



Financial Statements  
June 30, 2022

# Santa Cruz County Superintendent of Schools

# Santa Cruz County Superintendent of Schools

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June 30, 2022

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## Independent Auditor's Report

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

### Report on the Audit of the Financial Statements

#### ***Opinions***

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Santa Cruz County Superintendent of Schools as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the County's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Santa Cruz County Superintendent of Schools, as of June 30, 2022, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

#### ***Basis for Opinions***

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Santa Cruz County Superintendent of Schools, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

#### ***Adoption of New Accounting Standard***

As discussed in Notes 1 and 15 to the financial statements, the Santa Cruz County Superintendent of Schools has adopted the provisions of Government Accounting Standards Board (GASB) Statement No. 87, *Leases*, for the year ended June 30, 2022. Accordingly, a restatement has been made to the governmental activities net position as of July 1, 2021, to restate beginning net position. Our opinions are not modified with respect to this matter.

### ***Responsibilities of Management for the Financial Statements***

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

### ***Auditor's Responsibilities for the Audit of the Financial Statements***

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

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Santa Cruz County Superintendent of Schools' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Santa Cruz County Superintendent of Schools' ability to continue as a going concern for a reasonable period of time.

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

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, 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 the County's contributions, be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### ***Supplementary Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Santa Cruz County Superintendent of Schools' basic financial statements. The schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, combining non-major governmental fund financial statements, 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 basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The 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 schedule of expenditures of federal awards, combining non-major governmental fund financial statements, and 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 our report dated February 17, 2023 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, and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Santa Cruz County Superintendent of 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.

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

Fresno, California  
February 17, 2023



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## 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, 2022 with comparative information for the year ended June 30, 2021. Please read it in conjunction with the County's financial statements, which immediately follow this section.

## Financial Highlights

- Total net position was \$22,874,972 on June 20, 2022.
- Overall revenues for the County were \$67,696,799 while expenditures were \$61,679,559.
- The total long-term obligations other than OPEB and pension were \$7,975,512, which primarily includes \$7,409,779 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 \$22,874,972 for the fiscal year ended June 30, 2022. Of this amount, \$863,081 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	
	2022	2021 as Restated
Assets		
Current and other assets	\$ 62,179,901	\$ 52,783,765
Capital assets	23,214,818	23,698,300
Right to use leased assets	53,873	168,970
Total assets	85,448,592	76,651,035
Deferred outflows of resources	11,264,584	12,908,542
Liabilities		
Current liabilities	21,029,633	16,186,909
Long-term liabilities	35,111,564	53,923,289
Total liabilities	56,141,197	70,110,198
Deferred inflows of resources	17,697,007	2,591,647
Net Position		
Net investment in capital assets	15,807,036	15,912,816
Restricted	6,204,855	3,418,149
Unrestricted (deficit)	863,081	(2,473,233)
Total net position	\$ 22,874,972	\$ 16,857,732

The \$863,081 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 – increased by 134.9% \$3,336,314.

### 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	
	2022	2021*
Revenues		
Program revenues		
Charges for services and sales	\$ 6,196,843	\$ 4,310,794
Operating grants and contributions	25,203,529	20,850,291
General revenues		
Federal and State aid not restricted	20,443,138	22,572,535
Property taxes and other taxes	15,180,577	14,599,216
Other general revenues	668,143	2,552,230
Total revenues	67,696,799	64,885,066
Expenses		
Instruction-related	27,958,577	32,714,051
Pupil services	4,773,883	5,325,413
Administration	6,889,171	8,417,069
Plant services	3,390,431	2,850,310
All other services	18,667,497	16,731,668
Total expenses	61,679,559	66,038,511
Change in net position	\$ 6,017,240	\$ (1,153,445)

\* The revenues and expenses for fiscal year 2021 were not restated to show the effects of GASB Statement No. 87 for comparative purposes.

### Governmental Activities

As reported in the Statement of Activities, the cost of all of our governmental activities this year was \$61,679,559. However, the amount that our taxpayers ultimately financed for these activities through local taxes was only \$15,180,577 because the cost was paid by those who benefited from the programs of \$6,196,843 or by other governments and organizations who subsidized certain programs with grants and contributions of \$25,203,529. We paid for the remaining "public benefit" portion of our governmental activities with \$21,111,281 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	
	2022	2021*	2022	2021*
Instruction-related	\$ 27,958,577	\$ 32,714,051	\$ (16,754,502)	\$ (20,813,044)
Pupil services	4,773,883	5,325,413	(1,559,408)	(2,816,032)
Administration	6,889,171	8,417,069	(3,725,236)	(7,285,138)
Plant services	3,390,431	2,850,310	(2,064,017)	(2,575,079)
All other services	18,667,497	16,731,668	(6,171,455)	(7,388,133)
<b>Total</b>	<b>\$ 61,679,559</b>	<b>\$ 66,038,511</b>	<b>\$ (30,274,618)</b>	<b>\$ (40,877,426)</b>

\* The total and net cost of services for fiscal year 2021 were not restated to show the effects of GASB Statement No. 87 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 \$38,438,464.

**Table 4**

Governmental Fund	Balances and Activity			
	July 1, 2021	Revenues and Other Financing Sources	Expenditures and Other Financing Uses	June 30, 2022
General	\$ 35,527,125	\$ 54,094,876	\$ 52,422,354	\$ 37,199,647
Charter Schools	422,396	1,966,876	1,585,801	803,471
Special Education Pass-Through	589,828	11,276,066	11,558,661	307,233
Child Development	57,497	1,371,127	1,328,418	100,206
County School Facilities	-	(31,610)	-	(31,610)
Total	<u>\$ 36,596,856</u>	<u>\$ 68,830,509</u>	<u>\$ 66,988,901</u>	<u>\$ 38,438,464</u>

### 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 October 20, 2022. (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, 2022, the County had invested \$23,268,691 (net of depreciation and amortization expenses) in a broad range of capital assets, including land, buildings, and furniture and equipment (see Table 5 below). This year's additions included a security doors, network firewall and CTE building renovations. More detailed information about the County's capital assets is presented in the notes to the financial statements.

**Table 5**

	Governmental Activities	
	2022	2021 as Restated
Land and construction in progress	\$ 4,026,778	\$ 4,060,543
Buildings and improvements	18,299,318	19,385,819
Equipment	888,722	251,938
Leased assets	53,873	168,970
Total	<u>\$ 23,268,691</u>	<u>\$ 23,867,270</u>

### Long-Term Obligations

At year end, the County had \$35,111,564 in long-term obligations, which consisted of net pension liability, net OPEB liability (MPP), compensated absences, leases 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	
	2022	2021 as Restated
Long-Term Liabilities		
Certificates of participation	\$ 7,409,779	\$ 7,790,192
Leases	51,876	164,262
Compensated absences	513,857	608,630
Net OPEB liability (MPP)	127,613	756,366
Aggregate net pension liability	27,008,439	44,603,839
Total	<u>\$ 35,111,564</u>	<u>\$ 53,923,289</u>

**Significant Accomplishments of Fiscal Year 2021-2022 Are Noted Below:**

The Santa Cruz County Office of Education (the County) continues to provide many supports to districts that includes guidance for new Federal and State legislation, as well as on-going and one-time funding provided by the Federal and State government.

The Santa Cruz County Office of Education (the COE) continues to collaborate closely with districts and other partners to promote school safety, student wellness, and equitable achievement.

The COE operated a robust COVID-19 surveillance testing and vaccination program available to all students, staff, and family members countywide at no cost through a partnership with a private provider. In the 2021-2022 fiscal year, this program administered more than 531,000 tests and vaccinated more than 18,700 students, staff, and community members vaccinated against COVID-19.

Throughout the year the COE led a Racial Equity and Justice Initiative to support transformative work across schools countywide through an event series, a Community of Practice for educators and students, and an online resource portal. The COE also focused resources on wellness and social-emotional learning, launching the Companion Project, a team of providers offering targeted support, referrals and connections to students behavioral health and substance use services, and facilitating an SEL (Social Emotional Learning) Community of Practice. In addition, the COE continued expanding Career and Adult Learning programs and student leadership and engagement opportunities, launching new courses in computer science and building trades as well as facilitating six student-led leadership groups in 2021-2022 that empowered students to engage in art, host events, and practice public speaking and advocacy.

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

It has been nine 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. Prior to the 2022-23 budget, the County was not expected to receive additional funding for several more years. However, with the Cost of Living Adjustment (COLA) of 6.56% and additional augmentation to the LCFF of 6.70% (separate and distinct from the statutory COLA), the County is projected to begin receiving additional COLA as early as the 2023-24 fiscal year. The County will, however, continue to make strategic changes to programs and pursue grant funding in order to be able to continue to offer 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, due to declining ADA, the County did not receive the same amount of State funding for its programs as in prior years. There are continued concerns of declining State revenues that are being impacted by declining enrollment and ADA within the county. At 17.40%, Santa Cruz County is listed as third for top declining enrollment counties between 2021 and 2031.

The COVID-19 Pandemic continues to impact education as attendance is still lower than prior pre-pandemic years. Many students and staff continue to try to balance academic recovery and the social emotional fallout resulting from the pandemic. The County Office of Education is partnering with outside agencies to help provide the necessary supports to assist with these challenges.

**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, 2022

	Governmental Activities
Assets	
Deposits and investments	\$ 46,858,219
Receivables	12,609,878
Other current assets - other postemployment benefits plan asset	2,711,804
Capital assets not depreciated	4,026,778
Capital assets, net of accumulated depreciation	19,188,040
Right-to-use leased assets, net of accumulated amortization	<u>53,873</u>
Total assets	<u>85,448,592</u>
Deferred Outflows of Resources	
Deferred outflows of resources related to OPEB	2,022,224
Deferred outflows of resources related to pensions	<u>9,242,360</u>
Total deferred outflows of resources	<u>11,264,584</u>
Liabilities	
Accounts payable	18,618,175
Unearned revenue	2,411,458
Long-term liabilities	
Long-term liabilities other than OPEB and pensions due within one year	444,463
Long-term liabilities other than OPEB and pensions due in more than one year	7,531,049
Net other postemployment benefits liability (OPEB) - MPP	127,613
Aggregate net pension liabilities	<u>27,008,439</u>
Total liabilities	<u>56,141,197</u>
Deferred Inflows of Resources	
Deferred inflows of resources related to OPEB	1,476,467
Deferred inflows of resources related to pensions	<u>16,220,540</u>
Total deferred inflows of resources	<u>17,697,007</u>
Net Position	
Net investment in capital assets	15,807,036
Restricted for	
Educational programs	6,145,338
Child nutrition	59,517
Unrestricted	<u>863,081</u>
Total net position	<u><u>\$ 22,874,972</u></u>

# Santa Cruz County Superintendent of Schools

Statement of Activities  
Year Ended June 30, 2022

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Position
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities					
Instruction	\$ 16,755,242	\$ 488,551	\$ 5,836,478	\$ 4,569	\$ (10,425,644)
Instruction-related activities					
Supervision of instruction	6,975,830	2,295,506	1,389,059	-	(3,291,265)
Instructional library, media, and technology	713,458	933	143,565	-	(568,960)
School site administration	3,514,047	65,378	980,036	-	(2,468,633)
Pupil services					
Food services	93,667	-	139,871	-	46,204
All other pupil services	4,680,216	756,295	2,318,309	-	(1,605,612)
Administration					
Data processing	1,500,798	35	(20,306)	-	(1,521,069)
All other administration	5,388,373	299,849	2,884,357	-	(2,204,167)
Plant services	3,390,431	511,883	814,531	-	(2,064,017)
Ancillary services	18,037	10,066	2,551	-	(5,420)
Community services	3,373,803	1,300,830	1,800,984	-	(271,989)
Interest on long-term liabilities	244,343	-	-	-	(244,343)
Other outgo	15,031,314	467,517	8,914,094	-	(5,649,703)
Total governmental activities	<u>\$ 61,679,559</u>	<u>\$ 6,196,843</u>	<u>\$ 25,203,529</u>	<u>\$ 4,569</u>	<u>(30,274,618)</u>
General Revenues and Subventions					
Property taxes, levied for general purposes					14,291,625
Taxes levied for other specific purposes					888,952
Federal and State aid not restricted to specific purposes					20,443,138
Interest, investment earnings and fair value adjustments					(1,183,276)
Interagency revenues					813
Miscellaneous and unspent State entitlements revenues					1,850,606
Subtotal, general revenues and subventions					<u>36,291,858</u>
Change in Net Position					6,017,240
Net Position - Beginning, as Restated					<u>16,857,732</u>
Net Position - Ending					<u>\$ 22,874,972</u>

# Santa Cruz County Superintendent of Schools

## Balance Sheet – Governmental Funds

June 30, 2022

	County School Service Fund	Special Education Pass-Through Fund	Non-Major Governmental Funds	Total Governmental Funds
<b>Assets</b>				
Deposits and investments	\$ 36,200,593	\$ 8,498,673	\$ 2,158,953	\$ 46,858,219
Receivables	7,629,430	4,399,281	581,167	12,609,878
Due from other funds	397,791	-	-	397,791
<b>Total assets</b>	<b>\$ 44,227,814</b>	<b>\$ 12,897,954</b>	<b>\$ 2,740,120</b>	<b>\$ 59,865,888</b>
<b>Liabilities and Fund Balances</b>				
<b>Liabilities</b>				
Accounts payable	\$ 4,722,163	\$ 12,507,905	\$ 1,388,107	\$ 18,618,175
Due to other funds	-	82,816	314,975	397,791
Unearned revenue	2,306,004	-	105,454	2,411,458
<b>Total liabilities</b>	<b>7,028,167</b>	<b>12,590,721</b>	<b>1,808,536</b>	<b>21,427,424</b>
<b>Fund Balances</b>				
Restricted	5,649,396	307,233	248,226	6,204,855
Committed	2,212,012	-	-	2,212,012
Assigned	26,771,457	-	714,968	27,486,425
Unassigned	2,566,782	-	(31,610)	2,535,172
<b>Total fund balances</b>	<b>37,199,647</b>	<b>307,233</b>	<b>931,584</b>	<b>38,438,464</b>
<b>Total liabilities and fund balances</b>	<b>\$ 44,227,814</b>	<b>\$ 12,897,954</b>	<b>\$ 2,740,120</b>	<b>\$ 59,865,888</b>

Santa Cruz County Superintendent of Schools  
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position  
June 30, 2022

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Total Fund Balance - Governmental Funds		\$ 38,438,464
Amounts Reported for Governmental Activities in the Statement of Net Position are Different Because		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.		
The cost of capital assets is	\$ 37,048,822	
Accumulated depreciation is	<u>(13,834,004)</u>	
Net capital assets		23,214,818
Right-to-use leased assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.		
The cost of right-to-use leased assets is	286,522	
Accumulated amortization is	<u>(232,649)</u>	
Net right-to-use leased assets		53,873
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		
Other postemployment benefits (OPEB)	2,022,224	
Net pension liability	<u>9,242,360</u>	
Total deferred outflows of resources to pensions		11,264,584
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		
Other postemployment benefits (OPEB)	(1,476,467)	
Net pension liability	<u>(16,220,540)</u>	
Total deferred inflows of resources to pensions		(17,697,007)
Net pension liability is not due and payable in the current period, and is not reported as a liability in the funds.		(27,008,439)
The County's OPEB net plan asset (liability) is not due and payable in the current period, and is not reported as a liability in the funds.		2,584,191
Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.		
Long-term liabilities at year-end consist of		
Certificates of participation	(7,409,779)	
Leases	(51,876)	
Compensated absences (vacations)	<u>(513,857)</u>	
Total long-term liabilities		<u>(7,975,512)</u>
Total net position - governmental activities		<u><u>\$ 22,874,972</u></u>

Santa Cruz County Superintendent of Schools  
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds  
Year Ended June 30, 2022

	County School Service Fund	Special Education Pass-Through Fund	Non-Major Governmental Funds	Total Governmental Funds
Revenues				
Local control funding formula	\$ 29,633,183	\$ -	\$ 1,302,277	\$ 30,935,460
Federal sources	5,022,988	3,821,197	770,374	9,614,559
Other State sources	9,788,833	7,721,987	915,128	18,425,948
Other local sources	9,649,872	(267,118)	456,788	9,839,542
Total revenues	54,094,876	11,276,066	3,444,567	68,815,509
Expenditures				
Current				
Instruction	17,403,333	-	1,016,734	18,420,067
Instruction-related activities				
Supervision of instruction	7,654,032	-	262,154	7,916,186
Instructional library, media, and technology	774,963	-	6,992	781,955
School site administration	3,722,919	-	257,651	3,980,570
Pupil services				
Food services	-	-	93,667	93,667
All other pupil services	5,172,597	-	14,161	5,186,758
Administration				
Data processing	1,675,613	-	-	1,675,613
All other administration	6,122,734	-	124,396	6,247,130
Plant services	3,407,111	-	-	3,407,111
Ancillary services	18,631	-	-	18,631
Community services	2,301,116	-	1,232,131	3,533,247
Other outgo	-	3,661,479	-	3,661,479
Facility acquisition and construction	56,896	-	-	56,896
Debt service				
Principal	380,413	-	-	380,413
Interest and other	244,343	-	-	244,343
Total expenditures	48,934,701	3,661,479	3,007,886	55,604,066
Excess of Revenues Over Expenditures	5,160,175	7,614,587	436,681	13,211,443
Other Financing Sources (Uses)				
Transfers in	-	-	15,000	15,000
Transfers out	(15,000)	-	-	(15,000)
Other uses, payment to other agencies	(3,472,653)	(7,897,182)	-	(11,369,835)
Net Financing Sources (Uses)	(3,487,653)	(7,897,182)	15,000	(11,369,835)
Net Change in Fund Balances	1,672,522	(282,595)	451,681	1,841,608
Fund Balance - Beginning	35,527,125	589,828	479,903	36,596,856
Fund Balance - Ending	\$ 37,199,647	\$ 307,233	\$ 931,584	\$ 38,438,464

# 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, 2022

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Total Net Change in Fund Balances - Governmental Funds	\$ 1,841,608
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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 and amortization expenses in the Statement of Activities.

This is the amount by which depreciation and amortization exceed capital outlays in the period.

Depreciation and amortization expense	\$ (1,418,777)
Capital outlays	<u>829,913</u>

Net expense adjustment	(588,864)
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Gain(Loss) on disposal of capital assets is reported in the government-wide Statement of Net Position, but is not recorded in the governmental funds.

(9,715)

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.

94,773

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.

2,985,391

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/net plan asset during the year.

1,201,248

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	380,413
Leases	<u>112,386</u>

Change in net position of governmental activities	<u><u>\$ 6,017,240</u></u>
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Santa Cruz County Superintendent of Schools  
Statement of Net Position – Fiduciary Fund  
June 30, 2022

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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, 2022

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	<u>Custodial Funds</u>
Revenues	
Other local sources	<u>\$ -</u>
Expenditures	
Other expenditures	<u>-</u>
Net change in fiduciary net position	-
Net Position - Beginning	<u>3,281</u>
Net Position - Ending	<u><u>\$ 3,281</u></u>



**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 two 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 \$3,711,616.

**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 and amortization of leased assets. 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 governmental 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 expenses, are not recognized in the governmental funds but are recognized in the entity-wide statements.

### **Investments**

Investments held at June 30, 2022, 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.

### **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.

The County records impairments of capital assets when it becomes probable that the carrying value of the assets will not be fully recovered over their estimated useful life. Impairments are recorded to reduce the carrying value of the assets to their net realizable value based on facts and circumstances in existence at the time of the determination. No impairments were recorded during the year ended June 30, 2022.

The County records the value of intangible right-to-use assets based on the underlying leased asset in accordance with GASB Statement No. 87, *Leases*. The right-to-use intangible asset is amortized each year for the term of the contract.

### **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. 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, compensated absences 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. Certificates of participation, leases, and other long-term liabilities are recognized as liabilities in the governmental fund financial statements when due.

**Deferred Outflows of Resources and Deferred 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 deferred inflows of resources, for 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.

### **Leases**

The County recognizes a lease liability and an intangible right-to-use lease asset (lease asset) in the government-wide financial statements. The County measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The lease asset is initially measured as the initial amount of the lease liability, plus certain initial direct costs. Subsequently, the lease asset is amortized on a straight-line basis over the lease term.

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

As of June 30, 2022, 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. The County currently does not have any nonspendable funds.

**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% 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 \$6,204,855 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. 87**

As of July 1, 2021, the County adopted GASB Statement No. 87, *Leases*. The implementation of this standard establishes a single model for lease accounting based on the foundational principle that leases are financings of the right-to-use an underlying asset. The standard requires 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. The effect of the implementation of this standard on beginning net position is disclosed in Note 15 and the additional disclosures required by this standard is included in Notes 4 and 8.

**Implementation of GASB Statement No. 92**

In January 2020, the GASB issued Statement No. 92, *Omnibus 2020*. The objectives of this statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics and includes specific provisions about the following:

- The effective date of Statement No. 87, *Leases*, and Implementation Guide No. 2019-3, *Leases*, for interim financial reporting
- Reporting of intra-entity transfers of assets between a primary government employer and a component unit defined benefit pension plan or defined benefit other postemployment benefit (OPEB) plan
- The applicability of Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, as amended, and No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, to reporting assets accumulated for postemployment benefits
- The applicability of certain requirements of Statement No. 84, *Fiduciary Activities*, to postemployment benefit arrangements
- Measurement of liabilities (and assets, if any) related to asset retirement obligations (AROs) in a government acquisition
- Reporting by public entity risk pools for amounts that are recoverable from reinsurers or excess insurers
- Reference to nonrecurring fair value measurements of assets or liabilities in authoritative literature
- Terminology used to refer to derivative instruments

The requirements of this Statement are effective as follows:

- The requirements related to the effective date of Statement 87 and Implementation Guide 2019-3, reinsurance recoveries, and terminology used to refer to derivative instruments are effective upon issuance.
- The requirements related to intra-entity transfers of assets and those related to the applicability of Statements 73 and 74 are effective for fiscal years beginning after June 15, 2021.
- The requirements related to application of Statement 84 to postemployment benefit arrangements and those related to nonrecurring fair value measurements of assets or liabilities are effective for reporting periods beginning after June 15, 2021.
- The requirements related to the measurement of liabilities (and assets, if any) associated with AROs in a government acquisition are effective for government acquisitions occurring in reporting periods beginning after June 15, 2021.

The provisions of this Statement have been implemented as of June 30, 2022.

### **Implementation of GASB Statement No. 93**

In March 2020, the GASB issued Statement No. 93, *Replacement of Interbank Offered Rates*. The objective of this Statement is to address those and other accounting and financial reporting implications that result from the replacement of an IBOR (Interbank Offered Rate). This Statement achieves that objective by:

- Providing exceptions for certain hedging derivative instruments to the hedge accounting termination provisions when an IBOR is replaced as the reference rate of the hedging derivative instrument's variable payment
- Clarifying the hedge accounting termination provisions when a hedged item is amended to replace the reference rate
- Clarifying that the uncertainty related to the continued availability of IBORs does not, by itself, affect the assessment of whether the occurrence of a hedged expected transaction is probable
- Removing LIBOR as an appropriate benchmark interest rate for the qualitative evaluation of the effectiveness of an interest rate swap
- Identifying a Secured Overnight Financing Rate and the Effective Federal Funds Rate as appropriate benchmark interest rates for the qualitative evaluation of the effectiveness of an interest rate swap
- Clarifying the definition of reference rate, as it is used in Statement 53, as amended
- Providing an exception to the lease modifications guidance in Statement 87, as amended, for certain lease contracts that are amended solely to replace an IBOR as the rate upon which variable payments depend.

The provisions of this Statement have been implemented as of June 30, 2022.

**Note 2 - Deposits and Investments****Summary of Deposits and Investments**

Deposits and investments as of June 30, 2022, are classified in the accompanying financial statements as follows:

Governmental funds	\$ 46,858,219
Fiduciary funds	<u>3,281</u>
Total deposits and investments	<u>\$ 46,861,500</u>

Deposits and investments as of June 30, 2022, consist of the following:

Cash on hand and in banks	\$ 57,600
Investments	<u>46,803,900</u>
Total deposits and investments	<u>\$ 46,861,500</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. The County maintains an investment of \$46,803,900 in the Santa Cruz County Treasury Investment Pool that has an average weighted maturity of 430 days.

**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, 2022.

**Note 3 - Receivables**

Receivables at June 30, 2022, consisted of intergovernmental grants, entitlements, interest and other local sources. All receivables are considered collectible in full.

	County School Service Fund	Special Education Pass-Through Fund	Non-Major Governmental Funds	Total
Federal Government Categorical aid	\$ 1,997,811	\$ 3,661,479	\$ 231,603	\$ 5,890,893
State Government LCFF apportionment	795,943	-	-	795,943
State grants and entitlements	2,513,237	737,802	101,686	3,352,725
Local Sources	2,322,439	-	247,878	2,570,317
Total	<u>\$ 7,629,430</u>	<u>\$ 4,399,281</u>	<u>\$ 581,167</u>	<u>\$ 12,609,878</u>

# Santa Cruz County Superintendent of Schools

Notes to Financial Statements

June 30, 2022

## Note 4 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2022, was as follows:

	Balance July 1, 2021 as Restated	Additions	Deductions	Balance June 30, 2022
Governmental Activities				
Capital assets not being depreciated				
Land	\$ 4,026,778	\$ -	\$ -	\$ 4,026,778
Construction in progress	33,765	-	(33,765)	-
Total capital assets not being depreciated	4,060,543	-	(33,765)	4,026,778
Capital assets being depreciated				
Land improvements	86,147	11,185	(34,910)	62,422
Buildings and improvements	29,555,104	104,378	-	29,659,482
Furniture and equipment	2,561,740	748,115	(9,715)	3,300,140
Total capital assets being depreciated	32,202,991	863,678	(44,625)	33,022,044
Total capital assets	36,263,534	863,678	(78,390)	37,048,822
Accumulated depreciation				
Land improvements	(85,201)	(3,122)	34,910	(53,413)
Buildings and improvements	(10,170,231)	(1,198,942)	-	(11,369,173)
Furniture and equipment	(2,309,802)	(101,616)	-	(2,411,418)
Total accumulated depreciation	(12,565,234)	(1,303,680)	34,910	(13,834,004)
Net depreciable capital assets	19,637,757	(440,002)	(9,715)	19,188,040
Right-to-use leased assets being amortized				
Buildings and improvements	286,522	-	-	286,522
Accumulated amortization				
Buildings and improvements	(117,552)	(115,097)	-	(232,649)
Net right-to-use leased assets	168,970	(115,097)	-	53,873
Governmental activities capital assets and right-to-use leased assets, net	<u>\$ 23,867,270</u>	<u>\$ (555,099)</u>	<u>\$ (43,480)</u>	<u>\$ 23,268,691</u>

# Santa Cruz County Superintendent of Schools

Notes to Financial Statements

June 30, 2022

Depreciation and amortization expenses were charged as a direct expense to governmental functions as follows:

Governmental Activities	
Instruction	\$ 861,558
Instructional library, media, and technology	35,562
Data processing	9,925
All other administration	371,551
Plant services	<u>140,181</u>
 Total depreciation and amortization expenses - governmental activities	 <u><u>\$ 1,418,777</u></u>

## 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, 2022, between major and non-major governmental funds are as follows:

Funds	Due from Other Funds	Due to Other Funds
Major Governmental Funds		
County School Service	\$ 397,791	\$ -
Special Education Pass-Through	-	82,816
Non-Major Governmental Funds		
Charter Schools	-	138,595
Child Development	-	151,380
Cafeteria	<u>-</u>	<u>25,000</u>
 Total	 <u><u>\$ 397,791</u></u>	 <u><u>\$ 397,791</u></u>
The Special Education Pass-Through Fund owes revenue to the County School Service Fund.		\$ 82,816
The Charter School Non-Major Governmental Fund owes the County School Service Fund for a temporary cash flow loan.		40,000
The Charter School Non-Major Governmental Fund owes the County School Service Fund for oversight fees.		13,023
The Charter School Non-Major Governmental Fund owes the County School Service Fund for indirect costs.		85,572
The Child Development Non-Major Governmental Fund owes the County School Service Fund for a temporary cash flow loan.		80,000
The Child Development Non-Major Governmental Fund owes the County School Service Fund for indirect costs.		71,380
The Cafeteria Non-Major Governmental Fund owes the County School Service Fund for a cash flow loan.		<u>25,000</u>
 Total		 <u><u>\$ 397,791</u></u>

# Santa Cruz County Superintendent of Schools

Notes to Financial Statements

June 30, 2022

## Operating Transfers

Interfund transfers for the year ended June 30, 2022, consisted of the following:

The County School Service Fund transferred to the Cafeteria Non-Major Governmental Fund to support operations.

\$ 15,000

## Note 6 - Accounts Payable

Accounts payable at June 30, 2022, consisted of the following:

	County School Service Fund	Special Education Pass-Through Fund	Non-Major Governmental Funds	Total
Vendor payables	\$ 2,655,966	\$ 12,507,905	\$ 1,188,672	\$ 16,352,543
LCFF apportionment	600,648	-	147,367	748,015
Salaries and benefits	1,465,549	-	52,068	1,517,617
Total	<u>\$ 4,722,163</u>	<u>\$ 12,507,905</u>	<u>\$ 1,388,107</u>	<u>\$ 18,618,175</u>

## Note 7 - Unearned Revenue

Unearned revenue at June 30, 2022, consists of the following:

	County School Service Fund	Non-Major Governmental Funds	Total
Federal financial assistance	\$ 638,884	\$ 99,189	\$ 738,073
State categorical aid	1,570,752	6,265	1,577,017
Other local	96,368	-	96,368
Total	<u>\$ 2,306,004</u>	<u>\$ 105,454</u>	<u>\$ 2,411,458</u>



**Note 8 - 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, 2021 as Restated	Deductions	Balance June 30, 2022	Due in One Year
Long-Term Liabilities				
Certificates of participation	\$ 7,790,192	\$ (380,413)	\$ 7,409,779	\$ 392,587
Leases	164,262	(112,386)	51,876	51,876
Compensated absences	608,630	(94,773)	513,857	-
	<u>608,630</u>	<u>(94,773)</u>	<u>513,857</u>	<u>-</u>
Total	<u>\$ 8,563,084</u>	<u>\$ (587,572)</u>	<u>\$ 7,975,512</u>	<u>\$ 444,463</u>

Payments on the certificates of participation are paid by the General Fund. The leases are paid by the fund using the right-to-use leased asset. 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%. During June 2016, the certificates of participation were refinanced in the amount of \$9,510,983 with interest rates of 3.175%. 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, 2022, the principal balance outstanding was \$7,409,779.

Year Ending June 30,	Principal	Interest	Total
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	445,305	179,450	624,755
2028-2032	2,449,628	674,149	3,123,777
2033-2037	2,867,497	256,281	3,123,778
	<u>2,867,497</u>	<u>256,281</u>	<u>3,123,778</u>
Total	<u>\$ 7,409,779</u>	<u>\$ 1,961,553</u>	<u>\$ 9,371,332</u>

# Santa Cruz County Superintendent of Schools

Notes to Financial Statements

June 30, 2022

## Leases

The County has entered into agreements to lease various facilities and equipment. The County's liability on lease agreements is summarized below:

Lease	Leases Outstanding July 1, 2021	Payments	Leases Outstanding June 30, 2022
Cabrillo College - Oasis	\$ 104,872	\$ (52,996)	\$ 51,876
Star of the Sea	59,390	(59,390)	-
Total	<u>\$ 164,262</u>	<u>\$ (112,386)</u>	<u>\$ 51,876</u>

### Cabrillo College - Oasis

The County has entered into an agreement to lease several rooms (351, 353, 354, 357, 358, 359, and 360) in Building 350 on the Aptos campus, approximately 2,947 square feet. The lease began June 1, 2021 and ends May 31, 2023, and under the terms of the lease the County will make monthly payments of \$4,603 (from June 1, 2021 to May 31, 2022) and \$4,787 (from June 1, 2022 to May 31, 2023). The lease includes 15 parking spaces which the County will pay a separate annual fee of \$15,153 (December 1, 2021) and \$15,770 (December 1, 2022). The lease includes utilities, but the County is responsible for janitorial services. The annual interest rate charged to the lease is 3.0%. At June 30, 2022, the County has recognized right-to-use asset of \$117,540 and a total lease liability of \$51,876 related to the lease agreement. During the fiscal year, the County recorded \$58,770 in amortization expense and \$52,996 in principal and \$2,424 in interest payments for the right-to-use of the rooms in Building 350.

### Star of the Sea - Star Community School

The County has entered into an agreement to lease five classrooms (Monday – Friday, 7:30 am to 3:00 pm) within the school building located at 515 Frederick Street, Santa Cruz. The lease began July 1, 2019 and ends June 30, 2022, and under the terms of the lease the County will make monthly payments of \$4,657 (from July 1, 2019 to June 30, 2020) and \$5,030 (from July 1, 2020 to June 30, 2022). The lease includes utilities, but the County is responsible for repairs and maintenance, excluding roof and foundation. The annual interest rate charged to the lease is 3.0%. At June 30, 2022, the County has recognized right-to-use asset of \$168,982 and no lease liability related to the lease agreement. During the fiscal year, the County recorded \$56,327 in amortization expense, \$59,390 in principal, and \$970 in interest payments for the right-to-use of the classrooms.

The remaining principal and interest payment requirements for the lease obligation debt as of June 30, 2022, are as follows:

Year Ending June 30,	Principal	Interest	Total
2023	<u>\$ 51,876</u>	<u>\$ 781</u>	<u>\$ 52,657</u>

## Compensated Absences

Compensated absences (unpaid employee vacation) for the County at June 30, 2022, amounted to \$513,857.

## Note 9 - Other Post Employment Benefit (OPEB) Plan Asset/Liability

For the fiscal year ended June 30, 2022, the County reported net OPEB plan asset/liability, deferred outflows of resources, deferred inflows of resources, and OPEB expense for the following plans:

OPEB Plan	Net OPEB (Asset) Liability	Deferred Outflows of Resources	Deferred Inflows of Resources	OPEB Expense
County Plan	\$ (2,711,804)	\$ 2,022,224	\$ 1,476,467	\$ 152,559
Medicare Premium Payment (MPP) Program	127,613	-	-	(17,238)
Total	<u>\$ (2,584,191)</u>	<u>\$ 2,022,224</u>	<u>\$ 1,476,467</u>	<u>\$ 135,321</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, 2021, the valuation date, the Plan membership consisted of the following:

Inactive employees or beneficiaries currently receiving benefits payments	72
Active employees	<u>248</u>
Total	<u><u>320</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 \$1,336,559 to the Plan for fiscal year 2021-2022, including \$123,857 in an implicit rate subsidy credit and \$933,545 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, 2022:

<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 Plan Asset/Liability of the County

The County's net OPEB plan asset of \$2,711,804 was measured as of June 30, 2021, by an actuarial valuation as of the same date. The components of the net OPEB plan asset/liability of the County at June 30, 2021, were as follows:

Total OPEB liability	\$ 9,831,549
Plan fiduciary net position	<u>(12,543,353)</u>
Net OPEB plan asset	<u>\$ (2,711,804)</u>
Plan fiduciary net position as a percentage of the total OPEB liability	<u>127.58%</u>

### Actuarial Assumptions

The total OPEB plan asset in the June 30, 2021 actuarial measurement was determined using the following assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.75%
Salary increases	2.75%, average, including inflation
Investment rate of return	6.75%, net of OPEB plan investment expense, including inflation
Healthcare cost trend rates	4.00% 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, 2021 valuation relating to retirement and turnover were based on STRS 2020 and PERS 2017 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, 2021, (see the discussion of the Plan's investment policy) are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return
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 net plan asset/liability was 6.75%. 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.

# Santa Cruz County Superintendent of Schools

Notes to Financial Statements

June 30, 2022

## Changes in the Net OPEB Plan Asset/Liability

	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Asset (a) - (b)
Balance, June 30, 2020	\$ 10,019,011	\$ 9,407,496	\$ 611,515
Service cost	486,669	-	486,669
Interest	688,629	2,736,582	(2,047,953)
Administrative expenses	-	(3,739)	3,739
Changes of assumptions and other inputs	32,601	-	32,601
Benefit payments from trust	(933,545)	(933,545)	-
Experience (gains)/losses	(461,816)	-	(461,816)
County contributions to trust	-	1,336,559	(1,336,559)
Net change in total OPEB liability	(187,462)	3,135,857	(3,323,319)
Balance, June 30, 2021	\$ 9,831,549	\$ 12,543,353	\$ (2,711,804)

Changes in Benefit Terms - There were no changes in the benefit terms since the previous measurement.

Changes of Assumptions - The investment rate of return changed from 7.00% to 6.75% since the previous valuation.

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

Net OPEB plan asset of the County, as well as what the County's net OPEB plan asset 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 Plan Asset
1% decrease (5.75%)	\$ (1,936,144)
Current discount rate (6.75%)	(2,711,804)
1% increase (7.75%)	(3,400,770)

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

Net OPEB plan asset of the County, as well as what the County's net OPEB plan asset 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 Plan Asset
1% decrease (3.0%)	\$ (3,577,141)
Current healthcare cost trend rate (4.0%)	(2,711,804)
1% increase (5.0%)	(1,704,352)

### OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2022, the County recognized OPEB expense of \$152,559 and the County reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
OPEB contributions subsequent to measurement date	\$ 1,174,543	\$ -
Differences between expected and actual experience	817,569	-
Changes of assumptions	30,112	-
Net difference between projected and actual earnings on OPEB plan investments	-	1,476,467
Total	\$ 2,022,224	\$ 1,476,467

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

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

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2022	\$ (362,967)
2023	(347,750)
2024	(352,935)
2025	(412,815)
Total	\$ (1,476,467)

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

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2022	\$ 100,561
2023	100,561
2024	100,561
2025	100,561
2026	100,561
Thereafter	344,876
Total	<u>\$ 847,681</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, 2020, 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, 2022, the County reported a liability of \$127,613 for its proportionate share of the net OPEB liability for the MPP Program. The net OPEB liability was measured as of June 30, 2021, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2020. 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, actuarially determined. The County's proportionate share for the measurement period June 30, 2021 and June 30, 2020, respectively, was 0.0320% and 0.0342%, resulting in a net decrease in the proportionate share of 0.0022%.

For the year ended June 30, 2022, the County recognized OPEB expense of \$(17,238).

### Actuarial Methods and Assumptions

The June 30, 2021 total OPEB liability was determined by applying update procedures to the financial reporting actuarial valuation as of June 30, 2020, and rolling forward the total OPEB liability to June 30, 2021, using the assumptions listed in the following table:

Measurement Date	June 30, 2021	June 30, 2020
Valuation Date	June 30, 2020	June 30, 2019
Experience Study	June 30, 2015 through June 30, 2018	June 30, 2014 through June 30, 2018
Actuarial Cost Method	Entry age normal	Entry age normal
Investment Rate of Return	2.16%	2.21%
Medicare Part A Premium Cost Trend Rate	4.50%	4.50%
Medicare Part B Premium Cost Trend Rate	5.40%	5.40%

For the valuation as of June 30, 2020, 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% 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 245 or an average of 0.16% of the potentially eligible population (152,062).

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, 2021, 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, 2021, is 2.16%. 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 2.16%, which is the Bond Buyer 20-Bond GO Index from Bondbuyer.com as of June 30, 2021, was applied to all periods of projected benefit payments to measure the total OPEB liability. The discount rate decreased 0.05% from 2.21% as of June 30, 2020.

### 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:

Discount Rate	Net OPEB Liability
1% decrease (1.16%)	\$ 140,664
Current discount rate (2.16%)	127,613
1% increase (3.16%)	116,461

### 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 current 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:

Medicare Costs Trend Rates	Net OPEB Liability
1% decrease (3.50% Part A and 4.40% Part B)	\$ 116,049
Current Medicare costs trend rates (4.50% Part A and 5.40% Part B)	127,613
1% increase (5.50% Part A and 6.40% Part B)	140,870

# Santa Cruz County Superintendent of Schools

Notes to Financial Statements

June 30, 2022

## Note 10 - Fund Balance

Fund balances are composed of the following elements:

	General Fund	Special Education Pass-Through Fund	Non-Major Governmental Funds	Total
Restricted				
Legally restricted programs	\$ 5,649,396	\$ 307,233	\$ 89,815	\$ 6,046,444
Child development programs	-	-	98,894	98,894
Child nutrition	-	-	59,517	59,517
Total restricted	<u>5,649,396</u>	<u>307,233</u>	<u>248,226</u>	<u>6,204,855</u>
Committed				
Deferred maintenance program	1,012,012	-	-	1,012,012
Certificates of participation	<u>1,200,000</u>	<u>-</u>	<u>-</u>	<u>1,200,000</u>
Total committed	<u>2,212,012</u>	<u>-</u>	<u>-</u>	<u>2,212,012</u>
Assigned				
MAA program	808,568	-	-	808,568
Small districts	1,836	-	-	1,836
Differentiated assistance	66,084	-	-	66,084
Classified credentialing				
program	200,000	-	-	200,000
Mandated cost program	2,256,576	-	-	2,256,576
Safety program	104,788	-	-	104,788
SMAA administration	2,639,963	-	-	2,639,963
Alternative education-court base	594,667	-	-	594,667
Alternative education-community				
base	1,560,746	-	-	1,560,746
Special projects	200,000	-	-	200,000
COPS deferred maintenance	1,405,328	-	-	1,405,328
Education and administrative				
operations	16,394,910	-	-	16,394,910
Lottery	536,696	-	-	536,696
Career advancement				
charter-LCFF base	-	-	600,145	600,145
Career advancement				
charter-3% reserve	-	-	47,574	47,574
Career advancement				
charter-lottery	-	-	65,937	65,937
Child development MAA	-	-	1,312	1,312
Adult education	<u>1,295</u>	<u>-</u>	<u>-</u>	<u>1,295</u>
Total assigned	<u>26,771,457</u>	<u>-</u>	<u>714,968</u>	<u>27,486,425</u>
Unassigned				
Reserve for economic				
uncertainties	2,566,782	-	-	2,566,782
Remaining unassigned	<u>-</u>	<u>-</u>	<u>(31,610)</u>	<u>(31,610)</u>
Total unassigned	<u>2,566,782</u>	<u>-</u>	<u>(31,610)</u>	<u>2,535,172</u>
Total	<u>\$ 37,199,647</u>	<u>\$ 307,233</u>	<u>\$ 931,584</u>	<u>\$ 38,438,464</u>

**Note 11 - Risk Management****Property and Liability**

The County is exposed to various risks of loss related to torts; theft, damage, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year ending June 30, 2022, 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 2021-2022, 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 12 - Employee Retirement Systems**

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

For the fiscal year ended June 30, 2022 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	\$ 9,686,133	\$ 5,484,096	\$ 9,190,823	\$ (43,964)
CalPERS	17,322,306	3,758,264	7,029,717	1,882,394
Total	<u>\$ 27,008,439</u>	<u>\$ 9,242,360</u>	<u>\$ 16,220,540</u>	<u>\$ 1,838,430</u>

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, 2020 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% 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, 2022, are summarized as follows:

	STRP Defined Benefit Program	
	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	16.92%	16.92%
Required employer contribution rate	10.828%	10.828%
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% of applicable member earnings phased over a seven-year period. The contribution rates for each plan for the year ended June 30, 2022, are presented above and the County's total contributions were \$1,942,069.

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

At June 30, 2022, 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	\$ 9,686,133
State's proportionate share of the net pension liability	4,873,687
Total	<u>\$ 14,559,820</u>

The net pension liability was measured as of June 30, 2021. 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, 2021 and June 30, 2020, respectively was 0.0213% and 0.0196%, resulting in a net increase in the proportionate share of 0.0017%.

# Santa Cruz County Superintendent of Schools

Notes to Financial Statements

June 30, 2022

For the year ended June 30, 2022, the County recognized pension expense of \$(43,964). In addition, County recognized pension expense and revenue of \$166,747 for support provided by the State. At June 30, 2022, 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	\$ 1,942,069	\$ -
Change in proportion and differences between contributions made and County's proportionate share of contributions	2,145,341	498,037
Differences between projected and actual earnings on pension plan investments	-	7,661,981
Differences between expected and actual experience in the measurement of the total pension liability	24,264	1,030,805
Changes of assumptions	1,372,422	-
Total	<u>\$ 5,484,096</u>	<u>\$ 9,190,823</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 and deferred inflows of resources related to the difference between projected and actual earnings on pension plan investments will be amortized over a closed five-year period and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2023	\$ (1,945,683)
2024	(1,779,665)
2025	(1,823,830)
2026	(2,112,803)
Total	<u>\$ (7,661,981)</u>

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

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2023	\$ 409,911
2024	913,637
2025	308,868
2026	218,984
2027	114,840
Thereafter	46,945
Total	<u>\$ 2,013,185</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, 2020 and rolling forward the total pension liability to June 30, 2021. The financial reporting actuarial valuation as of June 30, 2020, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2020
Measurement date	June 30, 2021
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% 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 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 current and future valuation, CalSTRS' independent



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, 2021, 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%. 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 of 7.10% and assume 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%)	\$ 19,717,500
Current discount rate (7.10%)	9,686,133
1% increase (8.10%)	1,360,290

#### 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, 2020 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, 2022, 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	22.91%	22.91%

## 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 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, 2022, are presented above and the total County contributions were \$2,881,752.

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

As of June 30, 2022, the County reported net pension liabilities for its proportionate share of the CalPERS net pension liability totaling \$17,322,306. The net pension liability was measured as of June 30, 2021. 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, 2021 and June 30, 2020, respectively, was 0.0852% and 0.0834%, resulting in a net increase in the proportionate share of 0.0018%.

For the year ended June 30, 2022, the County recognized pension expense of \$1,882,394. At June 30, 2022, 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	\$ 2,881,752	\$ -
Change in proportion and differences between contributions made and County's proportionate share of contributions	359,397	341,096
Differences between projected and actual earnings on pension plan investments	-	6,647,785
Differences between expected and actual experience in the measurement of the total pension liability	517,115	40,836
Total	<u>\$ 3,758,264</u>	<u>\$ 7,029,717</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 and deferred inflows of resources related to the difference between projected and actual earnings on pension plan investments will be amortized over a closed five-year period and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2023	\$ (1,667,258)
2024	(1,533,193)
2025	(1,598,455)
2026	(1,848,879)
Total	<u>\$ (6,647,785)</u>

The deferred outflows of resources and deferred inflows of resources related to the net change in proportionate share of net pension liability, differences between expected and actual experience in the measurement of the total pension liability, and changes of assumptions will be amortized over the Expected Average Remaining Service Life (EARS�) of all members that are provided benefits (active, inactive, and retirees) as of the beginning of the measurement period. The EARS� for the measurement period is 4.0 years and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2023	\$ 355,229
2024	51,458
2025	79,279
2026	8,614
Total	<u>\$ 494,580</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, 2020, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2020
Measurement date	June 30, 2021
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% 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%. 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%)	\$ 29,207,840
Current discount rate (7.15%)	17,322,306
1% increase (8.15%)	7,454,762

### 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% of an employee's gross earnings. An employee is required to contribute 4% 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 \$1,285,457 (10.828% 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 13 - 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, 2022.

**Litigation**

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

**Note 14 - 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, 2022, the County made payments of \$626,592, \$492,559, and \$154,687 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 dental and vision, workers' compensation, and property liability coverage.

**Note 15 - Restatement of Prior Year Net Position and Fund Balance**

As of July 1, 2021, the County adopted GASB Statement No. 87, *Leases*. The implementation of this standard establishes a single model for lease accounting based on the foundational principle that leases are financings of the right-to-use an underlying asset. The Statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as outflows of resources based on the payment provisions of the contract. Beginning net position was restated to retroactively adopt the provisions of GASB Statement No. 87 as follows:

## Government-Wide Financial Statements

Net Position - Beginning	\$ 16,853,024
Right-to-use intangible asset, net of amortization	168,970
Lease liability	<u>(164,262)</u>
Net Position - Beginning, as Restated	<u><u>\$ 16,857,732</u></u>



Required Supplementary Information  
June 30, 2022

## Santa Cruz County Superintendent of Schools



Santa Cruz County Superintendent of Schools  
Budgetary Comparison Schedule – County School Service Fund  
Year Ended June 30, 2022

	Budgeted Amounts		Actual	Variances - Positive (Negative)
	Original	Final		Final to Actual
<b>Revenues</b>				
Local control funding formula	\$ 29,513,248	\$ 28,553,813	\$ 29,633,183	\$ 1,079,370
Federal sources	6,000,167	6,292,076	5,022,988	(1,269,088)
Other State sources	9,687,099	11,735,615	9,788,833	(1,946,782)
Other local sources	7,183,949	10,403,639	9,649,872	(753,767)
<b>Total revenues <sup>1</sup></b>	<b>52,384,463</b>	<b>56,985,143</b>	<b>54,094,876</b>	<b>(2,890,267)</b>
<b>Expenditures</b>				
Current				
Certificated salaries	12,207,115	12,468,842	11,963,856	504,986
Classified salaries	13,504,936	13,491,608	12,843,010	648,598
Employee benefits	15,802,052	15,070,951	14,640,357	430,594
Books and supplies	1,964,376	1,890,768	1,151,978	738,790
Services and operating expenditures	7,354,750	8,370,972	6,692,180	1,678,792
Other outgo	4,251,797	4,227,415	188,935	4,038,480
Capital outlay	219,500	261,344	829,629	(568,285)
Debt service				
Debt service - principal	380,413	380,413	380,413	-
Debt service - interest and other	244,343	244,343	244,343	-
<b>Total expenditures <sup>1</sup></b>	<b>55,929,282</b>	<b>56,406,656</b>	<b>48,934,701</b>	<b>7,471,955</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>(3,544,819)</b>	<b>578,487</b>	<b>5,160,175</b>	<b>4,581,688</b>
<b>Other Financing Uses</b>				
Transfers out	(19,000)	(40,000)	(15,000)	25,000
Other uses, payments to other agencies	-	-	(3,472,653)	(3,472,653)
<b>Net financing sources uses</b>	<b>(19,000)</b>	<b>(40,000)</b>	<b>(3,487,653)</b>	<b>(3,447,653)</b>
<b>Net Change in Fund Balances</b>	<b>(3,563,819)</b>	<b>538,487</b>	<b>1,672,522</b>	<b>1,134,035</b>
<b>Fund Balance - Beginning</b>	<b>35,527,125</b>	<b>35,527,125</b>	<b>35,527,125</b>	<b>-</b>
<b>Fund Balance - Ending</b>	<b>\$ 31,963,306</b>	<b>\$ 36,065,612</b>	<b>\$ 37,199,647</b>	<b>\$ 1,134,035</b>

<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, but are not 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, 2022

	Budgeted Amounts			Variances - Positive (Negative) Final to Actual
	Original	Final	Actual	
Revenues				
Federal sources	\$ 4,175,605	\$ 5,105,132	\$ 3,821,197	\$ (1,283,935)
Other State sources	2,181,826	7,078,426	7,721,987	643,561
Other local sources	14,500	14,500	(267,118)	(281,618)
Total revenues	6,371,931	12,198,058	11,276,066	(921,992)
Expenditures				
Current				
Other outgo	980,839	4,096,105	3,661,479	434,626
Excess (Deficiency) of Revenues Over Expenditures	5,391,092	8,101,953	7,614,587	(1,356,618)
Other Financing Uses				
Other uses, payment to other agencies	(5,191,092)	(7,811,671)	(7,897,182)	(85,511)
Net Change in Fund Balances	200,000	290,282	(282,595)	(572,877)
Fund Balance - Beginning	589,828	589,828	589,828	589,828
Fund Balance - Ending	\$ 789,828	\$ 880,110	\$ 307,233	\$ (572,877)

Santa Cruz County Superintendent of Schools  
Schedule of Changes in the County's Net OPEB Liability and Related Ratios  
Year Ended June 30, 2022

	2022	2021	2020	2019	2018
Total OPEB Liability					
Service cost	\$ 486,669	\$ 473,644	\$ 403,067	\$ 392,279	\$ 381,780
Interest	688,629	668,053	550,815	521,490	491,261
Benefit payments	(933,545)	-	(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	(461,816)	(17,380)	1,392,603	-	-
Changes in assumption	32,601	-	-	-	-
Net change in total OPEB liability	(187,462)	282,730	1,791,565	468,216	415,203
Total OPEB Liability - Beginning	10,019,011	9,736,281	7,944,716	7,476,500	7,061,297
Total OPEB Liability - Ending (a)	<u>\$ 9,831,549</u>	<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	\$ 1,336,559	\$ 858,815	\$ 873,118	\$ 595,554	\$ 557,838
Net investment income	2,736,582	335,208	563,364	601,237	740,457
Benefit payments	(933,545)	(841,587)	(773,118)	(502,479)	(457,838)
Administrative expense	(3,739)	(4,600)	-	-	-
Other	-	-	-	7,330	-
Net change in plan fiduciary net position	3,135,857	347,836	663,364	758,568	840,457
Plan Fiduciary Net Position - Beginning	9,407,496	9,059,660	8,396,296	7,637,728	6,797,271
Plan Fiduciary Net Position - Ending (b)	<u>\$ 12,543,353</u>	<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>\$ (2,711,804)</u>	<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	<u>127.58%</u>	<u>93.90%</u>	<u>93.05%</u>	<u>105.68%</u>	<u>102.16%</u>
Covered Payroll	<u>N/A <sup>1</sup></u>	<u>N/A <sup>1</sup></u>	<u>N/A <sup>1</sup></u>	<u>N/A <sup>1</sup></u>	<u>N/A <sup>1</sup></u>
Net OPEB (Asset)/Liability as a Percentage of Covered Payroll	<u>N/A <sup>1</sup></u>	<u>N/A <sup>1</sup></u>	<u>N/A <sup>1</sup></u>	<u>N/A <sup>1</sup></u>	<u>N/A <sup>1</sup></u>
Measurement Date	June 30, 2021	June 30, 2020	June 30, 2019	June 30, 2018	June 30, 2017

<sup>1</sup> The County Office's OPEB Plan is administered through a trust, however, contributions are not made based on a measure of pay, therefore, no measure of payroll is presented

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

See Notes to Required Supplementary Information

Santa Cruz County Superintendent of Schools  
Schedule of the County's Proportionate Share of the Net OPEB Liability – MPP Program  
Year Ended June 30, 2022

Year ended June 30,	2022	2021	2020	2019	2018
Proportion of the net OPEB liability	0.0320%	0.0342%	0.0333%	0.0332%	0.0332%
Proportionate share of the net OPEB liability	\$ 127,613	\$ 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>	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>	N/A <sup>1</sup>
Plan fiduciary net position as a percentage of the total OPEB liability	(0.80%)	(0.71%)	(0.81%)	(0.40%)	0.01%
Measurement Date	June 30, 2021	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, 2022

	2022	2021	2020	2019
<b>CalSTRS</b>				
Proportion of the net pension liability	0.0213%	0.0196%	0.0189%	0.0176%
Proportionate share of the net pension liability	\$ 9,686,133	\$ 19,009,830	\$ 17,076,252	\$ 16,162,680
State's proportionate share of the net pension liability	4,873,687	9,799,570	9,316,235	9,253,890
Total	<u>\$ 14,559,820</u>	<u>\$ 28,809,400</u>	<u>\$ 26,392,487</u>	<u>\$ 25,416,570</u>
Covered payroll	<u>\$ 10,934,000</u>	<u>\$ 8,859,790</u>	<u>\$ 10,404,233</u>	<u>\$ 9,561,423</u>
Proportionate share of the net pension liability as a percentage of its covered payroll	88.59%	214.56%	164.13%	169.04%
Plan fiduciary net position as a percentage of the total pension liability	87%	72%	73%	71%
Measurement Date	June 30, 2021	June 30, 2020	June 30, 2019	June 30, 2018
<b>CalPERS</b>				
Proportion of the net pension liability	0.0852%	0.0834%	0.0827%	0.0815%
Proportionate share of the net pension liability	\$ 17,322,306	\$ 25,594,009	\$ 24,098,441	\$ 21,727,160
Covered payroll	\$ 11,755,039	\$ 11,507,241	\$ 11,072,255	\$ 10,403,962
Proportionate share of the net pension liability as a percentage of its covered payroll	147.36%	222.42%	217.65%	208.84%
Plan fiduciary net position as a percentage of the total pension liability	81%	70%	70%	71%
Measurement Date	June 30, 2021	June 30, 2020	June 30, 2019	June 30, 2018

*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, 2022

	2018	2017	2016	2015
<b>CalSTRS</b>				
Proportion of the net pension liability	0.0168%	0.0169%	0.0213%	0.0258%
Proportionate share of the net pension liability	\$ 15,503,260	\$ 13,672,572	\$ 14,359,551	\$ 15,084,573
State's proportionate share of the net pension liability	9,171,598	7,783,552	7,594,619	9,108,717
Total	<u>\$ 24,674,858</u>	<u>\$ 21,456,124</u>	<u>\$ 21,954,170</u>	<u>\$ 24,193,290</u>
Covered payroll	<u>\$ 8,958,810</u>	<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	173.05%	154.27%	151.23%	130.13%
Plan fiduciary net position as a percentage of the total pension liability	69%	70%	74%	77%
Measurement Date	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014
<b>CalPERS</b>				
Proportion of the net pension liability	0.0799%	0.0760%	0.0800%	0.0878%
Proportionate share of the net pension liability	\$ 19,067,848	\$ 15,009,890	\$ 11,794,608	\$ 9,970,401
Covered payroll	<u>\$ 9,686,705</u>	<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	196.85%	170.77%	134.02%	108.49%
Plan fiduciary net position as a percentage of the total pension liability	72%	74%	79%	83%
Measurement Date	June 30, 2017	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's Contributions  
Year Ended June 30, 2022

	2022	2021	2020	2019
<b>CalSTRS</b>				
Contractually required contribution	\$ 1,942,069	\$ 1,765,841	\$ 1,515,024	\$ 1,690,102
Less contributions in relation to the contractually required contribution	<u>1,942,069</u>	<u>1,765,841</u>	<u>1,515,024</u>	<u>1,690,102</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	<u>\$ 11,477,949</u>	<u>\$ 10,934,000</u>	<u>\$ 8,859,790</u>	<u>\$ 10,404,233</u>
Contributions as a percentage of covered payroll	<u>16.92%</u>	<u>16.15%</u>	<u>17.10%</u>	<u>16.24%</u>
<b>CalPERS</b>				
Contractually required contribution	\$ 2,881,752	\$ 2,433,293	\$ 2,269,228	\$ 1,996,656
Less contributions in relation to the contractually required contribution	<u>2,881,752</u>	<u>2,433,293</u>	<u>2,269,228</u>	<u>1,996,656</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	<u>\$ 12,578,577</u>	<u>\$ 11,755,039</u>	<u>\$ 11,507,241</u>	<u>\$ 11,072,255</u>
Contributions as a percentage of covered payroll	<u>22.910%</u>	<u>20.700%</u>	<u>19.720%</u>	<u>18.030%</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 Contributions  
Year Ended June 30, 2022

	2018	2017	2016	2015
<b>CalSTRS</b>				
Contractually required contribution	\$ 1,363,011	\$ 1,112,652	\$ 918,955	\$ 868,687
Less contributions in relation to the contractually required contribution	<u>1,363,011</u>	<u>1,112,652</u>	<u>918,955</u>	<u>868,687</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	<u>\$ 9,561,423</u>	<u>\$ 8,958,810</u>	<u>\$ 8,863,027</u>	<u>\$ 9,494,891</u>
Contributions as a percentage of covered payroll	<u>14.43%</u>	<u>12.42%</u>	<u>10.73%</u>	<u>9.15%</u>
<b>CalPERS</b>				
Contractually required contribution	\$ 1,611,481	\$ 1,343,511	\$ 1,037,482	\$ 1,036,441
Less contributions in relation to the contractually required contribution	<u>1,611,481</u>	<u>1,343,511</u>	<u>1,037,482</u>	<u>1,036,441</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	<u>\$ 10,403,962</u>	<u>\$ 9,686,705</u>	<u>\$ 8,789,783</u>	<u>\$ 8,800,872</u>
Contributions as a percentage of covered payroll	<u>15.490%</u>	<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.

### **Schedule of Changes in the County's Net OPEB Plan Asset/Liability and Related Ratios**

This schedule presents information on the County's changes in the net OPEB plan asset/liability, including beginning and ending balances, the plan's fiduciary net position, and the net OPEB plan asset/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* - The investment rate of return changed from 7.00% to 6.75% since the previous valuation.

### **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 plan's 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 the benefit terms since the previous valuation.
- *Changes of Assumptions* - The plan rate of investment return assumption was changed from 2.21% to 2.16% 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 the County's 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, 2022

## Santa Cruz County Superintendent of Schools

# Santa Cruz County Superintendent of Schools

## Schedule of Expenditures of Federal Awards

Year Ended June 30, 2022

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	\$ 257,165	\$ -
Title I, Part D, Subpart 2, Local Delinquent Programs	84.010	14357	110,111	-
Title I, Comprehensive Support for Improvement for LEAs	84.010	15438	188,694	-
Title I, Comprehensive Support for Improvement for COEs	84.010	15439	71,736	-
Subtotal Title I (84.010)			627,706	-
COVID-19, Elementary and Secondary School Emergency Relief Fund (ESSER)	84.425D	15536	13	-
COVID-19, Elementary and Secondary School Emergency Relief Fund (ESSER II)	84.425D	15547	108,046	-
COVID-19, Expanded Learning Opportunities (ELO) Grant: ESSER II State Reserve	84.425D	15618	257,975	-
COVID-19, Elementary and Secondary School Emergency Relief Fund (ESSER III)	84.425U	15559	4,128	-
COVID-19, Expanded Learning Opportunities (ELO) Grant: ESSER III State Reserve, Emergency Needs	84.425U	15620	128,457	-
COVID-19, Expanded Learning Opportunities (ELO) Grant (GEER II)	84.425C	15619	58,552	-
COVID-19, American Rescue Plan - Homeless Children and Youth (ARP-HYC) Program	84.425W	15564	89,560	-
Subtotal (84.425)			646,731	-
Title II, Supporting Effective Instruction State Grants - Teacher Quality	84.367	14341	21,295	-
Title IV, Part A, Student Support and Academic Enrichment Program	84.424	15396	19,271	-
Title X McKinney-Vento Homeless Children Assistance Grants	84.196	14332	209,146	-
Special Education IDEA Cluster				
IDEA Basic Local Assistance Entitlement	84.027	13379	3,982,403	3,560,855
IDEA Mental Health Services, Part B	84.027A	15197	187,560	159,718
Subtotal (84.027)			4,169,963	3,720,573

# Santa Cruz County Superintendent of Schools

## Schedule of Expenditures of Federal Awards

Year Ended June 30, 2022

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 IDEA Cluster				
IDEA Preschool Grants, Part B, Section 619	84.173	13430	100,624	100,624
IDEA Preschool Staff Development	84.173A	13431	885	-
Subtotal (84.173)			101,509	100,624
Subtotal Special Education Cluster			4,271,472	3,821,197
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	89,561	-
Adult Education - Basic Grants to States: Secondary Education	84.002	13978	124,460	-
Adult Education - Basic Grants to States: Institutionalized Adults	84.002	13971	33,275	-
Subtotal (84.002)			247,296	-
Passed Through California Department of Rehabilitation (DOR):				
State Vocational Rehabilitation Services Program - We Can Work	84.126A	[1]	115,235	-
Total U.S Department of Education			6,260,456	3,821,197

[1] Pass-Through Entity Identifying Number not available

Santa Cruz County Superintendent of Schools

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2022

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 California Department of Social Services:				
Child Care and Development Fund (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	300,863	-
COVID-19, American Rescue Plan - Child Care and Development Block Grant:				-
CCIP Expansion Grant	93.575	24553	25,386	-
COVID-19, American Rescue Plan - Child Care and Development Block Grant:				-
Child Care Resource & Referral Project	93.575	24553	65,890	-
Subtotal CCDF Cluster			445,256	-
Passed Through Stanislaus County Office of Education:				
Head Start Cluster				
Migrant Head Start	93.600	[1]	1,756,057	-
COVID-19, Migrant Head Start	93.600	[1]	18,379	-
COVID-19, Coronavirus Response and Relief Supplemental Appropriations				-
(CRRSA) Act One-Time Stipend Migrant Head Start	93.600	[1]	28,399	-
COVID-19, American Rescue Plan Migrant Head Start	93.600	[1]	69,891	-
Subtotal Head Start Cluster			1,872,726	-
Total U.S Department of Health and Human Services			2,317,982	-

[1] Pass-Through Entity Identifying Number not available

# Santa Cruz County Superintendent of Schools

## Schedule of Expenditures of Federal Awards

Year Ended June 30, 2022

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 Labor				
Passed Through California Department of Education (CDE):				
WIOA Cluster				
WIA/WIOA Youth Activities	17.259	10055	748,017	-
Total U.S Department of Labor			748,017	-
U.S. Department of Commerce				
NOAA California Bay Watershed Education and Training Program	11.429	[1]	155,478	-
Total U.S Department of Commerce			155,478	-
U.S. Department of Agriculture				
Passed Through California Department of Education (CDE):				
Child Nutrition Cluster				
National School Lunch	10.555	13391	127,912	-
COVID-19, SNP Emergency Operational Costs Reimbursement (ECR)	10.555	15637	4,714	-
Subtotal Child Nutrition Cluster			132,626	-
Total U.S Department of Agriculture			132,626	-
Total Federal Programs			\$ 9,614,559	\$ 3,821,197

## 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
Abel Sanchez	President	2022
Alyssa Alto	Vice President	2024
Sue Roth	Member	2022
Bruce Van Allen	Member	2022
Sandra Nichols	Member	2024
Rose Filicetti	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

## Schedule of Average Daily Attendance

Year Ended June 30, 2022

	Second Period Report	Annual Report
Elementary School ADA		
Probation referred, on probation or parole, expelled	8.12	9.81
Total elementary school ADA	8.12	9.81
High School ADA		
Juvenile halls, homes and camps	52.34	62.64
Probation referred, on probation or parole, expelled	660.10	797.80
Total high school ADA	712.44	860.44
Total ADA	720.56	870.25
Santa Cruz County Career Advancement Charter School		
Regular ADA, All Non-Classroom Based		
Ninth through twelfth	131.86	121.05

Santa Cruz County Superintendent of Schools  
Reconciliation of Annual Financial and Budget Report with Audited Financial Statements  
Year Ended June 30, 2022

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There were no adjustments to the Unaudited Actual Financial Report, which required reconciliation to the audited financial statements at June 30, 2022.

Santa Cruz County Superintendent of Schools  
Schedule of Financial Trends and Analysis  
Year Ended June 30, 2022

	(Budget) 2023 <sup>1</sup>	2022	2021 <sup>1</sup>	2020 <sup>1</sup>
County School Service Fund <sup>3</sup>				
Revenues	\$ 56,946,963	\$ 54,094,874	\$ 52,673,801	\$ 51,673,648
Expenditures	62,388,622	48,934,700	45,792,535	48,114,007
Other uses and transfers out	-	3,487,653	5,855,312	34,666
Total Expenditures and Other Uses	62,388,622	52,422,353	51,647,847	48,148,673
Increase/(Decrease) in Fund Balance	(5,441,659)	1,672,521	1,025,954	3,524,975
Ending Fund Balance	\$ 31,757,987	\$ 37,199,646	\$ 35,527,125	\$ 34,501,171
Available Reserves <sup>2</sup>	\$ 2,576,782	\$ 2,566,782	\$ 2,647,664	\$ 5,380,124
Available Reserves as a Percentage of Total Outgo <sup>4</sup>	4.13%	5%	5%	11%
Long-Term Liabilities <sup>6</sup>	Not Available	\$ 35,111,564	\$ 53,923,289	\$ 50,603,960
Average Daily Attendance at Annual <sup>5</sup>	880	870	1,005	1,005

The County School Service Fund balance has increased by \$2,698,475 over the past two years. The fiscal year 2022-2023 budget projects a decrease of \$5,441,659 (14.63%). 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 2022-2023 fiscal year. Total long-term liabilities have decreased by \$15,492,396 over the past two years, primarily due to a decrease in the County's net pension liability and County's other postemployment benefits obligation becoming a total plan asset.

Average daily attendance has decreased by 135 over the past two years, primarily due to the impact of COVID-19 on student attendance. An increase of 10 ADA is anticipated during fiscal year 2022-2023.

<sup>1</sup> Financial information for 2023, 2021, and 2020 are 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.

## Santa Cruz County Superintendent of Schools

### Schedule of Financial Trends and Analysis

Year Ended June 30, 2022

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<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 relating to Senate Bill 90 are included in the calculation of available reserves for the fiscal year ending June 30, 2020.

<sup>5</sup> Annual ADA excludes county operated Special Education programs and charter school ADA.

<sup>6</sup> The 2021 balance of long-term Liabilities was restated due to the implementation of GASB Statement No. 87, *Leases*.

# Santa Cruz County Superintendent of Schools

Schedule of Charter Schools

Year Ended June 30, 2022

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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, 2022

	Charter School Fund	Child Development Fund	Cafeteria Fund	County School Facilities Fund	Total Non-Major Governmental Funds
<b>Assets</b>					
Deposits and investments	\$ 901,082	\$ 118,871	\$ 51,583	\$ 1,087,417	\$ 2,158,953
Receivables	303,374	244,245	33,548	-	581,167
Total assets	<u>\$ 1,204,456</u>	<u>\$ 363,116</u>	<u>\$ 85,131</u>	<u>\$ 1,087,417</u>	<u>\$ 2,740,120</u>
<b>Liabilities and Fund Balances</b>					
<b>Liabilities</b>					
Accounts payable	\$ 262,390	\$ 6,690	\$ -	\$ 1,119,027	\$ 1,388,107
Due to other funds	138,595	151,380	25,000	-	314,975
Unearned revenue	-	104,840	614	-	105,454
Total liabilities	<u>400,985</u>	<u>262,910</u>	<u>25,614</u>	<u>1,119,027</u>	<u>1,808,536</u>
<b>Fund Balances</b>					
Restricted	89,815	98,894	59,517	-	248,226
Assigned	713,656	1,312	-	-	714,968
Unassigned	-	-	-	(31,610)	(31,610)
Total fund balances	<u>803,471</u>	<u>100,206</u>	<u>59,517</u>	<u>(31,610)</u>	<u>931,584</u>
Total liabilities and fund balances	<u>\$ 1,204,456</u>	<u>\$ 363,116</u>	<u>\$ 85,131</u>	<u>\$ 1,087,417</u>	<u>\$ 2,740,120</u>

Santa Cruz County Superintendent of Schools  
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Non-Major Governmental Funds  
Year Ended June 30, 2022

	Charter School Fund	Child Development Fund	Cafeteria Fund	County School Facilities Fund	Total Non-Major Governmental Funds
Revenues					
Local control funding formula	\$ 1,302,277	\$ -	\$ -	\$ -	\$ 1,302,277
Federal sources	202,866	445,256	122,252	-	770,374
Other State sources	195,681	701,931	17,516	-	915,128
Other local sources	266,052	223,940	(1,594)	(31,610)	456,788
Total revenues	<u>1,966,876</u>	<u>1,371,127</u>	<u>138,174</u>	<u>(31,610)</u>	<u>3,444,567</u>
Expenditures					
Current					
Instruction	1,016,734	-	-	-	1,016,734
Instruction-related activities					
Supervision of instruction	262,154	-	-	-	262,154
Instructional library, media, and technology	6,992	-	-	-	6,992
School site administration	257,651	-	-	-	257,651
Pupil services					
Food services	-	-	93,667	-	93,667
All other pupil services	14,161	-	-	-	14,161
Administration					
All other administration	28,109	96,287	-	-	124,396
Community services	-	1,232,131	-	-	1,232,131
Total expenditures	<u>1,585,801</u>	<u>1,328,418</u>	<u>93,667</u>	<u>-</u>	<u>3,007,886</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>381,075</u>	<u>42,709</u>	<u>44,507</u>	<u>(31,610)</u>	<u>436,681</u>
Other Financing Sources					
Transfers in	-	-	15,000	-	15,000
Net Change in Fund Balances	<u>381,075</u>	<u>42,709</u>	<u>59,507</u>	<u>(31,610)</u>	<u>451,681</u>
Fund Balance - Beginning	<u>422,396</u>	<u>57,497</u>	<u>10</u>	<u>-</u>	<u>479,903</u>
Fund Balance - Ending	<u>\$ 803,471</u>	<u>\$ 100,206</u>	<u>\$ 59,517</u>	<u>\$ (31,610)</u>	<u>\$ 931,584</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, 2022. 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.

**Schedule of Average Daily Attendance (ADA)**

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

**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**

These schedules are 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, 2022

# 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 Governing Board  
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, 2022, 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 17, 2023.

***Adoption of New Accounting Standard***

As discussed in Notes 1 and 15 to the financial statements, the Santa Cruz County Superintendent of Schools has adopted the provisions of Government Accounting Standards Board (GASB) Statement No. 87, *Leases*, for the year ended June 30, 2022. Accordingly, a restatement has been made to the governmental activities net position as of July 1, 2021, to restate beginning net position. Our opinions are not modified with respect to this matter.

**Report on 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 or significant deficiencies may exist that have not been identified.

### **Report on 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 Bailly LLP". The signature is written in a cursive, flowing style.

Fresno, California  
February 17, 2023



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

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

### **Report on Compliance for Each Major Federal Program**

#### ***Opinion on Each Major Federal Program***

We have audited Santa Cruz County Superintendent of Schools' compliance with the types of compliance requirements identified as subject to audit 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, 2022. 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.

In our opinion, Santa Cruz County Superintendent of Schools complied, in all material respects, with the 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, 2022.

#### ***Basis for Opinion on Each Major Federal Program***

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); 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). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of Santa Cruz County Superintendent of Schools and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of Santa Cruz County Superintendent of Schools' compliance with the compliance requirements referred to above.

### ***Responsibilities of Management for Compliance***

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to Santa Cruz County Superintendent of Schools' federal programs.

### ***Auditor's Responsibilities for the Audit of Compliance***

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Santa Cruz County Superintendent of Schools' compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Santa Cruz County Superintendent of Schools' compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding Santa Cruz County Superintendent of Schools' compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of Santa Cruz County Superintendent of Schools' internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 Santa Cruz County Superintendent of Schools' internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

### ***Report on 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 Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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.

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

Fresno, California  
February 17, 2023



## **Independent Auditor's Report on State Compliance**

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

### **Report on Compliance**

#### ***Opinion on State Compliance***

We have audited Santa Cruz County Superintendent of Schools' (the County) compliance with the requirements specified in the *2021-2022 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, applicable to the County's state program requirements identified below for the year ended June 30, 2022.

In our opinion, the County complied, in all material respects, with the compliance requirements referred to above that are applicable to the laws and regulations of the state programs noted in the table below for the year ended June 30, 2022.

#### ***Basis for Opinion***

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS), the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the *2021-2022 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the County and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion. Our audit does not provide a legal determination of the County's compliance with the compliance requirements referred to above.

#### ***Responsibilities of Management for Compliance***

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the County's state programs.



### ***Auditor's Responsibilities for the Audit of Compliance***

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the County's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the *2021-2022 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* will always detect a material noncompliance when it exists. The risk of not detecting a material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the County's compliance with the requirements of the state programs as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the *2021-2022 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the County's compliance with the compliance requirements referred to above and performing such other procedures as we consider necessary in the circumstances.
- Obtain an understanding of the County's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the *2021-2022 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, but not for the purpose of expressing an opinion on the effectiveness of the County's internal controls over compliance. Accordingly, we express no such opinion; and
- Select and test transactions and records to determine the County's compliance with the state laws and regulations applicable to the following items:

2021-2022 K-12 Audit Guide Procedures	Procedures Performed
Local Education Agencies Other than Charter Schools	
Attendance	Yes
Teacher Certification and Misassignments	Yes
Kindergarten Continuance	No (see below)
Independent Study	Yes
Continuation Education	No (see below)
Instructional Time	No (see below)
Instructional Materials	Yes
Ratios of Administrative Employees to Teachers	No (see below)
Classroom Teacher Salaries	No (see below)

2021-2022 K-12 Audit Guide Procedures	Procedures Performed
Early Retirement Incentive	No (see below)
Gann Limit Calculation	Yes
School Accountability Report Card	Yes
Juvenile Court Schools	Yes
Middle or Early College High Schools	No (see below)
K-3 Grade Span Adjustment	No (see below)
Transportation Maintenance of Effort	No (see below)
Apprenticeship: Related and Supplemental Instruction	No (see below)
Comprehensive School Safety Plan	Yes
District of Choice	
School Districts, County Offices of Education, and Charter Schools	
California Clean Energy Jobs Act	No (see below)
After/Before School Education and Safety Program	No (see below)
Proper Expenditure of Education Protection Account Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control and Accountability Plan	Yes
Independent Study - Course Based	No (see below)
Immunizations	No (see below)
Educator Effectiveness	Yes
Expanded Learning Opportunities Grant (ELO-G)	Yes
Career Technical Education Incentive Grant	No (see below)
In Person Instruction Grant	Yes
Charter Schools	
Attendance	Yes
Mode of Instruction	No (see below)
Nonclassroom-Based Instruction/Independent Study	Yes
Determination of Funding for Nonclassroom-Based Instruction	Yes
Annual Instructional Minutes - Classroom Based	No (see below)
Charter School Facility Grant Program	No (see below)

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

We did not perform Continuation Education procedures because the program is not offered by the County.

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.

We did not perform procedures for Classroom Teachers Salaries as the County was not subject to the provisions of *Education Code* Section 41372 pursuant to the provisions of *Education Code* Section 41374.

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.

The County does not have any Middle or Early College High Schools; therefore, we did not perform procedures related to Middle or Early College High Schools.

The County does not provide classes for grades K-3; therefore, we did not perform procedures related to K-3 Grade Span Adjustment.

We did not perform testing for Transportation Maintenance of Effort because the requirements do not apply to the County Office of Education.

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.

We did not perform California Clean Energy Jobs Act procedures because the related procedures were performed in a previous year.

We did not perform procedures for the After/Before School Education and Safety Program because the County did not offer the program.

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.

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

The County was not listed on the immunization assessment reports; therefore, we did not perform any related procedures.

We did not perform Career Technical Education Incentive Grant procedures because the County did not receive funding for this grant.

We did not perform procedures for the Charter Schools Mode of Instruction nor Annual Instruction Minutes Classroom-Based because the County's charter school is entirely nonclassroom-based.

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

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identify during the audit.

## Report on 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 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 a material noncompliance with a compliance requirement 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 that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention from those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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 *2021-2022 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 17, 2023



Schedule of Findings and Questioned Costs  
June 30, 2022

# Santa Cruz County Superintendent of Schools

# Santa Cruz County Superintendent of Schools

Summary of Auditor's Results

Year Ended June 30, 2022

## **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**

<u>Name of Federal Program or Cluster</u>	<u>Federal Financial Assistance Listing/ Federal CFDA Number</u>
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**

Internal control over state compliance programs	
Material weaknesses identified	No
Significant deficiencies identified not considered to be material weaknesses	None Reported
Type of auditor's report issued on compliance for programs	Unmodified

None reported.

None reported.



None reported.

There were no audit findings reported in the prior year's Schedule of Findings and Questioned Costs.