.C. §§ 6301 *et seq.*)

3. SIGNIFICANT LEGAL ISSUES

This Section sets out a non-exhaustive list of legal issues and concerns that warrant the COE’s consideration as it seeks to reopen Cypress as a countywide charter school.

A. Governance Structure

As a threshold matter, the COE will need to decide whether the Charter School will remain a dependent charter school governed by the BOE, or if the COE will form a nonprofit corporation to operate the Charter School. As discussed below, formation of a nonprofit may be

advantageous as it may better insulate the BOE from the Charter School's debts and liabilities, so long as the BOE complies with the Education Code's oversight requirements. Currently, Cypress is a dependent charter school of the Live Oak School District and is governed by the District's Board.

If the COE authorizes the creation of a nonprofit public benefit organization to operate the Charter School, it will need to determine who the founding members will be and the extent of control that the COE will retain over the corporation through the selection of the board of directors. The COE will also need to determine how involved it will be in the Charter School's operations after the transition to independent status—a revised charter petition could be drafted such that the COE maintains an advanced oversight role. Once these decisions are made, the COE must ascertain whether it will draft an entirely new petition, or whether to revise the existing petition.

A discussion of the advantages and disadvantages of each of these courses of action is set forth below.

i. Liability for Charter School Debts and Obligations

The Charter Schools Act states that an authority “that grants a charter to a charter school to be operated by, or as a nonprofit public benefit corporation is not liable for the debts and obligations of the charter school, or for claims arising from the performance of acts, errors, or omissions by the charter school, if the authority has complied with all oversight responsibilities required by law, including, but not limited to those required by Section 47604.32 and subdivision (m) of Section 47605.” (Ed. Code, § 47604(c).) Thus, a chartering authority is shielded from liability for the operation of independent charter schools operated by or as nonprofits, at least so long as the chartering authority is deemed to have complied with its oversight responsibilities.

By contrast, the Act does not provide the same statutory immunity from the debts, obligations, and liabilities incurred by a charter school that is not operated by a nonprofit corporation. Accordingly, unless and until the Charter School is operated by a nonprofit public benefit organization, the COE will not qualify for immunity from Cypress's liability under Education Code section 47604(c).

ii. Direct Control of Cypress's Governance and Operations

In order to gain the protections of Education Code § 47604(c) discussed above, the COE would have to form a nonprofit public benefit organization to operate the Charter School. This would mean ceding, to a certain extent, its ability to direct and control Cypress's management, operations, and programming. It is possible that a charter petition can be structured to afford the BOE some enhanced measure of oversight over the decisions made at a charter school operated by a nonprofit corporation. However, even with such provisions in place, it would be the nonprofit's board, rather than the BOE, that would operate and govern the charter school.

Pursuant to the terms of Cypress's current Charter, the District has broad authority to "determine[] policy related to the charter," "approve[] the charter," and vet "proposed changes to the charter." (Petition, p. 26.) The District also provides a majority of Cypress's business and administrative functions. Thus, under this arrangement, the District is involved in every major decision that affects Cypress and has the power to intervene if it so chooses. If Cypress were to transition to independent status, the BOE would likely relinquish a significant amount of the control that the District currently wields.

As discussed above, Education Code section 47604(c) only permits a chartering authority to shield itself from the charter school's debts, liabilities, and obligations to the extent the chartering authority has complied with all of its legal oversight responsibilities. Despite some details provided in Education Code sections 47604.32 and 47605(m), the law (statutes, courts, regulations) has yet to clearly define "all" of a chartering authority's oversight responsibilities. The Education Code sets specific tasks for the chartering authority, including establishing contact personnel, visiting the charter school at least annually, ensuring compliance with reports required by law, monitoring the fiscal condition of each charter school under its authority, and providing timely notice to the Department of Education of changes in the charter. (Ed. Code, §§ 47604.32, 47604.33, 47604(d), 47605(m).)

As a result, if Cypress attains independent status, the BOE will need to carefully consider how it intends to ensure the fulfillment of its oversight responsibilities. Among other things, the Charter School will need to identify administrators who have the expertise and experience necessary to provide quality leadership and governance to Cypress, and the BOE will need to implement a schedule and review process for performing its supervisory duties.

iii. Formation of Nonprofit Public Benefit Organization

The process of applying for corporate status as a California nonprofit public benefit organization can take several months to a year. First, founding members of the proposed nonprofit need to draft the organization's Articles of Incorporation and Bylaws and submit them to California's Secretary of State. Among other things, these documents define the nonprofit's purpose and governance structure. Although this process is routine, the Articles of Incorporation and Bylaws must conform to the requirements of the Education Code and the Corporations Code—including, for example, the required number of directors, the minimum and maximum sizes of the board, the voting requirements for valid board action, and how many directors are needed to constitute a quorum. In addition to the legal costs incurred in drafting Articles and Bylaws, application fees are also required.

Additionally, the nonprofit may wish to apply for tax-exempt status from the United States Internal Revenue Service ("IRS") in order to offer tax-exemptions on donations made to the Charter School. The ability to offer tax-exemptions to donors is critical to the fundraising efforts of independent charter schools that rely on such donations to close funding gaps in their

operational budget. The process of obtaining federal tax-exempt status may take months to complete and is entirely separate from the process of incorporating as a nonprofit. Once the process with the IRS is complete, the nonprofit must then contact the California Franchise Tax Board to begin the process of receiving a tax-exempt status under California law.

iv. COE Membership on Charter School Board

The Education Code affords a chartering entity the right (but not an obligation) to appoint a voting member to the governing board of a nonprofit corporation operating a charter school. (Ed. Code, § 47604, subd. (b).) This option allows the COE to ensure there is a member of the nonprofit's governing board who is sensitive to the COE's position on a variety of issues. However, due to the potential for conflict of interest issues, we do not advise placing a current COE employee or Board member on a charter school governing board. Instead, appointment of a retired employee or Board member to serve in such a capacity may be more prudent. We will be happy to discuss this issue with you in greater detail, at your convenience.

v. Revising the Petition or Drafting a New Petition?

To effect many of the changes to the operation of the Charter School that are contemplated by this memorandum, the current Charter Petition will need to be substantially revised or replaced. This process will take time and a coordinated effort by the COE and Charter School staff. The legal effect of such a rewrite is somewhat in the COE's control. The COE could choose to retain the current Charter in some form, revising those sections as necessary to reflect the role of the BOE as the chartering authority. Appendix A to this memorandum lists a number of issues that may warrant review if the COE decides to convert this document into a countywide charter petition.

On the other hand, the COE could choose to draft an entirely new petition, which would include all of the charter petition elements described above at Section 2. The downside of drafting a new charter school petition is that it may require additional administrative time.

B. Facilities

Cypress is currently a party to a "Rent, Administrative, and Auxiliary Services Agreement" with the District pursuant to which the Charter School pays the District a *pro rata* share of its revenue for space, facilities, and utilities. Cypress pays a base rent of \$998 per month, with reductions proportionate to the percentage of District residents who attend the school. The Agreement also establishes that the Charter School pays the District to provide accounting, business, administrative, personnel, and technology services to the Charter School. This Agreement includes an automatic renewal provision that is extinguished only upon written notice of intent by either party to terminate the Agreement.

It is our understanding that the COE seeks an arrangement whereby the District would continue to provide Cypress's facilities at no charge to the COE. We would suggest that the COE offer to maintain the Charter School's facilities and perform any necessary upkeep, as consideration for the District's agreement to provide the facilities at no charge. If an agreement for facilities cannot be reached with the District, the COE will need to secure a new location for the Charter School.

C. Transitioning Employees

If the COE decides to move forward with a transition to a countywide charter, the COE will need to work closely with the District to craft a process to transition Cypress employees (who are all currently District employees) for the 2019-2020 school year. Cypress's Charter currently provides for a staff that includes a full-time Principal, a seven-hour administrative specialist, a part-time guidance counselor, and a number of teachers and other staff. (Petition, p. 36.)

In 2000, the Charter Schools Act was amended to add Education Code section 47611.5, which mandated that charter school employees are protected under the Educational Employee Rights Act ("EERA") and that for purposes of the EERA, charter schools are obligated to declare whether the charter school or the chartering authority serves as the exclusive employer of its staff. There is nothing in the Charter Schools Act that explains specifically what it means by the term "exclusive public school employer," as used in Education Code section 47611.5(b). However, this is generally understood to mean that when such an election is made, the charter school, rather than the chartering authority, is responsible for the hiring, firing, evaluation and discipline of charter school employees.

The current Cypress Charter provides that the Charter School is "the exclusive public employer of the charter school for the purposes of the Educational Employment Relations Act." (Petition, p. 41.) The Charter also establishes that employee transfer and return rights, such as the right to return to employment in the District upon leaving Cypress, are governed by "the classified and certificated employee agreements." (Petition, p. 40.) As we do not currently have access to these contracts, we recommend that the COE review them to determine the exact nature of these rights. Further, the Charter mandates that "[t]here will be no involuntary transfers [of staff] to or from the charter school." (Petition, p. 29.)

On the whole, this process poses an array of fundamental employment questions, such as whether Cypress employees will become members of COE bargaining units and the nature of their salaries and benefits. Ultimately, these determinations will require further analysis illuminated by a review of the current employee contracts. We would be happy to discuss specific issues related to labor and employment concerns with you as this process moves forward.

D. Special Education Issues

The COE will also need to consider the Charter School's special education programming.

The issue of financial and programmatic responsibility for special education students attending charter schools is set out in federal and state law. Both the federal regulations and California law distinguish between charter schools that are considered to be LEAs (and independent members of a SELPA) and charter schools that are considered to be schools of an existing LEA. (34 C.F.R. § 300.209; Ed. Code § 47641 (a)-(b).) When a charter school is operating as its own LEA for the purposes of special education, the charter school must ensure that the requirements of the federal Individuals with Disabilities Education Improvement Act ("IDEA") and California law are met. (34 C.F.R. § 300.209(c); Ed. Code § 47641.) Conversely, for a charter school that is treated as a public school of a charter-granting school district, the charter-granting district must ensure that federal and state special education laws are met. (34 C.F.R. § 300.209(b); Ed. Code § 47646(a).)

Thus, for purposes of providing special education services, California charter schools have two options. A charter school that provides written assurances, by petition or otherwise, that it will participate as an LEA in a SELPA can be considered an LEA and assume responsibility for the provision of special education services. (Ed. Code, § 47641(a)). A charter school that does not provide such written assurances will not be considered an LEA, but will be "deemed to be a public school of the local agency that granted the charter." (Ed. Code, § 47641(b)). In this case, the chartering authority retains responsibility for the provision of special education and related services.

Currently, Cypress operates as a public school of the District for the purposes of special education and is a member of the North Santa Cruz County SELPA. (Petition, p. 18.) Cypress also operates under a Memorandum of Understanding ("MOU") with the District that governs the allocation of funding for the school's Resource Specialist Program ("RSP"), Speech and Language Services, and Psychological Services. Essentially, the MOU provides that the District receives the relevant funding directly from the SELPA and distributes a portion of this funding to Cypress. Funding for special education services, other than RSP, Speech and Language, and Psychological Services is controlled by the Charter Petition and the SELPA Allocation Plan. Cypress's special education contributions to the District have been significant in recent years, ranging from \$85,000-\$105,000 per school year.

4. TIMELINE

The overall transition to a countywide charter school could take up to a year to complete. The following is a rough estimate for the major tasks necessary to facilitate the transition:

- | | |
|---|------------------|
| • Incorporation of a nonprofit (if applicable): | Weeks to months |
| • Tax-exempt status from the IRS (if applicable): | Months to a year |
| • Tax-exempt status from Franchise Tax-Board (if applicable): | Weeks |
| • Negotiation and resolution of labor and employment issues: | Months |
| • Revision/presentation of new or amended Charter to Board: | Months to a year |
| • Board evaluation of new or amended Charter: | 30-60 days |

We emphasize that, during this transition process, clear and frequent communication with Cypress parents, students, and staff will go far to lessen anxiety about the Charter School's future plans. We suggest that the COE partner with the District to write a letter to these constituents explaining the nature and timeline of this process and assuring parents that there will be no breakdown in educational services.

Please let us know how we can further assist you and the Board as this process moves forward.

APPENDIX A

Revisions to Current Cypress Charter Petition

In the course of reviewing the Charter School's current Charter Petition (dated May 2, 2018), we identified a number of issues that may warrant review if the COE decides to convert this document into a countywide charter petition. As an initial matter, the Charter includes numerous references to District policies and procedures, and the District's oversight with regard to the Charter School's academics, operations, and finances. As the District is relinquishing its chartering authority, the COE will need to revise the Petition to reflect the BOE's assumption of that role. In particular, the following sections warrant careful review and revision:

- Language throughout the "Plan for Special Education Students" and "Process for meeting the needs of low performing and special education/disabled students" sections, describe how the Charter School will coordinate with the District in its provision of special education and related services. (Petition, pp. 17-18, 24-25.)

- “Population and Students Served,” provides that District residents will enjoy priority admission. This language will need to be revised as the Charter School will serve the entire County. (Petition, p. 20.)
- “Cypress Charter High School Governance Structure,” describes how the Charter Governance Council will cooperate with the District and the membership of the Governance Council, which includes a District representative, the Principal, and one or more teachers. (Petition, pp. 25-28.)
- “Selection Process and Qualifications for Employment” incorporates a number of District policies, procedures, and contractual language. This section states that the “contract language in Article II of the Classified Contract” will govern the creation of new positions at the Charter School. The next paragraph provides that Cypress “will use existing district job descriptions for classified and certificated staff.” District job descriptions are also referenced in the “roles and functions of all staff members” section. Further, the “Plan for assessing staff performance” references the practices and schedules of District employees. This section also incorporates District procedures for background checks of Cypress teachers, complaint resolution, and staff recruitment and hiring, and provides preference for the hiring of District employees. (Petition, pp. 27-32.)
- “Health and Safety of Pupils and Staff” which incorporates District procedures governing: the implementation of a Comprehensive School Safety Plan; the provision of auxiliary services, such as food service, maintenance, and the handling of hazardous materials; the creation of safety guidelines and child abuse reporting processes; and the testing of staff members for tuberculosis. (Petition, p. 33.)
- The “Racial and Ethnic Balance among Pupils” section references the demographic makeup of the District—however, as a countywide charter, Cypress will be expected to establish racial and ethnic diversity that reflects the entire County. (Petition, pp. 34-35.)
- The “Financial Audit” section establishes that Cypress is included in the District’s annual audit, that the District’s business office manages the Charter School’s fiscal operations, and that Cypress will comply with the District’s cash flow and fundraising procedures. The COE may also want to revisit the “fixed cost staffing assumptions” discussed in this section. (Petition, pp. 35-36.)

- The “Suspension and Expulsion Procedures” section incorporates the District’s disciplinary policies and provides that Cypress staff may consult with the District regarding disciplinary proceedings. (Petition, pp. 37-39.)
- “State Teachers’ Retirement System and Public Employees Retirement System Coverage” adopts District policies for coverage and deductions for those employees who are not eligible for STRS or PERS. (Petition, p. 39.)
- The “Public School Attendance Alternatives for LOSD Residents” section addresses District residents rather than residents of the county at large. (Petition, p. 40.)
- The “Transfer and Return Rights” section adopts the language of the classified and certificated employee agreements—the COE will need to review these terms and alter them accordingly. (Petition, p. 40)
- “Resolving Disputes in Relation to the Provisions of the Charter” incorporates the District complaint procedures and provides for the services of District legal counsel. (Petition, pp. 40-41.)
- The “Procedures to be Used if the Charter School Closes” section designates the District as the final auditor and asserts that, upon closure, any remaining assets will be transferred to the District. (Petition, p. 41.)

[1] The County Board of Education is the “charter authorizer” responsible for performing oversight over the charter schools it approves. County boards often delegate this responsibility to a county office of education (“COE”) (under the direction of the county superintendent), because the COE is more likely to have the existing staffing, resources, and infrastructure necessary to handle the day-to-day charter oversight duties. However, the ultimate legal responsibility for performing oversight remains with the County Board.

[2] Based on federal and California student privacy laws, we recommend the District provide the parent/guardian with the district of residence for only his or her student.