



Financial Statements  
June 30, 2021

# Santa Cruz County Superintendent of Schools

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## Independent Auditor's Report

To the 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 Santa Cruz County Superintendent of Schools (the County) as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the County'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. 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 Santa Cruz County Superintendent of Schools, as of June 30, 2021, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Emphasis of Matter – Change in Accounting Principle**

As discussed in Notes 1 and 16 to the financial statements, Santa Cruz County Superintendent of Schools has adopted the provisions of GASB Statement No. 84, *Fiduciary Activities*, which has resulted in a restatement of the net position and fund balance as of July 1, 2020. Our opinions are not modified with respect to this matter.

### **Restatement of Prior Year Financial Statement**

As discussed in Note 16 to the financial statements, Santa Cruz County Superintendent of Schools restated their governmental activities, beginning net position as of July 1, 2020. Our opinions are 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 -county school service fund and special education pass-through fund, schedule of changes in the County's net OPEB liability and related ratios, schedule of the County's proportionate share of the net OPEB liability – MPP program, schedule of the County's proportionate share of the net pension liability, and the schedule of County contributions, 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 Santa Cruz County Superintendent of Schools' financial statements. The combining non-major governmental fund financial statements, Schedule of Expenditures of Federal Awards as required by the audit requirements of 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 other supplementary information listed in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements.

The combining non-major governmental fund financial statements, the schedule of expenditures of federal awards, and the other supplementary information listed in the table of contents are the responsibility of management and were derived from and relate 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 combining non-major governmental fund financial statements, the schedule of expenditures of federal awards, and the other supplementary information listed in the table of contents are 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 a report dated February 28, 2022 on our consideration of Santa Cruz County Superintendent of Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Santa Cruz County Superintendent of Schools' 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 Schools' internal control over financial reporting and compliance.

The image shows a handwritten signature in cursive script that reads "Eide Bailly LLP". The signature is written in black ink and is positioned above the typed text of the firm's name and location.

Fresno, California  
February 28, 2022

## Introduction

This section of Santa Cruz County Superintendent of Schools (the County) annual financial report presents our discussion and analysis of the County's financial performance during the fiscal year that ended on June 30, 2021 with comparative information for the year ended June 30, 2020. Please read it in conjunction with the County's financial statements, which immediately follow this section.

## Financial Highlights

- Total net position was \$16,853,024 on June 20, 2021.
- Overall revenues for the County were \$64,885,066 while expenditures were \$66,038,511.
- The total long-term obligations other than OPEB and pension were \$8,398,822, which primarily includes \$7,790,192 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. These sections together provide a comprehensive overview of the Santa Cruz County Superintendent of Schools. 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 County 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 County 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.

### **Government-Wide Statements**

The government-wide statements report information about the County 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, deferred outflows of resources, liabilities, and deferred inflows of resources.

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 County's net position and how it has changed. Net position – the difference between the assets and deferred outflows of resources, and liabilities and deferred inflows of resources – is one way to measure the County's financial health or position. Over time, increases or decreases in the County's net position are an indicator of whether its financial health is improving or deteriorating, respectively. To assess the overall health of the County, 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 County include government activities. Most of the County'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 finance most of these activities.

### **Fund Financial Statements**

The fund financial statements provide more detailed information about the County's most significant funds, not the County as a whole. Funds are accounting devices that the County 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 County is meeting legal responsibilities for using certain revenues. The County has two kinds of funds:

Governmental funds - Most of the County'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 County'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 fund - The County is the custodian for assets that belong to the Michael Watkins Scholarship Fund. The County is responsible to distribute the scholarships as directed by a committee of community members outside the County's employ. The County's fiduciary fund reports custodial activities in a separate statement of fiduciary net position. We exclude these activities from the County-wide financial statements because the County cannot use the assets to finance its operations.

### Financial Analysis of the Entity as A Whole

#### Net Position

The County's net position was \$16,853,024 for the fiscal year ended June 30, 2021. Of this amount, \$(2,473,233) was unrestricted. Restricted net position is reported separately to show legal constraints from debt covenants and enabling legislation that limit the governing board's ability to use net position for day-to-day operations. Our analysis below, in summary form, focuses on the net position (Table 1) and change in net position (Table 2) of the County's governmental activities.

**Table 1**

	Governmental Activities	
	2021	2020 as Restated
Assets		
Current and other assets	\$ 52,783,765	\$ 46,999,665
Capital assets	23,698,300	24,983,245
Total assets	<u>76,482,065</u>	<u>71,982,910</u>
Deferred outflows of resources	<u>12,908,542</u>	<u>13,392,209</u>
Liabilities		
Current liabilities	16,186,909	13,212,020
Long-term liabilities	53,759,027	50,235,344
Total liabilities	<u>69,945,936</u>	<u>63,447,364</u>
Deferred inflows of resources	<u>2,591,647</u>	<u>3,921,286</u>
Net Position		
Net investment in capital assets	15,908,108	16,803,825
Restricted	3,418,149	2,832,394
Unrestricted (deficit)	<u>(2,473,233)</u>	<u>(1,629,750)</u>
Total net position	<u>\$ 16,853,024</u>	<u>\$ 18,006,469</u>

The \$(2,473,233) in unrestricted net position of governmental activities represents the accumulated results of all past years' operations. Unrestricted net position – the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements – decreased by 51.8 percent \$(843,483).

### Changes in Net Position

The results of this year's operations for the County as a whole are reported in the Statement of Activities. Table 2 takes the information from the Statement, rounds off the numbers, and rearranges them slightly so you can see our total revenues for the year.

**Table 2**

	Governmental Activities	
	2021	2020*
Revenues		
Program revenues		
Charges for services	\$ 4,310,794	\$ 5,082,497
Operating grants and contributions	20,850,291	21,014,790
General revenues		
Federal and State aid not restricted	22,572,535	22,778,860
Property taxes and other taxes	14,599,216	14,116,217
Other general revenues	2,552,230	960,246
Total revenues	<u>64,885,066</u>	<u>63,952,610</u>
Expenses		
Instruction-related	32,714,051	34,985,022
Pupil services	5,325,413	4,255,877
Administration	8,417,069	8,032,286
Plant services	2,850,310	3,398,462
All other services	16,731,668	15,494,078
Total expenses	<u>66,038,511</u>	<u>66,165,725</u>
Change in net position	<u>\$ (1,153,445)</u>	<u>\$ (2,213,115)</u>

\* The revenues and expenses for fiscal year 2020 were not restated for the effects of the prior period adjustments disclosed in Note 16 for comparative purposes.

### Governmental Activities

As reported in the Statement of Activities, the cost of all of our governmental activities this year was \$66,038,511. However, the amount that our taxpayers ultimately financed for these activities through local taxes was only \$14,599,216 because the cost was paid by those who benefited from the programs of \$4,310,794

Santa Cruz County Superintendent of Schools

Management's Discussion and Analysis

June 30, 2021

or by other governments and organizations who subsidized certain programs with grants and contributions of \$20,850,291. We paid for the remaining "public benefit" portion of our governmental activities with \$22,572,535 in Federal and State funds, and with other revenues, like interest and general entitlements.

In Table 3, we have presented the cost and net cost of each of the County's largest functions: instruction including, special instruction programs and other instructional programs, pupil services, administration, plant services, and all other services. As discussed above, net cost shows the financial burden that was placed on the County's taxpayers by each of these functions. Providing this information allows our citizens to consider the cost of each function in comparison to the benefits they believe are provided by that function.

**Table 3**

	Total Cost of Services		Net Cost of Services	
	2021	2020*	2021	2020*
Instruction-related	\$ 32,714,051	\$ 34,985,022	\$ (20,813,044)	\$ (24,557,069)
Pupil services	5,325,413	4,255,877	(2,816,032)	(2,306,429)
Administration	8,417,069	8,032,286	(7,285,138)	(7,023,805)
Plant services	2,850,310	3,398,462	(2,575,079)	(2,859,586)
All other services	16,731,668	15,494,078	(7,388,133)	(3,321,549)
<b>Total</b>	<b>\$ 66,038,511</b>	<b>\$ 66,165,725</b>	<b>\$ (40,877,426)</b>	<b>\$ (40,068,438)</b>

\* The total cost of services and net cost of services for fiscal year 2020 were not restated for the effects of the prior period adjustments disclosed in Note 16 for comparative purposes.

**Financial Analysis of the County's Funds**

The positive financial performance of the County as a whole is reflected in its governmental funds as well. As the County completed the year, its governmental funds reported a combined fund balance (modified accrual reporting method) of \$36,596,856.

**Table 4**

Governmental Fund	Balances and Activity			June 30, 2021
	July 1, 2020 as Restated	Revenues and Other Financing Sources	Expenditures and Other Financing Uses	
General	\$ 34,501,171	\$ 52,673,801	\$ 51,647,847	\$ 35,527,125
Charter Schools	(349,013)	2,420,580	1,649,171	422,396
Special Education Pass-Through	567,551	8,738,886	8,716,609	589,828
Child Development	66,325	1,379,882	1,388,710	57,497
County School Facilities	(609,161)	609,161	-	-
<b>Total</b>	<b>\$ 34,176,873</b>	<b>\$ 65,849,709</b>	<b>\$ 63,429,726</b>	<b>\$ 36,596,856</b>

**General Fund Budgetary Highlights**

Over the course of the year, the County revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. The final amendment to the budget was adopted on September 16, 2021. (A schedule showing the County's original and final budget amounts compared with amounts actually paid and received is provided in our annual report.)

**Capital Assets and Debt Administration**

**Capital Assets**

On June 30, 2021, the County had invested \$23,698,300 (net of depreciation) in a broad range of capital assets, including land, buildings, and furniture and equipment (see Table 5 below). This year's additions included a truck and a trailer. More detailed information about the County's capital assets is presented in the notes to the financial statements.

**Table 5**

	Governmental Activities	
	2021	2020
Land and construction in progress	\$ 4,060,543	\$ 4,049,365
Buildings and improvements	19,385,819	20,572,758
Equipment	251,938	361,122
Total	<u>\$ 23,698,300</u>	<u>\$ 24,983,245</u>

**Long-Term Obligations**

At year end, the County had \$53,759,027 in long-term obligations, which consisted of net pension liability, net OPEB liability, compensated absences and certificates of participation as shown in Table 6. More detailed information about the County's debt is presented in the notes to the financial statements.

**Table 6**

	Governmental Activities	
	2021	2020
Long-Term Liabilities		
Certificates of participation	\$ 7,790,192	\$ 8,158,808
Compensated absences	608,630	469,282
Net OPEB liability	756,366	801,177
Aggregate net pension liability	44,603,839	41,174,693
Total	<u>\$ 53,759,027</u>	<u>\$ 50,603,960</u>

**Significant Accomplishments of Fiscal Year 2020-2021 Are Noted Below:**

The Santa Cruz County Office of Education (the County) worked tirelessly throughout the COVID-19 Pandemic by providing many supports to districts that included guidance on many new Federal and State legislation, accompanied by one-time funding provided by the Federal and State government.

The County facilitated many COVID-19 vaccination and testing clinics throughout the county that provided opportunities for students and educators that lived or worked within the boundaries of Santa Cruz County to conveniently receive a test or vaccination. Due to these efforts, approximately 16,000 educators and students ages 12-17 were vaccinated, and over 13,500 COVID-19 tests were completed during the fiscal year. The County continues to look forward in supporting its students and is currently working on facilitating vaccination clinics in the late Fall for children ages 5-11.

**Economic Factors and Next Year's Budgets**

It has now been eight years since the Revenue Limit funding calculation was eliminated and the State implemented the Local Control Funding Formula (LCFF) and the Local Control Accountability Plan (LCAP). The County continues to receive the same funding level as in 2012-2013 due to the County's hold harmless funding status under LCFF and is not expected to receive additional funding for several more years. In order to address the flat funding, the County continues to make strategic changes to programs, and to pursue grant funding, to be able to continue to offer several programs that were previously funded under Categorical programs. These changes have enabled the County to offer compensation that allows it to continue to attract highly qualified teachers and staff by continuing to be competitive in the market. In addition, there are concerns surrounding continuing State revenues that are being impacted by declining enrollment within the county, as Santa Cruz County is listed as third for counties projected to face the biggest drops in enrollment by the year 2031.

The COVID-19 Pandemic brought many changes and uncertainty to the schools and programs operated by the County. In addition, over 19 new categorical funding resources have emerged primarily due to the one-time COVID-19 relief and learning loss mitigation funding received from the Federal and State government; therefore, increased monitoring, reporting, and adherence to specific guidelines associated with the various funding streams is required.

**Contacting the County's Financial Management**

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

Santa Cruz County Superintendent of Schools

Statement of Net Position

June 30, 2021

	Governmental Activities
<b>Assets</b>	
Deposits and investments	\$ 38,489,041
Receivables	14,253,827
Prepaid expense	40,897
Capital assets not depreciated	4,060,543
Capital assets, net of accumulated depreciation	19,637,757
Total assets	76,482,065
<b>Deferred Outflows of Resources</b>	
Deferred outflows of resources related to OPEB	2,731,494
Deferred outflows of resources related to pensions	10,177,048
Total deferred outflows of resources	12,908,542
<b>Liabilities</b>	
Accounts payable	14,754,850
Unearned revenue	1,432,059
Long-term liabilities	
Long-term liabilities other than OPEB and pensions due within one year	380,413
Long-term liabilities other than OPEB and pensions due in more than one year	8,018,409
Net other postemployment benefits liability (OPEB)	756,366
Aggregate net pension liabilities	44,603,839
Total liabilities	69,945,936
<b>Deferred Inflows of Resources</b>	
Deferred inflows of resources related to OPEB	46,428
Deferred inflows of resources related to pensions	2,545,219
Total deferred inflows of resources	2,591,647
<b>Net Position</b>	
Net investment in capital assets	15,908,108
Restricted for	
Educational programs	3,418,139
Child nutrition	10
Unrestricted (deficit)	(2,473,233)
Total net position	\$ 16,853,024

Santa Cruz County Superintendent of Schools

Statement of Activities  
Year Ended June 30, 2021

Functions/Programs	Expenses	Program Revenues		Net (Expenses) Revenues and Changes in Net Position Governmental Activities
		Charges for Services and Sales	Operating Grants and Contributions	
Governmental Activities				
Instruction	\$ 19,792,267	\$ 419,896	\$ 6,691,667	\$ (12,680,704)
Instruction-related activities				
Supervision of instruction	7,601,454	1,866,557	1,833,071	(3,901,826)
Instructional library, media, and technology	1,025,767	-	571,214	(454,553)
School site administration	4,294,563	16,059	502,543	(3,775,961)
Pupil services				
Food services	26,085	-	(569)	(26,654)
All other pupil services	5,299,328	449,732	2,060,218	(2,789,378)
Administration				
Data processing	1,795,261	-	21,909	(1,773,352)
All other administration	6,621,808	208,092	901,930	(5,511,786)
Plant services	2,850,310	14,089	261,142	(2,575,079)
Ancillary services	384	-	-	(384)
Community services	3,152,290	924,889	1,593,023	(634,378)
Interest on long-term liabilities	235,527	-	-	(235,527)
Other outgo	13,343,467	411,480	6,414,143	(6,517,844)
Total governmental activities	<u>\$ 66,038,511</u>	<u>\$ 4,310,794</u>	<u>\$ 20,850,291</u>	<u>(40,877,426)</u>
General Revenues and Subventions				
Property taxes, levied for general purposes				13,765,461
Taxes levied for other specific purposes				833,755
Federal and State aid not restricted to specific purposes				22,572,535
Interest and investment earnings				348,429
Interagency revenues				1,335
Miscellaneous				<u>2,202,466</u>
Total general revenues and transfers				<u>39,723,981</u>
Change in Net Position				(1,153,445)
Net Position - Beginning, as Restated				<u>18,006,469</u>
Net Position - Ending				<u>\$ 16,853,024</u>

Santa Cruz County Superintendent of Schools

Balance Sheet – Governmental Funds

June 30, 2021

	County School Service Fund	Special Education Pass-Through Fund	Non-Major Governmental Funds	Total Governmental Funds
<b>Assets</b>				
Deposits and investments	\$ 35,059,132	\$ 1,636,007	\$ 1,793,902	\$ 38,489,041
Receivables	7,039,237	6,132,685	1,081,905	14,253,827
Due from other funds	702,582	-	167,631	870,213
Prepaid expenditures	40,897	-	-	40,897
<b>Total assets</b>	<b>\$ 42,841,848</b>	<b>\$ 7,768,692</b>	<b>\$ 3,043,438</b>	<b>\$ 53,653,978</b>
<b>Liabilities and Fund Balances</b>				
<b>Liabilities</b>				
Accounts payable	\$ 5,783,476	\$ 7,178,864	\$ 1,792,510	\$ 14,754,850
Due to other funds	167,631	-	702,582	870,213
Unearned revenue	1,363,616	-	68,443	1,432,059
<b>Total liabilities</b>	<b>7,314,723</b>	<b>7,178,864</b>	<b>2,563,535</b>	<b>17,057,122</b>
<b>Fund Balances</b>				
Nonspendable	41,697	-	-	41,697
Restricted	2,688,535	589,828	139,786	3,418,149
Committed	2,243,900	-	-	2,243,900
Assigned	27,905,329	-	340,117	28,245,446
Unassigned	2,647,664	-	-	2,647,664
<b>Total fund balances</b>	<b>35,527,125</b>	<b>589,828</b>	<b>479,903</b>	<b>36,596,856</b>
<b>Total liabilities and fund balances</b>	<b>\$ 42,841,848</b>	<b>\$ 7,768,692</b>	<b>\$ 3,043,438</b>	<b>\$ 53,653,978</b>



Santa Cruz County Superintendent of Schools  
 Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position  
 June 30, 2021

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Total Fund Balance - Governmental Funds		\$ 36,596,856
<p>Amounts Reported for Governmental Activities in the Statement of Net Position are Different Because</p> <p>Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.</p>		
The cost of capital assets is	\$ 36,263,534	
Accumulated depreciation is	<u>(12,565,234)</u>	
Net capital assets		23,698,300
<p>Deferred outflows of resources represent a consumption of net position in a future period and is not reported in the governmental funds. Deferred outflows of resources amounted to and related to</p>		
Other postemployment benefits (OPEB)	2,731,494	
Net pension liability	<u>10,177,048</u>	
Total deferred outflows of resources to pensions		12,908,542
<p>Deferred inflows of resources represent an acquisition of net position that applies to a future period and is not reported in the governmental funds. Deferred inflows of resources amount to and related to</p>		
Other postemployment benefits (OPEB)	(46,428)	
Net pension liability	<u>(2,545,219)</u>	
Total deferred inflows of resources to pensions		(2,591,647)
<p>Net pension liability is not due and payable in the current period, and is not reported as a liability in the funds.</p>		
		(44,603,839)
<p>The County's OPEB liability is not due and payable in the current period, and is not reported as a liability in the funds.</p>		
		(756,366)
<p>Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.</p>		
<p>Long-term liabilities at year-end consist of</p>		
Certificates of participation	(7,790,192)	
Compensated absences (vacations)	<u>(608,630)</u>	
Total long-term liabilities		<u>(8,398,822)</u>
Total net position - governmental activities		<u>\$ 16,853,024</u>

Santa Cruz County Superintendent of Schools  
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds  
Year Ended June 30, 2021

	County School Service Fund	Special Education Pass-Through Fund	Non-Major Governmental Funds	Total Governmental Funds
<b>Revenues</b>				
Local Control Funding Formula	\$ 30,167,334	\$ -	\$ 1,179,786	\$ 31,347,120
Federal sources	5,288,025	3,682,012	336,881	9,306,918
Other State sources	6,230,910	5,038,992	1,240,575	12,510,477
Other local sources	10,987,532	17,882	451,326	11,456,740
Total revenues	<u>52,673,801</u>	<u>8,738,886</u>	<u>3,208,568</u>	<u>64,621,255</u>
<b>Expenditures</b>				
<b>Current</b>				
Instruction	16,642,006	-	1,115,194	17,757,200
Instruction-related activities				
Supervision of instruction	7,122,189	-	-	7,122,189
Instructional library, media, and technology	1,010,427	-	3,258	1,013,685
School site administration	3,612,312	-	413,335	4,025,647
Pupil services				
Food services	-	-	26,085	26,085
All other pupil services	4,925,101	-	106,027	5,031,128
Administration				
Data processing	1,675,294	-	-	1,675,294
All other administration	5,732,916	-	111,525	5,844,441
Plant services	2,659,490	-	-	2,659,490
Ancillary services	384	-	-	384
Community services	1,772,691	-	1,289,846	3,062,537
Facility acquisition and construction	14,970	-	-	14,970
Debt service				
Principal	368,616	-	-	368,616
Interest and other	256,139	-	-	256,139
Total expenditures	<u>45,792,535</u>	<u>-</u>	<u>3,065,270</u>	<u>48,857,805</u>
Excess of Revenues Over Expenditures	<u>6,881,266</u>	<u>8,738,886</u>	<u>143,298</u>	<u>15,763,450</u>
<b>Other Financing Sources (Uses)</b>				
Transfers in	-	-	1,228,454	1,228,454
Transfers out	(1,228,454)	-	-	(1,228,454)
Other uses, payment to other agencies	(4,626,858)	(8,716,609)	-	(13,343,467)
Net Financing Sources (Uses)	<u>(5,855,312)</u>	<u>(8,716,609)</u>	<u>1,228,454</u>	<u>(13,343,467)</u>
Net Change in Fund Balances	1,025,954	22,277	1,371,752	2,419,983
Fund Balance - Beginning, as Restated	<u>34,501,171</u>	<u>567,551</u>	<u>(891,849)</u>	<u>34,176,873</u>
Fund Balance - Ending	<u>\$ 35,527,125</u>	<u>\$ 589,828</u>	<u>\$ 479,903</u>	<u>\$ 36,596,856</u>

Santa Cruz County Superintendent of Schools

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental  
Funds to the Statement of Activities  
Year Ended June 30, 2021

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Total Net Change in Fund Balances - Governmental Funds \$ 2,419,983

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 exceed capital outlays in the period.

Depreciation expense	\$ (1,362,269)
Capital outlays	<u>77,324</u>

Net expense adjustment	(1,284,945)
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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). This amount is the difference between vacation earned and used.

(139,348)

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, deferred inflows and net pension liability during the year.

(2,954,685)

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 liability during the year.

416,322

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.

Certificates of participation	368,616
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Interest on long-term liabilities 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 accretes or accrues, regardless of when it is due.

20,612

Change in net position of governmental activities	<u><u>\$ (1,153,445)</u></u>
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Santa Cruz County Superintendent of Schools  
Statement of Net Position – Fiduciary Fund  
June 30, 2021

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	<u>Custodial Funds</u>
Assets	
Deposits and investments	<u>\$          3,281</u>
Liabilities	
Net Position	
Restricted for individuals, organizations, and other governments	<u>\$          3,281</u>

Santa Cruz County Superintendent of Schools  
Statement of Changes in Net Position – Fiduciary Funds  
Year Ended June 30, 2021

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	Custodial Funds
Revenues	
Other local sources	\$ -
Expenditures	
Other expenditures	-
Net change in fiduciary net position	-
Net Position - Beginning, as Restated	3,281
Net Position - Ending	\$ 3,281

**Note 1 - Summary of Significant Accounting Policies****Financial Reporting Entity**

The Santa Cruz County Office of Education (the County) was organized circa 1861 under the laws of the State of California. The County 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 County 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 County coordinates the Career Technical Education Program, operates Alternative Education programs at nineteen school sites around the county, including four court programs and nineteen community school programs. In addition, the County oversees three charter schools, and offers Medical and Dental Assisting programs for adults wishing to continue their education.

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

**Other Related Entities**

**Charter School** The County 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, County has certain oversight responsibilities to ensure that the charter school is in compliance with applicable charter school laws and regulations. However, the County is not liable for the debts or obligations of the charter school. 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 County's funds are grouped into two broad fund categories: governmental and fiduciary.

**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 County'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 County. It is used to account for the ordinary operations of the County. All transactions except those accounted for in another fund are accounted for in this fund.

Three 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 11, Adult Education Fund, 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 fund balance of \$3,667,188.

**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 (County) 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 School Fund** The Charter School 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 authorizing County'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.
- **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 County'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 the County's custodial funds which are used to hold a scholarship available to Santa Cruz County Superintendent of Schools students that are awarded to the students by a committee of persons outside of the County's employees and administration.

#### **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 County 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 County. Eliminations have been made to minimize the double counting of internal activities.

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 County. 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 County.

**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. The County considers revenues to be available if they are collected within one year after year-end, except for property taxes, which are considered available if collected within 60 days. 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 County 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.

**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 County prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the County 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. Principal and interest on long-term liabilities, 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, 2021, 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.

**Prepaid Expenditures (Expenses)**

Prepaid expenditures (expenses) represent amounts paid in advance of receiving goods or services. The County has the option of reporting expenditure in governmental funds for prepaid items either when purchased or during the benefiting period. The County 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 County. The County maintains a capitalization threshold of \$5,000. The County 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.

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 County's financial statements.

### **Accrued Liabilities and Long-Term Obligations**

All payables, accrued liabilities, and long-term liabilities are reported in the government-wide 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 liabilities 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 liabilities are recognized as liabilities in the governmental fund financial statements when due.

### **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 County 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 County reports pension related items and for OPEB 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 County Plan and the CalSTRS Medicare Premium Payment (MPP) Program and additions to/deductions from the County Plan and the MPP's fiduciary net position have been determined on the same basis as they are reported by the

County Plan and the MPP. For this purpose, the County Plan and the MPP 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. The total OPEB liability attributable to the governmental activities will be paid primarily by the County School Service Fund.

### **Fund Balances - Governmental Funds**

As of June 30, 2021, 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 governing board. The governing board is the highest level of decision-making authority for the County. 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 County's adopted policy, only the governing board or chief business officer/assistant superintendent of business services may assign amounts for specific purposes.

**Unassigned** - all other spendable amounts.

### **Spending Order Policy**

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the County considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the County 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.

### **Minimum Fund Balance**

The governing board adopted a minimum fund balance policy for the County School Service Fund in order to protect the local educational agency against revenue shortfalls or unpredicted one-time expenditures. The policy requires a Reserve for Economic Uncertainties (includes Fund 17 – Special Reserve Fund for Other Than Capital Outlay Projects) of amounts equal to no less than 5 percent of County School Service Fund expenditures and other financing uses.

**Net Position**

Net position represents the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources. 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 County or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The County first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available. The government-wide financial statements report \$3,418,149 of restricted net position.

**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.

**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 County. Local property tax revenues are recorded when received.

**Change in Accounting Principles****Implementation of GASB Statement No. 84**

As of July 1, 2020, the County adopted GASB Statement No. 84, *Fiduciary Activities*. The objective of this Statement is to improve the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements of this Statement will enhance consistency and comparability by (1) establishing specific criteria for identifying activities that should be reported as fiduciary activities and (2) clarifying whether and how business-type activities should report their fiduciary activities. Greater consistency and comparability enhance the value provided by the information reported in financial statements for assessing government accountability and stewardship. The impact to the County resulted in a reclassification of the County's student body activities from fiduciary to governmental and are now reflected within the County's County School Service Fund. The effect of the implementation of this standard on beginning fund balance and net position is disclosed in Note 16.

**New Accounting Pronouncements**

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 June 15, 2021. Early implementation is encouraged. The effects of this change on the County's financial statements have not yet been determined.

**Note 2 - Deposits and Investments**

**Summary of Deposits and Investments**

Deposits and investments as of June 30, 2021, are classified in the accompanying financial statements as follows:

Governmental funds	\$ 38,489,041
Fiduciary funds	<u>3,281</u>
Total deposits and investments	<u><u>\$ 38,492,322</u></u>

Deposits and investments as of June 30, 2021, consist of the following:

Cash on hand and in banks	\$ 60,210
Cash in revolving	800
Investments	<u>38,431,312</u>
Total deposits and investments	<u><u>\$ 38,492,322</u></u>

**Policies and Practices**

The County 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.

**Investment in County Treasury** - The County is considered to be an involuntary participant in an external investment pool as the County is required to deposit all receipts and collections of monies with their County Treasurer (Education Code Section 41001). The fair value of the County's investment in the Pool is reported in the accounting financial statements at amounts based upon the County'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 County 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 County 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.

**Weighted Average Maturity**

The County 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 County’s portfolio is presented in the following schedule:

<u>Investment Type</u>	<u>Reported Amount</u>	<u>Weighted Average Maturity in Days</u>
County Treasury Investment Pool	<u>\$ 38,431,312</u>	439

**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. The County’s investments in the County Treasury Investment Pool and California Employer’s Retirement Trust are not required to be rated, nor have they been rated as of June 30, 2021.

**Note 3 - Receivables**

Receivables at June 30, 2021, consisted of intergovernmental grants, entitlements, interest and other local sources. All receivables are considered collectible in full.

	<u>County School Service Fund</u>	<u>Special Education Pass-Through Fund</u>	<u>Non-Major Governmental Funds</u>	<u>Total</u>
Federal Government				
Categorical aid	\$ 1,189,012	\$ 3,011,380	\$ 216,949	\$ 4,417,341
State Government				
LCFF apportionment	1,326,691	-	396,154	1,722,845
State grants and entitlements	1,316,715	3,121,305	369,223	4,807,243
Local Sources	<u>3,206,819</u>	<u>-</u>	<u>99,579</u>	<u>3,306,398</u>
Total	<u>\$ 7,039,237</u>	<u>\$ 6,132,685</u>	<u>\$ 1,081,905</u>	<u>\$ 14,253,827</u>



Santa Cruz County Superintendent of Schools

Notes to Financial Statements

June 30, 2021

**Note 4 - Capital Assets**

Capital asset activity for the fiscal year ended June 30, 2021, was as follows:

	Balance July 1, 2020	Additions	Deductions	Balance June 30, 2021
<b>Governmental Activities</b>				
Capital assets not being depreciated				
Land	\$ 4,026,778	\$ -	\$ -	\$ 4,026,778
Construction in progress	22,587	33,765	(22,587)	33,765
Total capital assets not being depreciated	4,049,365	33,765	(22,587)	4,060,543
Capital assets being depreciated				
Land improvements	86,147	-	-	86,147
Buildings and improvements	29,540,134	14,970	-	29,555,104
Furniture and equipment	2,510,564	51,176	-	2,561,740
Total capital assets being depreciated	32,136,845	66,146	-	32,202,991
Total capital assets	36,186,210	99,911	(22,587)	36,263,534
Accumulated depreciation				
Land improvements	(77,259)	(7,942)	-	(85,201)
Buildings and improvements	(8,976,264)	(1,193,967)	-	(10,170,231)
Furniture and equipment	(2,149,442)	(160,360)	-	(2,309,802)
Total accumulated depreciation	(11,202,965)	(1,362,269)	-	(12,565,234)
Governmental activities capital assets, net	\$ 24,983,245	\$ (1,262,358)	\$ (22,587)	\$ 23,698,300

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

<b>Governmental Activities</b>	
Instruction	\$ 812,500
Instructional library, media, and technology	29,198
Data processing	9,925
All other administration	346,707
Plant services	163,939
Total depreciation expenses governmental activities	\$ 1,362,269

**Note 5 - 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, 2021, between major and non-major governmental funds are as follows:

Funds	Due from Other Funds	Due to Other Funds
Major Governmental Fund		
County School Service	\$ 702,582	\$ 167,631
Non-Major Governmental Funds		
Charter Schools	167,631	301,534
Child Development	-	397,739
Cafeteria	-	3,309
Total	<u>\$ 870,213</u>	<u>\$ 870,213</u>

The County School Service Fund owes the Charter School Non-Major Governmental Fund for indirect cost overpayments.	\$ 167,631
The Charter School Non-Major Governmental Fund owes the County School Service Fund for oversight fees.	301,534
The Child Development Non-Major Governmental Fund owes the County School Service Fund for indirect costs.	397,739
The Cafeteria Non-Major Governmental Fund owes the County School Service Fund for indirect costs.	3,309
Total	<u>\$ 870,213</u>

**Operating Transfers**

Interfund transfers for the year ended June 30, 2021 consisted of the following:

The County School Service Fund transferred to the Charter Schools Non-Major Governmental Fund to support operational.	\$ 591,215
The County School Service Fund transferred to the Child Development Non-Major Governmental Fund to support operations.	83
The County School Service Fund transferred to the Cafeteria Non-Major Governmental Fund to support operations.	27,995
The County School Service Fund transferred to the County School Facilities Non-Major Governmental Fund to cover disallowed expenditures and project savings (DGS).	609,161
Total	<u>\$ 1,228,454</u>

**Note 6 - Prepaid Expenditures (Expenses)**

Prepaid expenditures (expenses) at June 30, 2021, consisted of the following:

	County School Service Fund
Consulting services	\$ 40,897

**Note 7 - Accounts Payable**

Accounts payable at June 30, 2021, consisted of the following:

	County School Service Fund	Special Education Pass-Through Fund	Non-Major Governmental Funds	Total
Vendor payables	\$ 322,618	\$ 7,178,864	\$ 1,219,464	\$ 8,720,946
LCFF apportionment	-	-	498,253	498,253
Salaries and benefits	5,460,858	-	14,182	5,475,040
Categorical programs	-	-	60,611	60,611
Total	<u>\$ 5,783,476</u>	<u>\$ 7,178,864</u>	<u>\$ 1,792,510</u>	<u>\$ 14,754,850</u>

**Note 8 - Unearned Revenue**

Unearned revenue at June 30, 2021, consists of the following:

	County School Service Fund	Non-Major Governmental Funds	Total
Federal financial assistance	\$ 299,064	\$ 19,311	\$ 318,375
State categorical aid	960,786	49,132	1,009,918
Other local	103,766	-	103,766
Total	<u>\$ 1,363,616</u>	<u>\$ 68,443</u>	<u>\$ 1,432,059</u>

**Note 9 - Long-Term Obligations Other than OPEB and Pensions**

**Summary**

The changes in the County's long-term obligations other than OPEB and pensions during the year consisted of the following:

	Balance July 1, 2020	Additions	Deductions	Balance June 30, 2021	Due in One Year
Long-Term Liabilities					
Certificates of participation	\$ 8,158,808	\$ -	\$ (368,616)	\$ 7,790,192	\$ 380,413
Compensated absences	469,282	139,348	-	608,630	-
Total	<u>\$ 8,628,090</u>	<u>\$ 139,348</u>	<u>\$ (368,616)</u>	<u>\$ 8,398,822</u>	<u>\$ 380,413</u>

Payments on the certificates of participation are paid by the General Fund. The compensated absences will be paid by the fund for which the employee worked.

**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, 2021, the principal balance outstanding was \$7,790,192.

Year Ending June 30,	Principal	Interest	Total
2022	\$ 380,413	\$ 244,343	\$ 624,756
2023	392,587	232,169	624,756
2024	405,150	219,605	624,755
2025	418,116	206,640	624,756
2026	431,496	193,259	624,755
2027-2031	2,373,666	750,111	3,123,777
2032-2036	2,778,577	345,201	3,123,778
2037	610,187	14,568	624,755
Total	<u>\$ 7,790,192</u>	<u>\$ 2,205,897</u>	<u>\$ 9,996,089</u>

**Compensated absences**

Compensated absences (unpaid employee vacation) for the County at June 30, 2021, amounted to \$608,830.

**Note 10 - Other Post Employment Benefit (OPEB) Liability**

For the fiscal year ended June 30, 2021, the County reported net OPEB liability, deferred outflows of resources, deferred inflows of resources, and OPEB expense for the following plans:

OPEB Plan	Net OPEB Liability	Deferred Outflows of Resources	Deferred Inflows of Resources	OPEB Expense
Retiree Health Plan	\$ 611,515	\$ 2,731,494	\$ 46,428	\$ 422,188
Medicare Premium Payment (MPP) Program	144,851	-	-	20,295
Total	<u>\$ 756,366</u>	<u>\$ 2,731,494</u>	<u>\$ 46,428</u>	<u>\$ 442,483</u>

The details of each plan are as follows:

**County Plan**

**Plan Administration**

The County's Postemployment Benefits Plan (the Plan) is administered by the California Public Employees' Retirement System (CalPERS). The Plan is an agent multi-employer plan defined benefit plan. CalPERS administers the Plan through the California Employer's Retiree Benefit Trust (CERBT).

**Plan Membership**

At June 30, 2019, the valuation date, the Plan membership consisted of the following:

Inactive employees or beneficiaries currently receiving benefits payments	66
Active employees	<u>239</u>
Total	<u><u>305</u></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 County'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 County are established and may be amended by the County, 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 County, SCCEA/CTA/NEA, CSEA, and the unrepresented groups. The County

contributed \$1,082,961 to the Plan for fiscal year 2020-2021, including \$143,950 in an implicit rate subsidy credit and \$727,411 was used for current year premium payments.

**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 County 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, 2021:

<u>Asset Class</u>	<u>Target Allocation</u>
All Equities	59%
All Fixed Income	25%
Treasury Inflation Protected Securities	5%
US Real Estate	8%
All Commodities	3%

**Net OPEB Liability of the County**

The County’s net OPEB liability of \$611,515 was measured as of June 30, 2020, and the total OPEB liability used to calculate the net OPEB liability was determined by applying updated procedures to the financial reporting actuarial valuation as of June 30, 2019, and rolling forward the total OPEB liability at June 30, 2020. The components of the net OPEB liability of the County at June 30, 2020, were as follows:

Total OPEB liability	\$ 10,019,011
Plan fiduciary net position	<u>(9,407,496)</u>
Net OPEB liability	<u>\$ 611,515</u>
Plan fiduciary net position as a percentage of the total OPEB liability	<u>93.90%</u>

**Actuarial Assumptions**

The total OPEB liability in the June 30, 2020 actuarial measurement 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	7.00 percent, net of OPEB plan investment expense, including inflation
Healthcare cost trend rates	4.00 percent for 2021 and thereafter

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 actuarial assumptions used in the June 30, 2019 valuation relating to retirement and turnover were based on STRS 2009 and PERS 2009 retirement and turnover rate tables.

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, 2020, (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>
All Equities	7.6750%
All Fixed Income	4.3800%
Treasury Inflation Protected Securities	3.1300%
US Real Estate	7.3800%
All Commodities	7.6750%

**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 County 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.

**Changes in the Net OPEB Liability**

	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
Balance, June 30, 2019	\$ 9,736,281	\$ 9,059,660	\$ 676,621
Service cost	473,644	-	473,644
Interest	668,053	335,208	332,845
Administrative expenses	-	(4,600)	4,600
Benefit payments from trust	(841,587)	(841,587)	-
Experience (gains)/losses	(17,380)	-	(17,380)
County contributions to trust	-	858,815	(858,815)
Net change in total OPEB liability	282,730	347,836	(65,106)
Balance, June 30, 2020	\$ 10,019,011	\$ 9,407,496	\$ 611,515

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

Net OPEB liability of the County, as well as what the County's net OPEB 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 Liability
1% decrease (6.0%)	\$ 1,359,230
Current discount rate (7.0%)	611,515
1% increase (8.0%)	(44,729)

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

Net OPEB liability of the County, as well as what the County's net OPEB 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 rate:

Healthcare Cost Trend Rate	Net OPEB Liability
1% decrease (3.0%)	\$ (166,834)
Current healthcare cost trend rate (4.0%)	611,515
1% increase (5.0%)	1,485,094



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

For the year ended June 30, 2021, the County recognized OPEB expense of \$422,483 and the County reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
OPEB contributions subsequent to measurement date	\$ 1,082,961	\$ -
Differences between expected and actual experience	1,393,444	15,987
Net difference between projected and actual earnings on OPEB plan investments	<u>255,089</u>	<u>30,441</u>
Total	<u>\$ 2,731,494</u>	<u>\$ 46,428</u>

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

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

<u>Year Ended June 30,</u>	<u>Deferred Outflows/(Inflows) of Resources</u>
2021	\$ 49,849
2022	49,850
2023	65,067
2024	<u>59,882</u>
Total	<u>\$ 224,648</u>

The deferred outflows/(inflows) of resources related to the differences between expected and actual experience in the measurement of the total OPEB 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 and will be recognized in OPEB expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2021	\$ 133,326
2022	133,326
2023	133,326
2024	133,326
2025	133,326
Thereafter	710,827
Total	<u>\$ 1,377,457</u>

**Medicare Premium Payment (MPP) Program**

**Plan Description**

The Medicare Premium Payment (MPP) Program is administered by the California State Teachers’ Retirement System (CalSTRS). The MPP Program is a cost-sharing multiple-employer other postemployment benefit plan (OPEB) established pursuant to Chapter 1032, Statutes 2000 (SB 1435). CalSTRS administers the MPP Program through the Teachers’ Health Benefits Fund (THBF).

A full description of the MPP Program regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2019 annual actuarial valuation report, Medicare Premium Payment Program Actuarial Valuation. This report and CalSTRS audited financial information are publicly available reports that can be found on the CalSTRS website under Publications at: <http://www.calstrs.com/member-publications>.

**Benefits Provided**

The MPP Program pays Medicare Part A premiums and Medicare Parts A and B late enrollment surcharges for eligible members of the State Teachers Retirement Plan (STRP) Defined Benefit (DB) Program who were retired or began receiving a disability allowance prior to July 1, 2012 and were not eligible for premium free Medicare Part A. The payments are made directly to the Centers for Medicare and Medicaid Services (CMS) on a monthly basis.

The MPP Program is closed to new entrants as members who retire after July 1, 2012, are not eligible for coverage under the MPP Program.

The MPP Program is funded on a pay-as-you go basis from a portion of monthly County benefit payments. In accordance with California Education Code Section 25930, contributions that would otherwise be credited to the DB Program each month are instead credited to the MPP Program to fund monthly program and administrative costs. Total redirections to the MPP Program are monitored to ensure that total incurred costs do not exceed the amount initially identified as the cost of the program.

**Net OPEB Liability and OPEB Expense**

At June 30, 2021, the County reported a liability of \$144,851 for its proportionate share of the net OPEB liability for the MPP Program. The net OPEB liability was measured as of June 30, 2020, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2019. The County’s proportion of the net OPEB liability was based on a projection of the County’s long-term share of contributions to the OPEB Plan relative to the projected contributions of all participating school districts and county offices of education, actuarially determined. The County’s proportionate share for the measurement period June 30, 2020 and June 30, 2019, respectively, was 0.0342 percent and 0.0334 percent, resulting in a net increase in the proportionate share of 0.0008 percent.

For the year ended June 30, 2021, the County recognized OPEB expense of \$20,295.

**Actuarial Methods and Assumptions**

The June 30, 2020 total OPEB liability was determined by applying update procedures to the financial reporting actuarial valuation as of June 30, 2019, and rolling forward the total OPEB liability to June 30, 2020, using the assumptions listed in the following table:

Measurement Date	June 30, 2020	June 30, 2019
Valuation Date	June 30, 2019	June 30, 2018
Experience Study	June 30, 2014 through June 30, 2018	July 1, 2010 through June 30, 2015
Actuarial Cost Method	Entry age normal	Entry age normal
Investment Rate of Return	2.21%	3.50%
Medicare Part A Premium Cost Trend Rate	4.50%	3.70%
Medicare Part B Premium Cost Trend Rate	5.40%	4.10%

For the valuation as of June 30, 2019, 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 our members. The projection scale was set equal to 110 percent of the ultimate improvement factor from the Mortality Improvement Scale (MP-2019) table, issued by the Society of Actuaries.

Assumptions were made about future participation (enrollment) into the MPP Program because CalSTRS is unable to determine which members not currently participating meet all eligibility criteria for enrollment in the future. Assumed enrollment rates were derived based on past experience and are stratified by age with the probability of enrollment diminishing as the members’ age increases. This estimated enrollment rate was then applied to the population of members who may meet criteria necessary for eligibility and are not currently

enrolled in the MPP Program. Based on this, the estimated number of future enrollments used in the financial reporting valuation was 294 or an average of 0.18 percent of the potentially eligible population (159,339).

The MPP Program is funded on a pay-as-you-go basis with contributions generally being made at the same time and in the same amount as benefit payments and expenses coming due. Any funds within the MPP Program as of June 30, 2020, were to manage differences between estimated and actual amounts to be paid and were invested in the Surplus Money Investment Fund, which is a pooled investment program administered by the State Treasurer.

**Discount Rate**

The discount rate used to measure the total OPEB liability as of June 30, 2020, is 2.21 percent. As the MPP Program is funded on a pay-as-you-go basis as previously noted, the OPEB Plan’s fiduciary net position was not projected to be sufficient to make projected future benefit payments. Therefore, a discount rate of 2.21 percent, which is the Bond Buyer 20-Bond GO Index from Bondbuyer.com as of June 30, 2020, was applied to all periods of projected benefit payments to measure the total OPEB liability. The discount rate decreased 1.29 percent from 3.50 percent as of June 30, 2019.

**Sensitivity of the County’s Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate**

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

<u>Discount Rate</u>	<u>Net OPEB Liability</u>
1% decrease (1.21%)	\$ 160,173
Current discount rate (2.21%)	144,851
1% increase (3.21%)	131,813

**Sensitivity of the County’s Proportionate Share of the Net OPEB Liability to Changes in the Medicare Costs Trend Rates**

The following presents the County’s proportionate share of the net OPEB liability calculated using the Medicare costs trend rates, as well as what the net OPEB liability would be if it were calculated using Medicare costs trend rates that are one percent lower or higher than the current rates:

<u>Medicare Costs Trend Rates</u>	<u>Net OPEB Liability</u>
1% decrease (3.50% Part A and 4.40% Part B)	\$ 131,341
Current Medicare costs trend rate (4.50% Part A and 5.40% Part B)	144,851
1% increase (5.50% Part A and 6.40% Part B)	160,403

**Note 11 - Fund Balance**

Fund balances are composed of the following elements:

	General Fund	Special Education Pass-Through Fund	Non-Major Governmental Funds	Total
<b>Nonspendable</b>				
Revolving cash	\$ 800	\$ -	\$ -	\$ 800
Prepaid expenditures	40,897	-	-	40,897
Total nonspendable	<u>41,697</u>	<u>-</u>	<u>-</u>	<u>41,697</u>
<b>Restricted</b>				
Legally restricted programs	2,688,535	589,828	83,130	3,361,493
Child development programs	-	-	56,646	56,646
Child nutrition	-	-	10	10
Total restricted	<u>2,688,535</u>	<u>589,828</u>	<u>139,786</u>	<u>3,418,149</u>
<b>Committed</b>				
Deferred maintenance program	1,043,900	-	-	1,043,900
Certificates of participation	1,200,000	-	-	1,200,000
Total committed	<u>2,243,900</u>	<u>-</u>	<u>-</u>	<u>2,243,900</u>
<b>Assigned</b>				
MAA program	726,388	-	-	726,388
Small districts	1,836	-	-	1,836
Differentiated assistance	610,505	-	-	610,505
Mandated cost program	2,155,728	-	-	2,155,728
Safety program	105,322	-	-	105,322
SMAA administration	2,466,387	-	-	2,466,387
Alternative education	2,349,754	-	-	2,349,754
Special projects	200,000	-	-	200,000
COPS deferred maintenance	1,400,328	-	-	1,400,328
Education and administrative operations	17,435,950	-	-	17,435,950
Lottery	451,987	-	-	451,987
Career advancement charter	-	-	339,266	339,266
Child development MAA	-	-	851	851
Adult education	1,144	-	-	1,144
Total assigned	<u>27,905,329</u>	<u>-</u>	<u>340,117</u>	<u>28,245,446</u>
<b>Unassigned</b>				
Reserve for economic uncertainties	2,647,664	-	-	2,647,664
Total	<u>\$ 35,527,125</u>	<u>\$ 589,828</u>	<u>\$ 479,903</u>	<u>\$ 36,596,856</u>

**Note 12 - Risk Management**

**Property and Liability**

The County 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, 2021, the County 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 2020-2021, the County 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 County 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 entities is calculated as one experience and a common premium rate is applied to all entities 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 participants' 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 ensures that each participant shares equally in the overall performance of the Santa Cruz-San Benito County Schools Insurance Group.

**Note 13 - 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, 2021 the County 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	\$ 19,009,830	\$ 5,672,634	\$ 2,041,697	\$ 1,788,118
CalPERS	25,594,009	4,504,414	503,522	5,117,174
Total	\$ 44,603,839	\$ 10,177,048	\$ 2,545,219	\$ 6,905,292

The details of each plan are as follows:

### **California State Teachers' Retirement System (CalSTRS)**

#### **Plan Description**

The County 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, 2019 annual actuarial valuation report, Defined Benefit Program Actuarial Valuation. This report and CalSTRS audited financial information are publicly 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 County contributes exclusively to the STRP Defined Benefit Program, thus disclosures are not included for the other plans.

The STRP provisions and benefits in effect at June 30, 2021, are summarized as follows:

	<u>STRP Defined Benefit Program</u>	
	On or before December 31, 2012	On or after January 1, 2013
Hire date	2% at 60	2% at 62
Benefit formula	5 years of service	5 years of service
Benefit vesting schedule	Monthly for life	Monthly for life
Benefit payments	60	62
Retirement age	2.0% - 2.4%	2.0% - 2.4%
Monthly benefits as a percentage of eligible compensation	10.25%	10.205%
Required employee contribution rate	16.15%	16.15%
Required employer contribution rate	10.328%	10.328%
Required state contribution rate		

**Contributions**

Required member, County 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, 2021, are presented above and the County’s total contributions were \$1,765,841.

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

At June 30, 2021, the County reported a liability for its proportionate share of the net pension liability that reflected a reduction for State pension support provided to the County. The amount recognized by the County 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 County were as follows:

Total net pension liability, including State share	
Proportionate share of net pension liability	\$ 19,009,830
State’s proportionate share of the net pension liability	<u>9,799,570</u>
Total	<u><u>\$ 28,809,400</u></u>

The net pension liability was measured as of June 30, 2020. The County’s proportion of the net pension liability was based on a projection of the County’s long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts, county offices of education and the State, actuarially determined. The County’s proportionate share for the measurement period June 30, 2020 and June 30, 2019, respectively was 0.0196 percent and 0.0189 percent, resulting in a net increase in the proportionate share of 0.0007 percent.



Santa Cruz County Superintendent of Schools

Notes to Financial Statements

June 30, 2021

For the year ended June 30, 2021, the County recognized pension expense of \$1,826,091. In addition, County recognized pension expense and revenue of \$1,372,824 for support provided by the State. At June 30, 2021, the County 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	\$ 1,765,841	\$ -
Change in proportion and differences between contributions made and County's proportionate share of contributions	1,567,956	1,505,587
Differences between projected and actual earnings on pension plan investments	451,565	-
Differences between expected and actual experience in the measurement of the total pension liability	33,544	536,110
Changes of assumptions	1,853,728	-
Total	\$ 5,672,634	\$ 2,041,697

The deferred outflows of resources related to pensions resulting from County 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 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 of Resources
2022	\$ (275,541)
2023	153,857
2024	306,961
2025	266,288
Total	\$ 451,565

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 seven years and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2022	\$ (240,726)
2023	321,409
2024	822,481
2025	266,413
2026	176,245
Thereafter	67,709
Total	<u>\$ 1,413,531</u>

**Actuarial Methods and Assumptions**

Total pension liability for STRP was determined by applying update procedures to the financial reporting actuarial valuation as of June 30, 2019 and rolling forward the total pension liability to June 30, 2020. The financial reporting actuarial valuation as of June 30, 2019, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2019
Measurement date	June 30, 2020
Experience study	July 1, 2015 through June 30, 2018
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-2019) table, issued by the Society of Actuaries.

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 January 2020 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, 2020, are summarized in the following table:

Asset Class	Assumed Asset Allocation	Long-Term Expected Real Rate of Return
Public equity	42%	4.8%
Real estate	15%	3.6%
Private equity	13%	6.3%
Fixed income	12%	1.3%
Risk mitigating strategies	10%	1.8%
Inflation sensitive	6%	3.3%
Cash/liquidity	2%	(0.4%)

**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 County’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%)	\$ 28,721,205
Current discount rate (7.10%)	19,009,830
1% increase (8.10%)	10,991,722

**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, 2019 annual actuarial valuation report, Schools Pool Actuarial Valuation. This report and CalPERS audited financial information are publicly 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, 2021, are summarized as follows:

	School Employer Pool (CalPERS)	
	On or before December 31, 2012	On or after January 1, 2013
Hire date		
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%	7.00%
Required employer contribution rate	20.70%	20.70%

**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 County 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, 2021, are presented above and the total County contributions were \$2,433,293.

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

As of June 30, 2021, the County reported net pension liabilities for its proportionate share of the CalPERS net pension liability totaling \$25,594,009. The net pension liability was measured as of June 30, 2020. The County's proportion of the net pension liability was based on a projection of the County's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts and county offices of education, actuarially determined. The County's proportionate share of the proportionate share for the measurement period June 30, 2020 and June 30, 2019, respectively was 0.0834 percent and 0.0827 percent, resulting in a net increase in the proportionate share of 0.0007 percent.

For the year ended June 30, 2021, the County recognized pension expense of \$5,327,728. At June 30, 2021, the County reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Pension contributions subsequent to measurement date	\$ 2,433,293	\$ -
Change in proportion and differences between contributions made and County's proportionate share of contributions	175,097	503,522
Differences between projected and actual earnings on pension plan investments	532,786	-
Differences between expected and actual experience in the measurement of the total pension liability	1,269,384	-
Changes of assumptions	<u>93,854</u>	<u>-</u>
Total	<u>\$ 4,504,414</u>	<u>\$ 503,522</u>

The deferred outflows of resources related to pensions resulting from County 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 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:

<u>Year Ended June 30,</u>	<u>Deferred Outflows of Resources</u>
2022	\$ (199,379)
2023	177,840
2024	309,114
2025	<u>245,211</u>
Total	<u>\$ 532,786</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 (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 4.0 years and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2022	\$ 817,975
2023	261,101
2024	(37,226)
2025	(7,037)
Total	<u>\$ 1,034,813</u>

#### Actuarial Methods and Assumptions

Total pension liability for the SEP was determined by applying update procedures to the financial reporting actuarial valuation as of June 30, 2018 and rolling forward the total pension liability to June 30, 2019. The financial reporting actuarial valuation as of June 30, 2019, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2019
Measurement date	June 30, 2020
Experience study	July 1, 1997 through June 30, 2015
Actuarial cost method	Entry age normal
Discount rate	7.15%
Investment rate of return	7.15%
Consumer price inflation	2.50%
Wage growth	Varies by entry age and service

The mortality table used was developed based on CalPERS-specific data. The table includes 15 years of mortality improvements using Society of Actuaries 90 percent of scale MP-2016.

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	50%	5.98%
Fixed income	28%	2.62%
Inflation assets	0%	1.81%
Private equity	8%	7.23%
Real assets	13%	4.93%
Liquidity	1%	(0.92%)

**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 County’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 (6.15%)	\$ 36,796,055
Current discount rate (7.15%)	25,594,009
1% increase (8.15%)	16,296,873

**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 County and an employee vest immediately. The County 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 County. These payments consist of State County School Service Fund contributions to CalSTRS in the amount of \$1,109,013 (10.328 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 been included in the budgeted amounts reported in the County School Service Fund - Budgetary Comparison Schedule.

#### **Note 14 - Commitments and Contingencies**

##### **Grants**

The County 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 County at June 30, 2021.

##### **Litigation**

The County is not currently a party to any legal proceedings.

#### **Note 15 - Participation in Public Entity Risk Pools and Joint Power Authorities**

The County is a member of the 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 County pays an annual premium to the applicable entity for its health, workers' compensation, and property liability coverage. The relationships between the County, the pools, and the JPA's are such that they are not component units of the County 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 County are included in these statements. Audited financial statements are generally available from the respective entities.

During the year ended June 30, 2021, the County made payments of \$603,567, \$471,837, and \$196,673 to 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 16 - Restatement of Prior Year Net Position and Fund Balance**

As of July 1, 2020, the Santa Cruz County Superintendent of Schools adopted GASB Statement No. 84, *Fiduciary Activities* (GASB 84). As a result of the implementation of GASB 84, the County has reclassified its student activity (donations) funds previously reported as fiduciary funds to the General Fund. In addition, an error related to the calculation of deferred outflows of resources related to pensions was discovered. The following table describes the effects of the implementation and the calculation error on beginning fund balance/net position.

	County School Service Fund	Total Governmental Funds
Beginning Fund Balance previously reported at June 30, 2020	\$ 34,494,896	\$ 34,170,598
Reclassification of student activity funds (donations) from agency funds into the County School Service Fund	<u>6,275</u>	<u>6,275</u>
Fund Balance - Beginning as Restated July 1, 2020	<u><u>\$ 34,501,171</u></u>	<u><u>\$ 34,176,873</u></u>
Governmental Activities Financial Statements		
Beginning Governmental Activities Net Position previously reported at June 30, 2020		\$ 16,871,113
Increase to deferred outflows of resources related to pensions		1,129,081
Reclassification of student activity funds (donations) from agency funds into the County School Service Fund		<u>6,275</u>
Net Position - Beginning as Restated July 1, 2020		<u><u>\$ 18,006,469</u></u>
Custodial Funds		
Beginning Net Position previously reported at June 30, 2020		\$ -
Inclusion of beginning net position from the adoption of GASB Statement No. 84		<u>3,281</u>
Net Position - Beginning as Restated July 1, 2020		<u><u>\$ 3,281</u></u>



Required Supplementary Information  
June 30, 2021

# Santa Cruz County Superintendent of Schools

Santa Cruz County Superintendent of Schools  
Budgetary Comparison Schedule – County School Service Fund  
Year Ended June 30, 2021

	Budgeted Amounts		Actual	Variances - Positive (Negative)
	Original	Final		Final to Actual
<b>Revenues</b>				
Local Control Funding Formula	\$ 27,537,112	\$ 29,876,283	\$ 30,167,334	\$ 291,051
Federal sources	5,816,517	7,331,837	5,288,025	(2,043,812)
Other State sources	6,211,333	6,909,774	6,230,910	(678,864)
Other local sources	8,677,516	8,642,110	10,987,532	2,345,422
Total revenues <sup>1</sup>	<u>48,242,478</u>	<u>52,760,004</u>	<u>52,673,801</u>	<u>(86,203)</u>
<b>Expenditures</b>				
<b>Current</b>				
Certificated salaries	10,868,103	11,341,178	11,449,827	(108,649)
Classified salaries	12,570,579	11,995,941	11,929,140	66,801
Employee benefits	14,381,643	13,346,943	13,396,595	(49,652)
Books and supplies	1,750,573	2,538,572	1,604,832	933,740
Services and operating expenditures	7,297,393	7,402,088	6,523,533	878,555
Other outgo	4,284,945	4,226,639	201,499	4,025,140
Capital outlay	86,200	77,606	62,354	15,252
<b>Debt service</b>				
Debt service - principal	358,616	368,616	368,616	-
Debt service - interest and other	256,139	256,139	256,139	-
Total expenditures <sup>1</sup>	<u>51,854,191</u>	<u>51,553,722</u>	<u>45,792,535</u>	<u>5,761,187</u>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>				
	<u>(3,611,713)</u>	<u>1,206,282</u>	<u>6,881,266</u>	<u>5,674,984</u>
<b>Other Financing Uses</b>				
Transfers out	(466,051)	(63,830)	(1,228,454)	(1,164,624)
Other uses	-	-	(4,626,858)	(4,626,858)
Net financing sources uses	<u>(466,051)</u>	<u>(63,830)</u>	<u>(5,855,312)</u>	<u>(5,791,482)</u>
Net Change in Fund Balances	(4,077,764)	1,142,452	1,025,954	(116,498)
Fund Balance - Beginning	34,501,171	34,501,171	34,501,171	-
Fund Balance - Ending	<u>\$ 30,423,407</u>	<u>\$ 35,643,623</u>	<u>\$ 35,527,125</u>	<u>\$ (116,498)</u>

<sup>1</sup> Due to the consolidation of Fund 11, Adult Education Fund; Fund 14, Deferred Maintenance Fund; and Fund 17, Special Reserve Fund for Other than Capital Outlay Projects, for reporting purposes into the County School Service Fund, additional revenues and expenditures pertaining to these other funds are included in the Actual (GAAP Basis) revenues and expenditures, and in the original and final County School Service Fund budgets.

Santa Cruz County Superintendent of Schools  
 Budgetary Comparison Schedule – Special Education Pass-Through Fund  
 Year Ended June 30, 2021

	Budgeted Amounts		Actual	Variances - Positive (Negative)
	Original	Final		Final to Actual
Revenues				
Federal sources	\$ 3,717,083	\$ 4,093,951	\$ 3,682,012	\$ (411,939)
Other State sources	3,212,216	4,739,388	5,038,992	299,604
Other local sources	23,000	15,500	17,882	2,382
Total revenues	<u>6,952,299</u>	<u>8,848,839</u>	<u>8,738,886</u>	<u>(109,953)</u>
Expenditures				
Current				
Other outgo	<u>6,677,266</u>	<u>8,661,956</u>	<u>8,716,609</u>	<u>(54,653)</u>
Total expenditures	<u>6,677,266</u>	<u>8,661,956</u>	<u>8,716,609</u>	<u>(54,653)</u>
Net Change in Fund Balances	275,033	186,883	22,277	(164,606)
Fund Balance - Beginning	<u>567,551</u>	<u>567,551</u>	<u>567,551</u>	<u>567,551</u>
Fund Balance - Ending	<u>\$ 842,584</u>	<u>\$ 754,434</u>	<u>\$ 589,828</u>	<u>\$ (164,606)</u>

Santa Cruz County Superintendent of Schools  
Schedule of Changes in the County's Net OPEB Liability and Related Ratios  
Year Ended June 30, 2021

	2021	2020	2019	2018
Total OPEB Liability				
Service cost	\$ 473,644	\$ 403,067	\$ 392,279	\$ 381,780
Interest	668,053	550,815	521,490	491,261
Benefit payments	-	(664,019)	(502,479)	(457,838)
Expected benefit payments from employer	(841,587)	(109,099)	-	-
Actual minus expected benefit payments	-	218,198	56,926	-
Experience (gains)/losses	(17,380)	1,392,603	-	-
Net change in total OPEB liability	282,730	1,791,565	468,216	415,203
Total OPEB Liability - Beginning	9,736,281	7,944,716	7,476,500	7,061,297
Total OPEB Liability - Ending (a)	<u>\$ 10,019,011</u>	<u>\$ 9,736,281</u>	<u>\$ 7,944,716</u>	<u>\$ 7,476,500</u>
Plan Fiduciary Net Position				
Contributions - employer	\$ 858,815	\$ 873,118	\$ 595,554	\$ 557,838
Net investment income	335,208	563,364	601,237	740,457
Benefit payments	(841,587)	(773,118)	(502,479)	(457,838)
Actual minus expected benefit payments	-	-	56,926	-
Administrative expense	(4,600)	-	-	-
Other	-	-	7,330	-
Net change in plan fiduciary net position	347,836	663,364	758,568	840,457
Plan Fiduciary Net Position - Beginning	9,059,660	8,396,296	7,637,728	6,797,271
Plan Fiduciary Net Position - Ending (b)	<u>\$ 9,407,496</u>	<u>\$ 9,059,660</u>	<u>\$ 8,396,296</u>	<u>\$ 7,637,728</u>
Net OPEB (Asset)/Liability - Ending (a) - (b)	<u>\$ 611,515</u>	<u>\$ 676,621</u>	<u>\$ (451,580)</u>	<u>\$ (161,228)</u>
Plan Fiduciary Net Position as a Percentage of the Total OPEB (Asset)/Liability	93.90%	93.05%	105.68%	102.16%
Covered Payroll	<u>\$ 24,651,308</u>	<u>\$ 24,651,308</u>	<u>\$ 23,755,780</u>	<u>\$ 21,998,183</u>
Net OPEB (Asset)/Liability as a Percentage of Covered Payroll	2.48%	2.74%	(1.90%)	(0.73%)
Measurement Date	June 30, 2020	June 30, 2019	June 30, 2018	June 30, 2017

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

Santa Cruz County Superintendent of Schools  
 Schedule of County's Contributions for OPEB  
 Year Ended June 30, 2021

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Actuarially determined contribution	Not Available	Not Available	Not Available	Not Available
Contribution in relation to the actuarially determined contribution	<u>\$ 858,815</u>	<u>\$ 873,118</u>	<u>\$ 595,554</u>	<u>\$ 557,838</u>
Covered payroll	<u>\$ 24,651,308</u>	<u>\$ 24,651,308</u>	<u>\$ 23,755,780</u>	<u>\$ 21,998,183</u>
Contributions as a percentage of covered payroll	<u>3.484%</u>	<u>3.542%</u>	<u>2.507%</u>	<u>2.536%</u>

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

Santa Cruz County Superintendent of Schools  
Schedule of the County's Proportionate Share of the Net OPEB Liability – MPP Program  
Year Ended June 30, 2021

Year ended June 30,	2021	2020	2019	2018
Proportion of the net OPEB liability	0.0342%	0.3334%	0.3316%	0.0000%
Proportionate share of the net OPEB liability	\$ 144,851	\$ 124,556	\$ 120,821	\$ 127,684
Covered payroll	N/A <sup>1</sup>	N/A <sup>1</sup>	N/A <sup>1</sup>	N/A <sup>1</sup>
Proportionate share of the net OPEB liability as a percentage of it's covered payroll	N/A <sup>1</sup>	N/A <sup>1</sup>	N/A <sup>1</sup>	N/A <sup>1</sup>
Plan fiduciary net position as a percentage of the total OPEB liability	(0.71%)	(0.81%)	(0.40%)	0.01%
Measurement Date	June 30, 2020	June 30, 2019	June 30, 2018	June 30, 2017

<sup>1</sup> As of June 30, 2012, active members are no longer eligible for future enrollment in the MPP Program; therefore, the covered payroll disclosure is not applicable.

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

Santa Cruz County Superintendent of Schools  
Schedule of the County's Proportionate Share of the Net Pension Liability  
Year Ended June 30, 2021

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
<b>CaSTRS</b>				
Proportion of the net pension liability	0.0196%	0.0189%	0.0176%	0.0168%
Proportionate share of the net pension liability	\$ 19,009,830	\$ 17,076,252	\$ 16,162,680	\$ 15,503,260
State's proportionate share of the net pension liability	9,799,570	9,316,235	9,253,890	9,171,598
Total	<u>\$ 28,809,400</u>	<u>\$ 26,392,487</u>	<u>\$ 25,416,570</u>	<u>\$ 24,674,858</u>
Covered payroll	<u>\$ 8,859,790</u>	<u>\$ 10,404,233</u>	<u>\$ 9,561,423</u>	<u>\$ 8,958,810</u>
Proportionate share of the net pension liability as a percentage of its covered payroll	<u>214.56%</u>	<u>164.13%</u>	<u>169.04%</u>	<u>173.05%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>72%</u>	<u>73%</u>	<u>71%</u>	<u>69%</u>
Measurement Date	June 30, 2020	June 30, 2019	June 30, 2018	June 30, 2017
<b>CaIPERS</b>				
Proportion of the net pension liability	0.0834%	0.0827%	0.0815%	0.0799%
Proportionate share of the net pension liability	\$ 25,594,009	\$ 24,098,441	\$ 21,727,160	\$ 19,067,848
Covered payroll	<u>\$ 7,129,230</u>	<u>\$ 11,072,255</u>	<u>\$ 10,403,962</u>	<u>\$ 9,686,705</u>
Proportionate share of the net pension liability as a percentage of its covered payroll	<u>359.00%</u>	<u>217.65%</u>	<u>208.84%</u>	<u>196.85%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>70%</u>	<u>70%</u>	<u>71%</u>	<u>72%</u>
Measurement Date	June 30, 2020	June 30, 2019	June 30, 2018	June 30, 2017

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



Santa Cruz County Superintendent of Schools  
Schedule of the County's Proportionate Share of the Net Pension Liability  
Year Ended June 30, 2021

	<u>2017</u>	<u>2016</u>	<u>2015</u>
<b>CaSTRS</b>			
Proportion of the net pension liability	<u>0.0169%</u>	<u>0.0213%</u>	<u>0.0258%</u>
Proportionate share of the net pension liability	<u>\$ 13,672,572</u>	<u>\$ 14,359,551</u>	<u>\$ 15,084,573</u>
State's proportionate share of the net pension liability	<u>7,783,552</u>	<u>7,594,619</u>	<u>9,108,717</u>
Total	<u>\$ 21,456,124</u>	<u>\$ 21,954,170</u>	<u>\$ 24,193,290</u>
Covered payroll	<u>\$ 8,863,027</u>	<u>\$ 9,494,981</u>	<u>\$ 11,592,138</u>
Proportionate share of the net pension liability as a percentage of its covered payroll	<u>154.27%</u>	<u>151.23%</u>	<u>130.13%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>70%</u>	<u>74%</u>	<u>77%</u>
Measurement Date	June 30, 2016	June 30, 2015	June 30, 2014
<b>CaIPERS</b>			
Proportion of the net pension liability	<u>0.0760%</u>	<u>0.0800%</u>	<u>0.0878%</u>
Proportionate share of the net pension liability	<u>\$ 15,009,890</u>	<u>\$ 11,794,608</u>	<u>\$ 9,970,401</u>
Covered payroll	<u>\$ 8,789,783</u>	<u>\$ 8,800,872</u>	<u>\$ 9,190,072</u>
Proportionate share of the net pension liability as a percentage of its covered payroll	<u>170.77%</u>	<u>134.02%</u>	<u>108.49%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>74%</u>	<u>79%</u>	<u>83%</u>
Measurement Date	June 30, 2016	June 30, 2015	June 30, 2014

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

Santa Cruz County Superintendent of Schools  
Schedule of the County Contributions  
Year Ended June 30, 2021

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
<b>CaSTRS</b>				
Contractually required contribution	\$ 1,765,841	\$ 1,515,024	\$ 1,690,102	\$ 1,363,011
Less contributions in relation to the contractually required contribution	<u>1,765,841</u>	<u>1,515,024</u>	<u>1,690,102</u>	<u>1,363,011</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	<u>\$ 10,934,000</u>	<u>\$ 8,859,790</u>	<u>\$ 10,404,233</u>	<u>\$ 9,561,423</u>
Contributions as a percentage of covered payroll	<u>16.15%</u>	<u>17.10%</u>	<u>16.24%</u>	<u>14.43%</u>
<b>CaPERS</b>				
Contractually required contribution	\$ 2,433,293	\$ 1,405,955	\$ 1,996,656	\$ 1,611,481
Less contributions in relation to the contractually required contribution	<u>2,433,293</u>	<u>1,405,955</u>	<u>1,996,656</u>	<u>1,611,481</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	<u>\$ 11,755,039</u>	<u>\$ 7,129,230</u>	<u>\$ 11,072,255</u>	<u>\$ 10,403,962</u>
Contributions as a percentage of covered payroll	<u>20.700%</u>	<u>19.720%</u>	<u>18.030%</u>	<u>15.490%</u>

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

Santa Cruz County Superintendent of Schools  
Schedule of the County Contributions  
Year Ended June 30, 2021

	<u>2017</u>	<u>2016</u>	<u>2015</u>
<b>CalSTRS</b>			
Contractually required contribution	\$ 1,112,652	\$ 918,955	\$ 868,687
Less contributions in relation to the contractually required contribution	<u>1,112,652</u>	<u>918,955</u>	<u>868,687</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	<u>\$ 8,958,810</u>	<u>\$ 8,863,027</u>	<u>\$ 9,494,891</u>
Contributions as a percentage of covered payroll	<u>12.42%</u>	<u>10.73%</u>	<u>9.15%</u>
<b>CalPERS</b>			
Contractually required contribution	\$ 1,343,511	\$ 1,037,482	\$ 1,036,441
Less contributions in relation to the contractually required contribution	<u>1,343,511</u>	<u>1,037,482</u>	<u>1,036,441</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	<u>\$ 9,686,705</u>	<u>\$ 8,789,783</u>	<u>\$ 8,800,872</u>
Contributions as a percentage of covered payroll	<u>13.870%</u>	<u>11.800%</u>	<u>11.780%</u>

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

**Note 1 - Purpose of Schedules**

**Budgetary Comparison Schedules**

The County 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.

At June 30, 2021, the District’s Special Education Pass-Through Fund exceeded the budgeted amount in total as follows:

Fund	Expenditures and Other Uses		
	Budget	Actual	Excess
Special Education Pass-Through Fund	\$ 8,661,956	\$ 8,716,609	\$ (54,653)

**Schedule of Changes in the County’s Net OPEB Liability and Related Ratios**

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

- *Changes in Benefit Terms* – There were no changes in benefit terms since the previous valuation.
- *Changes of Assumptions* – There were no changes in assumptions since the previous valuation.

**Schedule of County’s Contributions for OPEB**

This schedule presents information on the County’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 the County's Proportionate Share of the Net OPEB Liability – MPP Program**

This schedule presents information on the County's proportionate share of the net OPEB Liability – MPP Program and the plans' fiduciary net position. In the future, as data becomes available, ten years of information will be presented.

- *Changes in Benefit Terms* – There were no changes in benefit terms since the previous valuation.
- *Changes of Assumptions* – The plan rate of investment return assumption was changed from 3.50 percent to 2.21 percent since the previous valuation.

**Schedule of the County's Proportionate Share of the Net Pension Liability**

This schedule presents information on the County'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 County. In the future, as data becomes available, ten years of information will be presented.

- *Changes in Benefit Terms* – There were no changes in benefit terms since the previous valuations for both CalSTRS and CalPERS.
- *Changes of Assumptions* – There were no changes in economic assumptions for either the CalSTRS or CalPERS plans from the previous valuations.

**Schedule of County Contributions**

This schedule presents information on the County'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  
June 30, 2021

# Santa Cruz County Superintendent of Schools

Santa Cruz County Superintendent of Schools  
Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2021

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal Financial Assistance Listing/Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures	Amounts Passed 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	14329	\$ 249,787	\$ -
Title I, Part D, Subpart 2, Local Delinquent Programs	84.010	14357	169,360	-
Title I, Comprehensive Support for Improvement for LEAs	84.010	15438	145,753	-
Title I, Comprehensive Support for Improvement for COEs	84.010	15439	70,028	-
Subtotal Title I (84.010)			<u>634,928</u>	<u>-</u>
COVID-19 Elementary and Secondary School Emergency Relief Fund (ESSER)				
COVID-19 Governor's Emergency Education Relief Fund (GEER)	84.425D	15536	146,525	-
	84.425C	15517	97,982	-
Subtotal (84.425)			<u>244,507</u>	<u>-</u>
Title II, Supporting Effective Instruction State Grants - Teacher Quality and Academic Enrichment Program				
	84.367	14341	11,553	-
	84.424	15396	13,245	-
Title X McKinney-Vento Homeless Children Assistance Grants				
	84.196	14332	113,468	-
Special Education IDEA Cluster				
IDEA Basic Local Assistance Entitlement	84.027	13379	3,810,715	3,387,120
IDEA Mental Health Services, Part B	84.027A	15197	260,667	192,192
Subtotal (84.027)			<u>4,071,382</u>	<u>3,579,312</u>
IDEA Preschool Grants, Part B, Section 619				
IDEA Preschool Staff Development	84.173	13430	102,610	102,610
	84.173A	13431	90	90
Subtotal (84.173)			<u>102,700</u>	<u>102,700</u>
Subtotal Special Education Cluster			<u>4,174,082</u>	<u>3,682,012</u>

[1] Pass-Through Entity Identifying Number not available  
See Notes to Supplementary Information

Santa Cruz County Superintendent of Schools

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2021

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal Financial Assistance Listing/Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures	Amounts Passed Through to Subrecipients
U.S. Department of Education				
Passed through California Department of Education (CDE):				
Special Education - Grants for Infants and Families				
IDEA Early Intervention Grants	84.181	23761	102,304	-
Adult Education - Basic Grants to States: Basic & ESL	84.002	14508	97,817	-
Adult Education - Basic Grants to States: Secondary Education	84.002	13978	109,775	-
Adult Education - Basic Grants to States: Institutionalized Adults	84.002	13971	33,424	-
Subtotal (84.002)			<u>241,016</u>	<u>-</u>
Passed through California Department of Rehabilitation (DOR):				
State Vocational Rehabilitation Services Program	84.126A	[1]	136,550	-
Total U.S Department of Education			<u>5,671,653</u>	<u>3,682,012</u>
U.S. Department of the Treasury				
Passed Through California Department of Education				
COVID-19, Coronavirus Relief Fund (CRF): Learning Loss				
Mitigation	21.019	25516	1,159,693	-
Total U.S. Department of the Treasury			<u>1,159,693</u>	<u>-</u>
U.S. Department of Health and Human Services				
Passed through California Department of Education:				
CCDF Cluster				
Child Care and Development Block Grant				
- Local Planning Council	93.575	13946	53,117	-
Child Care and Development Block Grant - CCIP and CCRP	93.575	13942	136,208	-
Subtotal CCDF Cluster			<u>189,325</u>	<u>-</u>

[1] Pass-Through Entity Identifying Number not available

See Notes to Supplementary Information



Santa Cruz County Superintendent of Schools  
Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2021

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal Financial Assistance Listing/Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures	Amounts Passed Through to Subrecipients
U.S. Department of Health and Human Services Passed through Stanislaus County Office of Education: Head Start (Migrant) Cluster	93.600	[1]	1,778,236	-
Total U.S Department of Health and Human Services			1,967,561	-
U.S. Department of Labor Passed through California Department of Education (CDE): WIOA Cluster WIA/WIOA Youth Activities	17.259	10055	483,080	-
Total U.S Department of Labor			483,080	-
U.S. Department of Commerce NOAA California Bay Watershed Education and Training Program	11.429	[1]	25,590	-
Total U.S Department of Commerce			25,590	-
U.S. Department of Agriculture Passed through California Department of Education (CDE): Child Nutrition Cluster National School Lunch	10.553	13390	(659)	-
Total U.S Department of Agriculture			(659)	-
Total Federal Programs			\$ 9,306,918	\$ 3,682,012

[1] Pass-Through Entity Identifying Number not available

**Organization**

Santa Cruz County is comprised of ten school districts and the County Office of Education. Within Santa Cruz County, there are thirty-five elementary schools, thirteen middle schools, nine special education sites (run by the County, PVUSD has special education classrooms at all three school levels), eight high schools, two continuation schools, one community school, nineteen Alternative Education sites and fourteen charter schools. The County 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
Sue Roth	President	2022
Rose Filicetti	Vice President	2024
Abel Sanchez	Member	2022
Bruce Van Allen	Member	2022
Sandra Nichols	Member	2024
Alyssa Alto	Member	2024
Ed Acosta	Member	2024

**Administration**

Name	Title
Faris Sabbah	Superintendent
Liann Reyes	Deputy Superintendent, Business Services
Debi Bodenheimer	Associate Superintendent, Educational Services
Vacant	Deputy Superintendent of Schools

**Santa Cruz County Superintendent of Schools**  
 Reconciliation of Annual Financial and Budget Report with Audited Financial Statements  
 Year Ended June 30, 2021

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Summarized below are the fund balance reconciliations between the Unaudited Actual Financial Report and the audited financial statements.

	<u>County School Service Fund*</u>
Fund Balance	
Balance, June 30, 2021, Unaudited Actuals	\$ 31,809,617
Increase in	
Cash in banks	<u>5,892</u>
Balance, June 30, 2021, Audited Financial Statements	<u><u>\$ 31,815,509</u></u>

\* Does not reflect the impact of GASB 54 consolidation of Adult Education Fund, Deferred Maintenance Fund and Special Reserve Fund for Other Than Capital Outlay Projects

Santa Cruz County Superintendent of Schools

Schedule of Financial Trends and Analysis

Year Ended June 30, 2021

	(Budget) 2022 <sup>1</sup>	2021	2020	2019
County School Service Fund <sup>3</sup>				
Revenues	\$ 52,384,463	\$ 52,673,801	\$ 51,673,648	\$ 59,470,512
Total Revenues and Other Sources	<u>52,384,463</u>	<u>52,673,801</u>	<u>51,673,648</u>	<u>59,470,512</u>
Expenditures	55,929,282	45,792,535	48,114,007	56,713,220
Other uses and transfers out	<u>19,000</u>	<u>5,855,312</u>	<u>34,666</u>	<u>30,019</u>
Total Expenditures and Other Uses	<u>55,948,282</u>	<u>51,647,847</u>	<u>48,148,673</u>	<u>56,743,239</u>
Increase/(Decrease) in Fund Balance	<u>(3,563,819)</u>	<u>1,025,954</u>	<u>3,524,975</u>	<u>2,727,273</u>
Ending Fund Balance	<u>\$ 31,963,306</u>	<u>\$ 35,527,125</u>	<u>\$ 34,501,171</u>	<u>\$ 30,976,196</u>
Available Reserves <sup>2</sup>	<u>\$ 2,672,664</u>	<u>\$ 2,647,664</u>	<u>\$ 5,380,124</u>	<u>\$ 2,570,903</u>
Available Reserves as a Percentage of Total Outgo <sup>4</sup>	<u>4.78%</u>	<u>5.13%</u>	<u>11.17%</u>	<u>4.53%</u>
Long-Term Liabilities	<u>Not Available</u>	<u>\$ 53,759,027</u>	<u>\$ 50,603,960</u>	<u>\$ 46,711,522</u>
Average Daily Attendance at P-2 <sup>3</sup>	<u>1,074</u>	<u>1,005</u>	<u>1,005</u>	<u>861</u>

The County School Service Fund balance has increased by \$4,550,929 over the past two years. The fiscal year 2021-2022 budget projects a decrease of \$3,563,819 (10.03 percent). For a county office of education this size, the State recommends available reserves of at least three percent of total General Fund expenditures, transfers out, and other uses (total outgo).

The County has incurred operating surpluses in each of the past three years but anticipates incurring an operating deficit during the 2021-2022 fiscal year. Total long-term liabilities have increased by \$7,047,505 over the past two years, primarily due to increases in the County's net pension liability and other postemployment benefits obligations.

Average daily attendance has increased by 144 over the past two years. Additional increase of 69 ADA is anticipated during fiscal year 2021-2022.

<sup>1</sup> Budget 2022 is included for analytical purposes only and has not been subjected to audit.

<sup>2</sup> Available reserves consist of all unassigned fund balances including all amounts reserved for economic uncertainties contained with the County School Service Fund and the Special Reserve Fund for Other Than Capital Outlay Projects.

<sup>3</sup> County School Service Fund amounts include activity related to the consolidation of the Adult Education Fund, the Deferred Maintenance Fund, and the Special Reserve Fund for Other than Capital Outlay as required by GASB Statement No. 54.

<sup>4</sup> On behalf payments of \$1,299,505 and \$2,212,025 relating to Senate Bill 90 are included in the calculation of available reserves for the fiscal years ending June 30, 2020 and June 30, 2019.

Santa Cruz County Superintendent of Schools

Schedule of Charter Schools

Year Ended June 30, 2021

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Name of Charter School	Charter Number	Included in Audit Report
Pacific Collegiate School	0210	No
Santa Cruz County Career Advancement Charter School	1904	Yes

Santa Cruz County Superintendent of Schools  
Combining Balance Sheet – Non-Major Governmental Funds  
June 30, 2021

	Charter School Fund	Child Development Fund	Cafeteria Fund	County School Facilities Fund	Total Non-Major Governmental Funds
<b>Assets</b>					
Deposits and investments	\$ 594,295	\$ 77,261	\$ 3,319	\$ 1,119,027	\$ 1,793,902
Receivables	623,409	458,496	-	-	1,081,905
Due from other funds	167,631	-	-	-	167,631
<b>Total assets</b>	<b>\$ 1,385,335</b>	<b>\$ 535,757</b>	<b>\$ 3,319</b>	<b>\$ 1,119,027</b>	<b>\$ 3,043,438</b>
<b>Liabilities and Fund Balances</b>					
<b>Liabilities</b>					
Accounts payable	\$ 661,405	\$ 12,078	\$ -	\$ 1,119,027	\$ 1,792,510
Due to other funds	301,534	397,739	3,309	-	702,582
Unearned revenue	-	68,443	-	-	68,443
<b>Total liabilities</b>	<b>962,939</b>	<b>478,260</b>	<b>3,309</b>	<b>1,119,027</b>	<b>2,563,535</b>
<b>Fund Balances</b>					
Restricted	83,130	56,646	10	-	139,786
Assigned	339,266	851	-	-	340,117
<b>Total fund balances</b>	<b>422,396</b>	<b>57,497</b>	<b>10</b>	<b>-</b>	<b>479,903</b>
<b>Total liabilities and fund balances</b>	<b>\$ 1,385,335</b>	<b>\$ 535,757</b>	<b>\$ 3,319</b>	<b>\$ 1,119,027</b>	<b>\$ 3,043,438</b>

Santa Cruz County Superintendent of Schools

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Non-Major Governmental Funds  
Year Ended June 30, 2021

	Charter School Fund	Child Development Fund	Cafeteria Fund	County School Facilities Fund	Total Non-Major Governmental Funds
<b>Revenues</b>					
Local Control Funding Formula	\$ 1,179,786	\$ -	\$ -	\$ -	\$ 1,179,786
Federal sources	148,215	189,325	(659)	-	336,881
Other State sources	231,705	1,008,852	18	-	1,240,575
Other local sources	269,659	181,622	45	-	451,326
Total revenues	<u>1,829,365</u>	<u>1,379,799</u>	<u>(596)</u>	<u>-</u>	<u>3,208,568</u>
<b>Expenditures</b>					
Current					
Instruction	1,115,194	-	-	-	1,115,194
Instruction-related activities					
Instructional library, media, and technology	3,258	-	-	-	3,258
School site administration	413,335	-	-	-	413,335
Pupil services					
Food services	-	-	26,085	-	26,085
All other pupil services	106,027	-	-	-	106,027
Administration					
All other administration	11,357	98,864	1,304	-	111,525
Community services	-	1,289,846	-	-	1,289,846
Total expenditures	<u>1,649,171</u>	<u>1,388,710</u>	<u>27,389</u>	<u>-</u>	<u>3,065,270</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>180,194</u>	<u>(8,911)</u>	<u>(27,985)</u>	<u>-</u>	<u>143,298</u>
<b>Other Financing Sources</b>					
Transfers in	591,215	83	27,995	609,161	1,228,454
<b>Net Change in Fund Balances</b>	771,409	(8,828)	10	609,161	1,371,752
Fund Balance - Beginning	(349,013)	66,325	-	(609,161)	(891,849)
Fund Balance - Ending	<u>\$ 422,396</u>	<u>\$ 57,497</u>	<u>\$ 10</u>	<u>\$ -</u>	<u>\$ 479,903</u>

See Notes to Supplementary Information

**Note 1 - Purpose of Schedules**

**Schedule of Expenditures of Federal Awards (SEFA)**

Basis of Presentation

The accompanying schedule of expenditures of federal awards (the schedule) includes the federal award activity of the County under programs of the federal government for the year ended June 30, 2021. The information 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). Because the schedule presents only a selected portion of the operations of the County, it is not intended to and does not present the financial position, and changes in net position of County.

Summary of Significant Policies

Expenditures reported in the schedule are reported on the modified accrual basis of accounting, except for subrecipient expenditures, which are reported on the cash basis. When applicable, such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Indirect Cost Rate

The County has not elected to use the ten percent de minimis cost rate.

**Local Education Agency Organization Structure**

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

**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 County's financial trends by displaying past years' data along with current year budget information. These financial trend disclosures are used to evaluate the County'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 Superintendent of Schools and displays information for each charter school on whether or not the charter school is included in the County's 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  
June 30, 2021

# Santa Cruz County Superintendent of Schools



**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***

To the Board of Directors  
Santa Cruz County Superintendent of Schools  
Santa Cruz, California

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Santa Cruz County Superintendent of Schools, as of and for the year ended June 30, 2021, 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 February 28, 2022.

**Emphasis of Matter – Change in Accounting Principle**

As discussed in Notes 1 and 16 to the financial statements, Santa Cruz County Superintendent of Schools has adopted the provisions of GASB Statement No. 84, *Fiduciary Activities*, which has resulted in a restatement of the net position and fund balance as of July 1, 2020. Our opinions are not modified with respect to this matter.

**Restatement of Prior Year Financial Statement**

As discussed in Note 16 to the financial statements, Santa Cruz County Superintendent of Schools restated their governmental activities, beginning net position as of July 1, 2020. Our opinions are 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) as a basis for designing 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 entity'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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Eide Sully LLP". The signature is written in a cursive, flowing style.

Fresno, California  
February 28, 2022



## **Independent Auditor's Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance Required by the Uniform Guidance**

To the Board of Directors  
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' 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, 2021. 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 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, 2021.

### **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 the 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.



Fresno, California  
February 28, 2022



## Independent Auditor's Report on State Compliance

To the Board of Directors  
Santa Cruz County Superintendent of Schools  
Santa Cruz, California

### **Report on State Compliance**

We have audited Santa Cruz County Superintendent of Schools' (the County) compliance with the types of compliance requirements described in the *2020-2021 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, applicable to the state laws and regulations listed in the table below for the year ended June 30, 2021.

### **Management's Responsibility**

Management is responsible for compliance with the state laws and regulations as identified in the table below.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on the County's compliance with state laws and regulations based on our audit of the types of compliance requirements referred to below. 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 audit requirements of the *2020-2021 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements listed below has occurred. An audit includes examining, on a test basis, evidence about the County's 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 state compliance. However, our audit does not provide a legal determination of the County's compliance.

**Compliance Requirements Tested**

In connection with the audit referred to above, we selected and tested transactions and records to determine the County’s compliance with laws and regulations applicable to the following items:

	<u>Procedures Performed</u>
<b>LOCAL EDUCATION AGENCIES OTHER THAN CHARTER SCHOOLS</b>	
Attendance and Distance Learning	Yes
Teacher Certification and Misassignments	Yes
Kindergarten Continuance	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
K-3 Grade Span Adjustment	No (see below)
Apprenticeship: Related and Supplemental Instruction	No (see below)
Comprehensive School Safety Plan	Yes
District of Choice	No (see below)
<b>SCHOOL DISTRICTS, COUNTY OFFICES OF EDUCATION, AND CHARTER SCHOOLS</b>	
California Clean Energy Jobs Act	Yes
Proper Expenditure of Education Protection Account Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Independent Study - Course Based	No (see below)
<b>CHARTER SCHOOLS</b>	
Attendance	Yes
Mode of Instruction	Yes
Nonclassroom-Based Instruction/Independent Study	Yes
Determination of Funding for Nonclassroom-Based Instruction	Yes
Charter School Facility Grant Program	No (see below)

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

Instructional Time does not apply to the County; therefore, we did not perform procedures related to Instructional Time.

Ratio of Administrative Employees to Teachers does not apply to the County; therefore, we did not perform procedures related to Ratio of Administrative Employees to Teachers.

Classroom Teachers Salaries does not apply to the County; therefore, we did not perform procedures related to Classroom Teacher Salaries.



The County 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.

K-3 Grade Span Adjustment does not apply to the County; therefore, we did not perform procedures related to K-3 Grade Span Adjustment.

We did not perform Apprenticeship: Related and Supplemental Instruction procedures because the program is not offered by the County.

We did not perform County of Choice procedures because the program is not offered by the County.

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

Additionally, we did not perform procedures for the Charter School Facility Grant Program because the County did not receive funding for this program.

***Unmodified Opinion***

In our opinion, Santa Cruz County Superintendent of Schools complied, in all material respects, with the laws and regulations of the state programs referred to above for the year ended June 30, 2021.

The purpose of this report on state compliance is solely to describe the results of our testing based on the requirements of the *2020-2021 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Fresno, California  
February 28, 2022



Schedule of Findings and Questioned Costs  
June 30, 2021

# Santa Cruz County Superintendent of Schools

**Financial Statements**

Type of auditor's report issued	Unmodified
Internal control over financial reporting	
Material weaknesses identified	No
Significant deficiencies identified not considered to be material weaknesses	None Reported
Noncompliance material to financial statements noted?	No

**Federal Awards**

Internal control over major program	
Material weaknesses identified	No
Significant deficiencies identified not considered to be material weaknesses	None Reported
Type of auditor's report issued on compliance for major programs	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance 2 CFR 200.516(a)	No

**Identification of major programs**

Name of Federal Program or Cluster	Federal Financial Assistance Listing/ Federal CFDA Number
Head Start (Migrant) Cluster	93.600
COVID-19, Coronavirus Relief Fund (CRF): Learning Loss Mitigation	21.019
Special Education Cluster	84.027, 84.027A, 84.173, 84.173A
Dollar threshold used to distinguish between type A and type B programs	\$ 750,000
Auditee qualified as low-risk auditee?	No

**State Compliance**

Type of auditor's report issued on compliance for programs	Unmodified
--	------------

None reported.

None reported.

None reported.

Except as specified in previous sections of this report, summarized below is the current status of all audit findings reported in the prior year's Schedule of Findings and Questioned Costs.

**Financial Statement Findings**

**2020-001      30000**

**Restatement and Material Audit Adjustments**

**Criteria**

Management is responsible for the design, implementation, and maintenance of internal controls to ensure the financial statements are free from material misstatement, whether due to error or fraud. Such internal controls should also include consideration for the proper presentation of fund types as defined by Governmental Accounting Standards Board (GASB) Codification Section 1300 *Fund Accounting*.

**Condition**

The prior year financial statements contained certain errors that were discovered during the current year. The prior year financial statements incorrectly included an agent multi-employer defined benefit other postemployment benefits plan as a trust fund. Accordingly, the beginning net position of the fiduciary fund financial statements has been restated to remove the trust fund. Additionally, entries were proposed and recorded by management to correct the due to/from and transfers in/out for certain aggregate remaining funds due to the fact that these transactions had not yet occurred as of fiscal year-end. Additionally, we were requested to draft the financial statements and accompanying notes to the financial statements.

**Effect**

Material audit adjustments were necessary to present the financial statements in accordance with Generally Accepted Accounting Principles.

**Cause**

The County's internal control system designed to provide for the preparation and fair presentation of the financial statements was not operating at an optimal level. During the implementation of GASB Statement No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB)*, in a prior year, the OPEB plan was incorrectly identified as a single employer plan rather than an agent-multi employer plan. Additionally, audit adjustments are necessary in order to present the financial statements fairly, in all material respect.

**Recommendation**

We acknowledge that the County corrected the errors and these corrections are reflected in the report. We recommend management improve controls over the financial statement preparation and reconciliation process to ensure transactions are properly recorded, and that all activities presented are correct.

**Repeat Finding (Yes or No)**

No.

**Current Status**

Implemented.

**Federal Awards Findings and Questioned Costs**

**2020-002      50000**

Federal Program Affected:

Program Name: Special Education Cluster

Agency Name: U.S. Department of Education

Passed Through Agency: California Department of Education

CFDA: 84.027, 84.027A, 84.173; 84.173A

**Criteria or Specific Requirements**

Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance) requires pass-through entities to evaluate each subrecipient's risk of noncompliance with Federal statutes, regulations, and the terms and conditions of the subaward for purposes of determining the appropriate extent of subrecipient monitoring required.

**Condition**

Santa Cruz County Office of Education (the County) completed aspects of subrecipient monitoring for its subrecipients; however, we noted (1) formal subrecipient monitoring policies had not been established and (2) no documentation evaluating each subrecipient's risk of noncompliance with the program requirements.

**Questioned Costs**

None.



**Context/Sampling**

A nonstatistical sample of 2 of 12 subawards was selected for testing.

**Effect**

Noncompliance at the subrecipient level may occur and not be detected by the County.

**Cause**

The County did not have adequate internal controls to ensure compliance with subrecipient monitoring requirements.

**Repeat Finding (Yes or No)**

No

**Recommendation**

We recommend the County enhance internal controls to ensure compliance with subrecipient monitoring requirements.

**Current Status**

Implemented.