



Financial Statements
June 30, 2023

Santa Cruz County Superintendent of Schools

Santa Cruz County Superintendent of Schools

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Independent Auditor's Report

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

Report on the 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 (the County) as of and for the year ended June 30, 2023, 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, 2023, 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 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 audit opinions.

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 County's 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 County's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the County's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, 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 GAAS, 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 County's 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 GAAS. 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 7, 2024 on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the County's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control over financial reporting and compliance.

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

Fresno, California
February 7, 2024



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, 2023 with comparative information for the year ended June 30, 2022. Please read it in conjunction with the County's financial statements, which immediately follow this section.

Financial Highlights

- Total net position was \$31,533,043 on June 20, 2023.
- Overall revenues for the County were \$79,396,011 while expenditures were \$70,737,940.
- The total long-term obligations other than OPEB and pension were \$7,674,708, which primarily includes \$7,017,192 of a leaseback financing agreement.

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 include statements for two categories of activities: governmental and fiduciary.
 - **Governmental funds** statements tell how general government services were financed in the short term as well as what remains for future spending. The statements are prepared using the current financial resources measurement focus and modified accrual basis of accounting.
 - **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 statements are prepared using the economic resources measurement focus and the accrual basis of accounting.

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 \$31,533,043 for the fiscal year ended June 30, 2023. Of this amount, \$7,268,819 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	
	2023	2022
Assets		
Current and other assets	\$ 54,800,789	\$ 62,179,901
Capital assets	22,142,368	23,214,818
Right-to-use leased assets	113,472	53,873
Total assets	77,056,629	85,448,592
Deferred Outflows of Resources	17,476,078	11,264,584
Liabilities		
Current liabilities	8,082,726	21,029,633
Long-term liabilities	49,805,762	35,111,564
Total liabilities	57,888,488	56,141,197
Deferred Inflows of Resources	5,111,176	17,697,007
Net Position		
Net investment in capital assets	15,125,221	15,807,036
Restricted	9,139,003	6,204,855
Unrestricted	7,268,819	863,081
Total net position	\$ 31,533,043	\$ 22,874,972

Santa Cruz County Superintendent of Schools

Management's Discussion and Analysis

June 30, 2023

The \$7,268,819 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 742% \$6,405,738.

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	
	2023	2022
Revenues		
Program revenues		
Charges for services and sales	\$ 7,551,257	\$ 6,196,843
Operating grants and contributions	27,424,607	25,203,529
Capital grants and contributions	1,122,340	4,569
General revenues		
Federal and State aid not restricted	23,015,945	20,443,138
Property taxes and other taxes	16,606,166	15,180,577
Other general revenues	3,675,696	668,143
Total revenues	<u>79,396,011</u>	<u>67,696,799</u>
Expenses		
Instruction-related	32,429,079	27,958,577
Pupil services	5,916,059	4,773,883
Administration	8,858,762	6,889,171
Plant services	3,951,790	3,390,431
All other services	19,582,250	18,667,497
Total expenses	<u>70,737,940</u>	<u>61,679,559</u>
Change in net position	<u>\$ 8,658,071</u>	<u>\$ 6,017,240</u>

Governmental Activities

As reported in the Statement of Activities, the cost of all of our governmental activities this year was \$70,737,940. However, the amount that our taxpayers ultimately financed for these activities through local taxes was only \$16,606,166 because the cost was paid by those who benefited from the programs of \$7,551,257 or by other governments and organizations who subsidized certain programs with grants and contributions of \$27,424,607 and capital grants and contributions of \$1,122,340. We paid for the remaining "public benefit" portion of our governmental activities with \$26,691,641 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-related 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	
	2023	2022	2023	2022
Instruction-related	\$ 32,429,079	\$ 27,958,577	\$ (18,010,080)	\$ (16,754,502)
Pupil services	5,916,059	4,773,883	(1,925,477)	(1,559,408)
Administration	8,858,762	6,889,171	(6,593,153)	(3,725,236)
Plant services	3,951,790	3,390,431	(2,963,892)	(2,064,017)
All other services	19,582,250	18,667,497	(5,147,134)	(6,171,455)
Total	<u>\$ 70,737,940</u>	<u>\$ 61,679,559</u>	<u>\$ (34,639,736)</u>	<u>\$ (30,274,618)</u>

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 \$45,703,924.

Table 4

Governmental Fund	Balances and Activity			June 30, 2023
	July 1, 2022	Revenues and Other Financing Sources	Expenditures and Other Financing Uses	
General	\$ 37,199,647	\$ 61,558,718	\$ 59,197,839	\$ 39,560,526
Charter Schools	803,471	2,726,519	1,947,161	1,582,829
Special Education Pass-Through	307,233	13,224,060	12,154,458	1,376,835
Child Development	100,206	1,586,490	1,540,581	146,115
Cafeteria	59,517	178,829	192,708	45,638
County School Facilities	(31,610)	1,130,160	360,626	737,924
Debt Service	-	2,254,057	-	2,254,057
Total	<u>\$ 38,438,464</u>	<u>\$ 82,658,833</u>	<u>\$ 75,393,373</u>	<u>\$ 45,703,924</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 May 31, 2023. (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, Right-to-Use Leased Assets, and Long-Term Liabilities

Capital Assets and Right-to-Use Leased Assets

On June 30, 2023, the County had invested \$22,255,840 (net of depreciation and amortization expenses) in a broad range of capital assets and right-to-use leased assets, including land, buildings, and furniture and equipment, and right-to-use leased assets, (see Table 5 below). This year's additions included a security switch upgrade, site upgrades and renovations, storage sheds and a box van. More detailed information about the County's capital assets is presented in the notes to the financial statements.

Table 5

	Governmental Activities	
	2023	2022
Land and construction in progress	\$ 4,165,479	\$ 4,026,778
Buildings and improvements	17,185,668	18,299,318
Equipment	791,221	888,722
Right-to-use leased assets	113,472	53,873
Total	<u>\$ 22,255,840</u>	<u>\$ 23,268,691</u>

Long-Term Liabilities

At year end, the County had \$49,805,762 in long-term liabilities, which consisted of net pension liability, net OPEB liability (MPP), compensated absences, and lease agreements 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	
	2023	2022
Long-Term Liabilities		
Leaseback financing (funding of COPS)	\$ 7,017,192	\$ 7,409,779
Other leases	113,427	51,876
Compensated absences	544,089	513,857
Net OPEB liability (MPP)	89,888	127,613
Aggregate net pension liability	42,041,166	27,008,439
Total	<u>\$ 49,805,762</u>	<u>\$ 35,111,564</u>

The County reported deferred outflows of resources from pension activities of \$14,071,211, and deferred inflows of resources from pension activities of \$4,706,687, which along with the aggregate net pension liability of \$42,041,166, had a negative impact on the County's net position of \$32,676,642.

Significant Accomplishments of Fiscal Year 2022 - 2023 Are Noted Below:

The Santa Cruz County Office of Education (Santa Cruz COE) continued to support Districts and families throughout the 2022-2023 fiscal year, guided by its mission of supporting equity for all learners. This work included providing new programs and expanded services in the areas of health and wellness; school safety; equity; student leadership; and Science, Technology, Art, Engineering and Mathematics (STEAM) education.

Health and Wellness: In partnership with the Districts, the Santa Cruz COE released a roadmap to opening a dedicated Wellness Center on the campus of every comprehensive high school in Santa Cruz County, supported in part by \$1 million in federal grant funding secured through the advocacy of Congressman Jimmy Panetta (CA-19). In addition, the Santa Cruz COE launched a program to provide Youth Mental Health First Aid (YMHFA) training and certification opportunities to all Districts, with the goal of teaching adults how to identify, understand and respond to signs of mental health and substance use challenges among children and adolescents ages 12-18.

Due to the increased health threat of fentanyl and opioid overdose, the Santa Cruz COE worked with local partners to distribute informational booklets to all 9th graders in the County, hosting distribution events for overdose reversal drug Naloxone in collaboration with a coalition of local partners, and partnered with the districts to ensure the availability of Naloxone at all comprehensive high schools within Santa Cruz County as well as a growing number of middle and elementary schools. COVID-19 support for districts and families included facilitating more than 209,000 tests and 4,482 vaccinations throughout the year in partnership with the districts and provider Inspire Diagnostics.

School Safety: The Santa Cruz COE launched and hosted the inaugural Incident Command Academy to train teams of administrators from the COE and each of the County's 10 Districts to assess and respond to emergency events more effectively. Facilitated by a team with deep experience in law enforcement and education, the Academy met monthly to learn best practices and engage in table-top activities.

Equity: As part of its commitment to equity for all learners, the Santa Cruz COE maintained an online resource portal as part of its Racial Equity and Justice Initiative. A countywide Equity Council facilitated by the Santa Cruz COE focused on the unique assets and needs of multilingual learners, black students, and students from the LGBTQ+ community, reviewing policies and practices that may impact these marginalized communities.

Student Leadership: Consistent with its commitment to student leadership and voice, the Santa Cruz COE expanded its Youth Led Leadership Alliance project in 2022-2023 to include the Youth Mental Health Leadership Council, a group of student leaders recruited from high schools across Santa Cruz County interested in the issue of mental health among their peers. The Santa Cruz COE also brought back the School Board Academy for Students for a second year due to the program's initial success. This summer program provides students with preparation and support to step into the role of student trustee within their districts, or simply to become more effective advocates and leaders within their campuses and communities.

STEAM Education: As part of its commitment to facilitating innovation at schools across the County and State, the Santa Cruz COE hosted the first cohort of educators from Central California counties in ShiftED. A partnership between the Santa Cruz COE and California Department of Education, ShiftED seeks to establish a solid foundation of tech proficiency by empowering teams of educators to become ambassadors of digital literacy and technology integration. In addition, the Santa Cruz COE partnered with Cabrillo College, Santa Cruz City Schools, Pajaro Valley Unified School District, San Lorenzo Valley Unified School District, and Scotts Valley Unified School District to bring a one-of-a-kind magnet Career Technical Education (CTE) opportunity in the Information, Communication and Technology (ICT) Career Pathway to Santa Cruz County high school students. This program enabled students to earn college and high school credits through the IT Essentials course and prepare for more advanced dual-enrollment opportunities in the ICT pathway at Cabrillo College. In total, 48 students received dual credit as part of the program, which will expand to a fifth section next year. Furthermore, the Santa Cruz COE oversaw the expansion of the traditional Santa Cruz County Science Fair into the Santa Cruz County STEAM Expo, an event that included more career-path focused industry representation and collaboration, and new project categories for student art and performance.

Economic Factors and Next Year's Budgets

Up through 2021-2022, the Santa Cruz COE continued to receive the same funding level as in 2012-2013 due to the hold harmless funding status under LCFF. However, with the Cost of Living Adjustment (COLA) of 6.56% in fiscal 2022-2023, the Santa Cruz COE has begun to receive a small amount of additional revenue attributable to the COLA. In 2023-2024, the Santa Cruz COE will receive the 8.22% COLA on the Local Control Funding Formula as well as certain State categorical programs. On the horizon for the Santa Cruz COE is increased funding as a result of the State's Adopted Budget which set aside \$80 million statewide for County Offices of Education juvenile court and community schools. The Santa Cruz COE will 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 Santa Cruz COE to offer compensation that allows it to continue to attract highly qualified teachers and staff by continuing to be competitive in the market.

The COVID-19 Pandemic continues to impact education as attendance is still lower than prior pre-pandemic years. There are continued concerns of declining State revenues that are being impacted by declining enrollment and Average Daily Attendance (ADA) within the county. Fiscal 2021-2022 experienced declining ADA, however, the Santa Cruz COE saw ADA increase for its programs by 7.8% in 2022-2023, while countywide ADA continued to decline by 2.5% for the 2022-23 fiscal year. Further drops in enrollment could also be due to the fact that Santa Cruz County is now the most expensive place to rent in the country, according to a new report by the National Low Income Housing Coalition. Relief for declining ADA will be available in 2023-2024 as the State budget included a three year rolling average protection for all COEs.

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, 2023

	Governmental Activities
Assets	
Deposits and investments	\$ 45,518,508
Receivables	8,268,142
Other current assets - other postemployment benefits plan asset	1,014,139
Capital assets not depreciated	4,165,479
Capital assets, net of accumulated depreciation	17,976,889
Right-to-use leased assets, net of accumulated amortization	113,472
Total assets	<u>77,056,629</u>
Deferred Outflows of Resources	
Deferred outflows of resources related to OPEB	3,404,867
Deferred outflows of resources related to pensions	14,071,211
Total deferred outflows of resources	<u>17,476,078</u>
Liabilities	
Accounts payable	6,839,363
Unearned revenue	1,243,363
Long-term liabilities	
Long-term liabilities other than OPEB and pensions due within one year	462,464
Long-term liabilities other than OPEB and pensions due in more than one year	7,212,244
Net other postemployment benefits liability (OPEB) - MPP	89,888
Aggregate net pension liabilities	42,041,166
Total liabilities	<u>57,888,488</u>
Deferred Inflows of Resources	
Deferred inflows of resources related to OPEB	404,489
Deferred inflows of resources related to pensions	4,706,687
Total deferred inflows of resources	<u>5,111,176</u>
Net Position	
Net investment in capital assets	15,125,221
Restricted for	
Capital projects	737,924
Educational programs	8,355,441
Child nutrition	45,638
Unrestricted	7,268,819
Total net position	<u><u>\$ 31,533,043</u></u>

Santa Cruz County Superintendent of Schools

Statement of Activities
Year Ended June 30, 2023

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Position Governmental Activities
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities					
Instruction	\$ 18,865,611	\$ 531,362	\$ 7,331,930	\$ 1,122,340	\$ (9,879,979)
Instruction-related activities					
Supervision of instruction	8,315,815	2,390,446	2,016,339	-	(3,909,030)
Instructional library, media, and technology	872,528	27,360	190,452	-	(654,716)
School site administration	4,375,125	176,567	632,203	-	(3,566,355)
Pupil services					
Food services	192,708	-	152,913	-	(39,795)
All other pupil services	5,723,351	1,024,854	2,812,815	-	(1,885,682)
Administration					
Data processing	1,767,769	7,189	10,526	-	(1,750,054)
All other administration	7,090,993	399,092	1,848,802	-	(4,843,099)
Plant services	3,951,790	613,784	374,114	-	(2,963,892)
Ancillary services	25,819	10,081	3,366	-	(12,372)
Community services	3,850,983	1,198,529	2,262,128	-	(390,326)
Interest on long-term liabilities	232,169	-	-	-	(232,169)
Other outgo	15,473,279	1,171,993	9,789,019	-	(4,512,267)
Total governmental activities	<u>\$ 70,737,940</u>	<u>\$ 7,551,257</u>	<u>\$ 27,424,607</u>	<u>\$ 1,122,340</u>	<u>(34,639,736)</u>
General Revenues and Subventions					
Property taxes, levied for general purposes					15,571,348
Taxes levied for other specific purposes					1,034,818
Federal and State aid not restricted to specific purposes					23,015,945
Interest, investment earnings and fair value adjustments					410,249
Miscellaneous and unspent State entitlements revenues					<u>3,265,447</u>
Subtotal, general revenues and subventions					<u>43,297,807</u>
Change in Net Position					8,658,071
Net Position - Beginning					<u>22,874,972</u>
Net Position - Ending					<u>\$ 31,533,043</u>

Santa Cruz County Superintendent of Schools

Balance Sheet – Governmental Funds

June 30, 2023

	County School Service Fund	Special Education Pass-Through Fund	Non-Major Governmental Funds	Total Governmental Funds
Assets				
Deposits and investments	\$ 42,336,315	\$ 930,176	\$ 2,252,017	\$ 45,518,508
Receivables	5,509,393	1,908,693	850,056	8,268,142
Due from other funds	466,216	-	2,279,112	2,745,328
Total assets	\$ 48,311,924	\$ 2,838,869	\$ 5,381,185	\$ 56,531,978
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 5,299,701	\$ 1,379,218	\$ 160,444	\$ 6,839,363
Due to other funds	2,279,112	82,816	383,400	2,745,328
Unearned revenue	1,172,585	-	70,778	1,243,363
Total liabilities	8,751,398	1,462,034	614,622	10,828,054
Fund Balances				
Restricted	6,413,465	1,376,835	1,348,703	9,139,003
Committed	-	-	2,254,057	2,254,057
Assigned	30,042,259	-	1,163,803	31,206,062
Unassigned	3,104,802	-	-	3,104,802
Total fund balances	39,560,526	1,376,835	4,766,563	45,703,924
Total liabilities and fund balances	\$ 48,311,924	\$ 2,838,869	\$ 5,381,185	\$ 56,531,978

Santa Cruz County Superintendent of Schools
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position
June 30, 2023

Total Fund Balance - Governmental Funds		\$ 45,703,924
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	\$ 37,382,459	
Accumulated depreciation is	<u>(15,240,091)</u>	
Net capital assets		22,142,368
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	118,405	
Accumulated amortization is	<u>(4,933)</u>	
Net right-to-use leased assets		113,472
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)	3,404,867	
Net pension liability	<u>14,071,211</u>	
Total deferred outflows of resources to pensions		17,476,078
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)	(404,489)	
Net pension liability	<u>(4,706,687)</u>	
Total deferred inflows of resources to pensions		(5,111,176)
Net pension liability is not due and payable in the current period, and is not reported as a liability in the funds.		(42,041,166)
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.		924,251
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		
Leaseback financing	(7,017,192)	
Other leases	(113,427)	
Compensated absences (vacations)	<u>(544,089)</u>	
Total long-term liabilities		<u>(7,674,708)</u>
Total net position - governmental activities		<u><u>\$ 31,533,043</u></u>

Santa Cruz County Superintendent of Schools
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds
Year Ended June 30, 2023

	County School Service Fund	Special Education Pass-Through Fund	Non-Major Governmental Funds	Total Governmental Funds
Revenues				
Local Control Funding Formula	\$ 33,241,430	\$ -	\$ 1,641,102	\$ 34,882,532
Federal sources	6,012,866	5,040,520	901,352	11,954,738
Other State sources	9,292,475	7,931,132	2,327,281	19,550,888
Other local sources	12,532,916	252,408	727,263	13,512,587
Total revenues	61,079,687	13,224,060	5,596,998	79,900,745
Expenditures				
Current				
Instruction	18,228,552	-	1,165,681	19,394,233
Instruction-related activities				
Supervision of instruction	8,378,498	-	371,190	8,749,688
Instructional library, media, and technology	966,702	-	8,834	975,536
School site administration	4,260,247	-	350,652	4,610,899
Pupil services				
Food services	-	-	192,708	192,708
All other pupil services	5,971,917	-	22,554	5,994,471
Administration				
Data processing	1,851,936	-	-	1,851,936
All other administration	6,667,626	-	146,559	6,814,185
Plant services	3,987,793	-	-	3,987,793
Ancillary services	25,713	-	-	25,713
Community services	2,520,146	-	1,422,272	3,942,418
Facility acquisition and construction	116,075	-	-	116,075
Debt service				
Principal	392,587	-	-	392,587
Interest and other	232,169	-	-	232,169
Total expenditures	53,599,961	-	3,680,450	57,280,411
Excess of Revenues Over Expenditures	7,479,726	13,224,060	1,916,548	22,620,334
Other Financing Sources (Uses)				
Transfers in	360,626	-	2,279,057	2,639,683
Proceeds from leases	118,405	-	-	118,405
Transfers out	(2,279,057)	-	(360,626)	(2,639,683)
Other uses, payment to other agencies	(3,318,821)	(12,154,458)	-	(15,473,279)
Net Financing Sources (Uses)	(5,118,847)	(12,154,458)	1,918,431	(15,354,874)
Net Change in Fund Balances	2,360,879	1,069,602	3,834,979	7,265,460
Fund Balance - Beginning	37,199,647	307,233	931,584	38,438,464
Fund Balance - Ending	\$ 39,560,526	\$ 1,376,835	\$ 4,766,563	\$ 45,703,924

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, 2023

Total Net Change in Fund Balances - Governmental Funds	\$ 7,265,460
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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	\$ (1,501,382)	
Capital outlays	<u>507,106</u>	
Net expense adjustment		(994,276)

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.	(18,575)
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Right-to-use leased assets acquired this year were financed with leases. The amount financed by the leases is reported in the governmental funds as a source of financing. On the other hand, the leases are not revenues in the Statement of Activities, but rather constitute long-term liabilities in the Statement of Net Position.	(118,405)
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In the Statement of Activities, certain operating expenses, such as compensated absences (vacations) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). This amount is the difference between vacation earned and used.	(30,232)
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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.	1,309,978
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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.	794,680
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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, 2023

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.

Leaseback financing	392,587
Other leases	<u>56,854</u>
Change in net position of governmental activities	<u>\$ 8,658,071</u>

Santa Cruz County Superintendent of Schools

Statement of Net Position – Fiduciary Fund

June 30, 2023

	Custodial Funds
	<u> </u>
Assets	
Deposits and investments	\$ 2,177
	<u> </u>
Liabilities	
Total liabilities	\$ -
	<u> </u>
Net Position	
Restricted for individuals, organizations, and other governments	\$ 2,177
	<u> </u>

Santa Cruz County Superintendent of Schools
Statement of Changes in Net Position – Fiduciary Funds
Year Ended June 30, 2023

	<u>Custodial Funds</u>
Revenues	
Other local sources	<u>\$ -</u>
Expenditures	
Scholarships awarded	<u>1,104</u>
Net change in fiduciary net position	(1,104)
Net Position - Beginning	<u>3,281</u>
Net Position - Ending	<u><u>\$ 2,177</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 Schools 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.

The County has an approved charter for Santa Cruz County Career Advancement Charter School pursuant to *Education Code* Section 47605. The Santa Cruz County Career Advancement Charter School is operated by the County, and its financial activities are presented in the Charter School special revenue Fund. The Charter School is not considered a component unit of the County.

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 \$3,598,654.

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.).

Debt Service Funds The Debt Service funds are used to account for the accumulation of resources for and the payment of principal and interest on general long-term liabilities.

- **Debt Service Fund** The Debt Service Fund is used for the accumulation of resources for and the retirement of principal and interest on general long-term liabilities.

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 government-wide statements.

Investments

Investments held at June 30, 2023, 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, Depreciation, and Amortization

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, 2023.

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 or useful life of the underlying asset.

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. At the commencement of the lease term, 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 or useful life of the underlying asset.

Fund Balances - Governmental Funds

As of June 30, 2023, 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 \$9,139,003 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.

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

Deposits and investments as of June 30, 2023, are classified in the accompanying financial statements as follows:

Governmental funds	\$ 45,518,508
Fiduciary funds	<u>2,177</u>
Total deposits and investments	<u><u>\$ 45,520,685</u></u>

Deposits and investments as of June 30, 2023, consist of the following:

Cash on hand and in banks	\$ 54,319
Investments	<u>45,466,366</u>
Total deposits and investments	<u><u>\$ 45,520,685</u></u>

Policies and Practices

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

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

General Authorizations

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

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

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The County has a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The County manages its exposure to interest rate risk by investing in the county pool and/or having the Pool purchase a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations. The County maintains an investment of \$45,466,366 in the Santa Cruz County Treasury Investment Pool that has an average weighted maturity of 223 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, 2023.

Note 3 - Receivables

Receivables at June 30, 2023, 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	\$ 1,980,938	\$ 270,298	\$ 497,167	\$ 2,748,403
State Government State grants and entitlements	911,481	1,638,395	346,368	2,896,244
Local sources	<u>2,616,974</u>	<u>-</u>	<u>6,521</u>	<u>2,623,495</u>
Total	<u>\$ 5,509,393</u>	<u>\$ 1,908,693</u>	<u>\$ 850,056</u>	<u>\$ 8,268,142</u>

Santa Cruz County Superintendent of Schools

Notes to Financial Statements

June 30, 2023

Note 4 - Capital Assets and Right-to-Use Leased Assets

Capital assets and right-to-use leased assets activity for the fiscal year ended June 30, 2023, was as follows:

	Balance July 1, 2022	Additions	Deductions	Balance June 30, 2023
Governmental Activities				
Capital assets not being depreciated				
Land	\$ 4,026,778	\$ -	\$ -	\$ 4,026,778
Construction in progress	-	138,701	-	138,701
Total capital assets not being depreciated	4,026,778	138,701	-	4,165,479
Capital assets being depreciated				
Land improvements	62,422	-	-	62,422
Buildings and improvements	29,659,482	116,075	-	29,775,557
Furniture and equipment	3,300,140	133,925	(55,064)	3,379,001
Total capital assets being depreciated	33,022,044	250,000	(55,064)	33,216,980
Total capital assets	37,048,822	388,701	(55,064)	37,382,459
Accumulated depreciation				
Land improvements	(53,413)	(3,943)	-	(57,356)
Buildings and improvements	(11,369,173)	(1,225,782)	-	(12,594,955)
Furniture and equipment	(2,411,418)	(212,851)	36,489	(2,587,780)
Total accumulated depreciation	(13,834,004)	(1,442,576)	36,489	(15,240,091)
Net depreciable capital assets	19,188,040	(1,192,576)	(18,575)	17,976,889
Right-to-use leased assets being amortized				
Buildings and improvements	286,522	118,405	(286,522)	118,405
Accumulated amortization				
Buildings and improvements	(232,649)	(58,806)	286,522	(4,933)
Net right-to-use leased assets	53,873	59,599	-	113,472
Governmental activities capital assets and right-to-use leased assets, net	\$ 23,268,691	\$ (994,276)	\$ (18,575)	\$ 22,255,840

Santa Cruz County Superintendent of Schools

Notes to Financial Statements

June 30, 2023

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

Governmental Activities	
Instruction	\$ 813,563
Instructional library, media, and technology	49,494
Data processing	8,407
All other administration	474,423
Plant services	155,495
	<u>155,495</u>
Total depreciation and amortization expenses - governmental activities	<u>\$ 1,501,382</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, 2023, 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	\$ 466,216	\$ 2,279,112
Special Education Pass-Through	-	82,816
Non-Major Governmental Funds		
Charter Schools	25,055	114,190
Child Development	-	269,210
Debt Service	2,254,057	-
	<u>2,254,057</u>	<u>-</u>
Total	<u>\$ 2,745,328</u>	<u>\$ 2,745,328</u>

The Special Education Pass-Through Fund owes the County School Service Fund for revenue.	\$ 82,816
The County School Service Non-Major Governmental Fund owes the Debt Service Non-Major Governmental Fund for future leaseback payments.	2,254,057
The County School Service Non-Major Governmental Fund owes the Charter Non-Major Governmental Fund for a temporary cash flow loan.	25,055
The Charter School Non-Major Governmental Fund owes the County School Service Non-Major Governmental Fund for a temporary cash flow loan.	27,790
The Charter School Non-Major Governmental Fund owes the County School Service Fund for oversight fees.	86,400
The Child Development Non-Major Governmental Fund owes the County School Service Fund for a temporary cash flow loan.	237,343
The Child Development Non-Major Governmental Fund owes the County School Service Fund for indirect costs.	31,867
	<u>31,867</u>
Total	<u>\$ 2,745,328</u>

Santa Cruz County Superintendent of Schools

Notes to Financial Statements

June 30, 2023

Operating Transfers

Interfund transfers for the year ended June 30, 2023, consisted of the following:

The County School Service Fund transferred to the Cafeteria Non-Major Governmental Fund a temporary loan.	\$ 25,000
The County School Facilities Non-Major Governmental Fund transferred to the County School Service Fund to support capital projects.	360,626
The County School Service Fund transferred to the Debt Service Non-Major Governmental Fund for future leaseback debt payments.	<u>2,254,057</u>
Total	<u>\$ 2,639,683</u>

Note 6 - Accounts Payable

Accounts payable at June 30, 2023, consisted of the following:

	County School Service Fund	Special Education Pass-Through Fund	Non-Major Governmental Funds	Total
Vendor payables	\$ 4,591,560	\$ 1,379,218	\$ 131,652	\$ 6,102,430
LCFF apportionment	135,208	-	-	135,208
Salaries and benefits	<u>572,933</u>	<u>-</u>	<u>28,792</u>	<u>601,725</u>
Total	<u>\$ 5,299,701</u>	<u>\$ 1,379,218</u>	<u>\$ 160,444</u>	<u>\$ 6,839,363</u>

Note 7 - Unearned Revenue

Unearned revenue at June 30, 2023, consists of the following:

	County School Service Fund	Non-Major Governmental Funds	Total
Federal financial assistance	\$ 616,863	\$ 64,513	\$ 681,376
State categorical aid	<u>555,722</u>	<u>6,265</u>	<u>561,987</u>
Total	<u>\$ 1,172,585</u>	<u>\$ 70,778</u>	<u>\$ 1,243,363</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, 2022	Additions	Deductions	Balance June 30, 2023	Due in One Year
Long-Term Liabilities					
Leaseback financing	\$ 7,409,779	\$ -	\$ (392,587)	\$ 7,017,192	\$ 405,150
Other leases	51,876	118,405	(56,854)	113,427	57,314
Compensated absences	513,857	30,232	-	544,089	-
	<u>513,857</u>	<u>30,232</u>	<u>-</u>	<u>544,089</u>	<u>-</u>
Total	<u>\$ 7,975,512</u>	<u>\$ 148,637</u>	<u>\$ (449,441)</u>	<u>\$ 7,674,708</u>	<u>\$ 462,464</u>

Payments on the leaseback financing arrangement is paid by the General Fund with contributions being made to the Debt Service Fund. The other 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.

Leaseback Financing

In May 2007, the Santa Cruz County Office of Education entered into a leaseback agreement with the Public Property Financing Corporation of California to fund the debt service related to certificates of participation issued by the Corporation 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, 2023, the principal balance outstanding was \$7,017,192. The Counties lease payments are inline and equal to the Corporations scheduled principal and interest payments due on the Certificates are as follows:

Year Ending June 30,	Principal	Interest	Total
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	459,556	165,200	624,756
2029-2033	2,528,021	595,756	3,123,777
2034-2037	2,329,548	169,474	2,499,022
	<u>2,329,548</u>	<u>169,474</u>	<u>2,499,022</u>
Total	<u>\$ 7,017,192</u>	<u>\$ 1,729,384</u>	<u>\$ 8,746,576</u>

Santa Cruz County Superintendent of Schools

Notes to Financial Statements

June 30, 2023

Leases

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

Lease	Leases Outstanding July 1, 2022	Addition	Payments	Leases Outstanding June 30, 2023
Cabrillo College - Oasis - 2021-23	\$ 51,876	\$ -	\$ (51,876)	\$ -
Cabrillo College - Oasis - 2023-25	-	118,405	(4,978)	113,427
Total	<u>\$ 51,876</u>	<u>\$ 118,405</u>	<u>\$ (56,854)</u>	<u>\$ 113,427</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 entered into a new lease beginning June 1, 2023 and ends May 31, 2025. Under the terms of the lease the County will make monthly payments of \$4,787 (from June 1, 2022 to May 31, 2023) and payments of \$4,978 (from June 1, 2023 to May 31, 2024) increasing 4.0 percent on June 1, 2024. The annual interest rate charged to the lease is 3.0 percent. At June 30, 2023, the County has recognized right-to-use asset of \$118,405 and a total lease liability of \$113,427 related to the lease agreement. During the fiscal year, the County recorded \$58,806 in amortization expense and \$56,854 in principal and \$781 in interest payments for the right-to-use the rooms in Building 350.

The remaining principal and interest payment requirements for the lease obligation debt as of June 30, 2023, are as follows:

Year Ending June 30,	Principal	Interest	Total
2024	\$ 57,314	\$ 2,622	\$ 59,936
2025	56,113	845	56,958
Total	<u>\$ 113,427</u>	<u>\$ 3,467</u>	<u>\$ 116,894</u>

Compensated Absences

Compensated absences (unpaid employee vacation) for the County at June 30, 2023, amounted to \$544,089.

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

For the fiscal year ended June 30, 2023, 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	\$ (1,014,139)	\$ 3,404,867	\$ 404,489	\$ 417,588
Medicare Premium Payment (MPP) Program	89,888	-	-	(37,725)
Total	<u>\$ (924,251)</u>	<u>\$ 3,404,867</u>	<u>\$ 404,489</u>	<u>\$ 379,863</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>320</u>

Benefits Provided

The Plan provides medical, dental and vision insurance benefits (no vision benefits for classified) to eligible retirees and their dependents (no dependent coverage for Classified [includes Confidential] unless hired prior to July 1, 1999). One year of benefits for 2 years of service but not beyond age 65 for Certificated (if hired prior to July 1, 1999, Classified not limited to age 65 and Management receives lifetime coverage). Benefits are provided through a third-party insurer, and the full cost of benefits is covered by the Plan capped at HMO rate. 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 \$1,163,923 to the Plan for fiscal year 2022-2023, including \$123,857 in an implicit rate subsidy credit and \$1,079,005 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, 2023:

<u>Asset Class</u>	<u>Target Allocation</u>
All Equities	0.59
All Fixed Income	0.25
Treasury Inflation Protected Securities	0.05
US Real Estate	0.08
All Commodities	0.03

Net OPEB Plan Asset of the County

The County's net OPEB plan asset of \$1,014,139 was measured as of June 30, 2022, by applying certain roll-forward procedures to the July 1, 2022 valuation. The components of the net OPEB plan asset of the County at June 30, 2023, were as follows:

Total OPEB liability	\$ 9,908,159
Plan fiduciary net position	<u>(10,922,298)</u>
Net OPEB plan asset	<u>\$ (1,014,139)</u>
Plan fiduciary net position as a percentage of the total OPEB liability	<u>110.24%</u>

Actuarial Assumptions

The total OPEB plan asset in the June 30, 2022, actuarial measurement was determined using the following assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.50%
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 2023 and thereafter

Mortality rates were based on the 2020 CalSTRS Mortality Table for certificated employees and the 2017 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	7.5450%
All Fixed Income	4.2500%
Treasury Inflation Protected Securities	3.0000%
US Real Estate	7.2500%
All Commodities	7.5450%

Discount Rate

The discount rate used to measure the total OPEB net plan asset 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, 2023

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, 2021	\$ 9,831,539	\$ 12,543,343	\$ (2,711,804)
Service cost	339,179	-	339,179
Interest	644,464	(1,780,310)	2,424,774
Administrative expenses	-	(3,295)	3,295
Employer contributions to Trust*	-	1,174,543	(1,174,543)
Benefit payments from trust*	(1,011,983)	(1,011,983)	-
Experience (gains)/losses	104,960	-	104,960
Net change in total OPEB liability	76,620	(1,621,045)	1,697,665
Balance, June 30, 2022	\$ 9,908,159	\$ 10,922,298	\$ (1,014,139)

* Includes \$79,221 due to implied rate subsidy

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

Changes of Assumptions - There were no changes in assumptions since the previous valuation.

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

The following presents the 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%)	\$ (231,287)
Current discount rate (6.75%)	(1,014,139)
1% increase (7.75%)	(1,710,940)

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

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

<u>Healthcare Cost Trend Rate</u>	<u>Net OPEB Plan (Asset) Liability</u>
1% decrease (3.0%)	\$ (1,984,943)
Current healthcare cost trend rate (4.0%)	(1,014,139)
1% increase (5.0%)	118,767

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

For the year ended June 30, 2023, the County recognized OPEB expense of \$417,588 and the County reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
OPEB contributions subsequent to measurement date	\$ 1,163,923	\$ -
Differences between expected and actual experience	1,220,933	404,489
Changes of assumptions	27,623	-
Net difference between projected and actual earnings on OPEB plan investments	992,388	-
	<u>992,388</u>	<u>-</u>
Total	<u>\$ 3,404,867</u>	<u>\$ 404,489</u>

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 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 (EARSL) 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
2023	\$ 108,574
2024	108,574
2025	108,574
2026	108,574
2027	108,574
Thereafter	301,197
Total	<u>\$ 844,067</u>

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
2023	\$ 178,723
2024	173,538
2025	113,658
2026	526,469
Total	<u>\$ 992,388</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, 2021, 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, 2023, the County reported a liability of \$89,888 for its proportionate share of the net OPEB liability for the MPP Program. The net OPEB liability was measured as of June 30, 2022, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2021. 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, 2022 and June 30, 2021, respectively, was 0.0273% and 0.0320%, resulting in a net decrease in the proportionate share of 0.0047%.

For the year ended June 30, 2023, the County recognized OPEB expense of \$(37,725).

Actuarial Methods and Assumptions

The June 30, 2022 total OPEB liability was determined by applying update procedures to the financial reporting actuarial valuation as of June 30, 2021, and rolling forward the total OPEB liability to June 30, 2022, using the assumptions listed in the following table:

Measurement Date	June 30, 2022	June 30, 2021
Valuation Date	June 30, 2021	June 30, 2020
Experience Study	July 1, 2015 through June 30, 2018	July 1, 2015 through June 30, 2018
Actuarial Cost Method	Entry age normal	Entry age normal
Investment Rate of Return	3.54%	2.16%
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, 2021, 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 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 209 or an average of 0.14% of the potentially eligible population (145,282).

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, 2022, 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, 2022, is 3.54%. 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 3.54%, which is the Bond Buyer 20-Bond GO Index from Bondbuyer.com as of June 30, 2022, was applied to all periods of projected benefit payments to measure the total OPEB liability. The discount rate increased 1.38% from 2.16% as of June 30, 2021.

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 (2.54%)	\$ 97,996
Current discount rate (3.54%)	89,888
1% increase (4.54%)	82,868

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)	\$ 82,476
Current Medicare costs trend rates (4.50% Part A and 5.40% Part B)	89,888
1% increase (5.50% Part A and 6.40% Part B)	98,291

Santa Cruz County Superintendent of Schools

Notes to Financial Statements

June 30, 2023

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	\$ 6,413,465	\$ 1,376,835	\$ 419,976	\$ 8,210,276
Child development programs	-	-	145,165	145,165
Capital projects	-	-	737,924	737,924
Child nutrition	-	-	45,638	45,638
Total restricted	<u>6,413,465</u>	<u>1,376,835</u>	<u>1,348,703</u>	<u>9,139,003</u>
Committed				
Leaseback debt payments	<u>-</u>	<u>-</u>	<u>2,254,057</u>	<u>2,254,057</u>
Assigned				
MAA program	911,827	-	-	911,827
Differentiated assistance	210,801	-	-	210,801
Classified credentialing program	200,000	-	-	200,000
Mandated cost program	2,342,054	-	-	2,342,054
Safety program	100,806	-	-	100,806
SMAA administration	2,841,856	-	-	2,841,856
Alternative education-court base	789,420	-	-	789,420
Alternative education-community base	1,123,337	-	-	1,123,337
Special projects	200,000	-	-	200,000
Deferred maintenance	2,783,591	-	-	2,783,591
Education and administrative operations	17,821,317	-	-	17,821,317
Lottery	715,737	-	-	715,737
Career advancement charter-LCFF base	-	-	1,021,263	1,021,263
Career advancement charter-3% reserve	-	-	58,415	58,415
Career advancement charter-lottery	-	-	83,175	83,175
Child development MAA	-	-	950	950
Adult education	1,513	-	-	1,513
Total assigned	<u>30,042,259</u>	<u>-</u>	<u>1,163,803</u>	<u>31,206,062</u>
Unassigned				
Reserve for economic uncertainties	<u>3,104,802</u>	<u>-</u>	<u>-</u>	<u>3,104,802</u>
Total	<u>\$ 39,560,526</u>	<u>\$ 1,376,835</u>	<u>\$ 4,766,563</u>	<u>\$ 45,703,924</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, 2023, 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 2022-2023, 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, 2023 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	\$ 12,633,989	\$ 4,604,756	\$ 3,763,859	\$ 691,120
CalPERS	29,407,177	9,466,455	942,828	3,767,257
Total	<u>\$ 42,041,166</u>	<u>\$ 14,071,211</u>	<u>\$ 4,706,687</u>	<u>\$ 4,458,377</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, 2021 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, 2023, 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	19.10%	19.10%
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, 2023, are presented above and the County's total contributions were \$2,290,888.

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

At June 30, 2023, 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	\$ 12,633,989
State's proportionate share of the net pension liability	<u>6,327,052</u>
Total	<u>\$ 18,961,041</u>

The net pension liability was measured as of June 30, 2022. 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, 2022 and June 30, 2021, respectively was 0.0182% and 0.0213%, resulting in a net decrease in the proportionate share of 0.0031%.

Santa Cruz County Superintendent of Schools

Notes to Financial Statements

June 30, 2023

For the year ended June 30, 2023, the County recognized pension expense of \$691,120. In addition, County recognized pension expense and revenue of \$510,273 for support provided by the State. At June 30, 2023, the County reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Pension contributions subsequent to measurement date	\$ 2,290,888	\$ -
Change in proportion and differences between contributions made and County's proportionate share of contributions	1,676,950	2,198,747
Differences between projected and actual earnings on pension plan investments	-	617,826
Differences between expected and actual experience in the measurement of the total pension liability	10,364	947,286
Changes of assumptions	<u>626,554</u>	<u>-</u>
Total	<u><u>\$ 4,604,756</u></u>	<u><u>\$ 3,763,859</u></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:

<u>Year Ended June 30,</u>	<u>Deferred Outflows/(Inflows) of Resources</u>
2024	\$ (453,838)
2025	(491,658)
2026	(738,571)
2027	<u>1,066,241</u>
Total	<u><u>\$ (617,826)</u></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 (EARSL) of all members that are provided benefits (active, inactive, and retirees) as of the beginning of the measurement period. The EARSL for the measurement period is seven years and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2024	\$ 439,359
2025	(75,295)
2026	(165,523)
2027	(277,862)
2028	(345,489)
Thereafter	(407,355)
Total	<u>\$ (832,165)</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, 2021 and rolling forward the total pension liability to June 30, 2022. The financial reporting actuarial valuation as of June 30, 2021, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2021
Measurement date	June 30, 2022
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, 2022, 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%)	\$ 21,457,200
Current discount rate (7.10%)	12,633,989
1% increase (8.10%)	5,308,072

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, 2021 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, 2023, 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%	8.00%
Required employer contribution rate	25.370%	25.370%

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, 2023, are presented above and the total County contributions were \$3,477,466.

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

As of June 30, 2023, the County reported net pension liabilities for its proportionate share of the CalPERS net pension liability totaling \$29,407,177. The net pension liability was measured as of June 30, 2022. 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, 2022 and June 30, 2021, respectively, was 0.0855% and 0.0852%, resulting in a net increase in the proportionate share of 0.0003%.

For the year ended June 30, 2023, the County recognized pension expense of \$3,767,257. At June 30, 2023, 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	\$ 3,477,466	\$ -
Change in proportion and differences between contributions made and County's proportionate share of contributions	208,521	211,140
Differences between projected and actual earnings on pension plan investments	3,472,188	-
Differences between expected and actual experience in the measurement of the total pension liability	132,904	731,688
Changes of assumptions	2,175,376	
	<u>\$ 9,466,455</u>	<u>\$ 942,828</u>
Total		

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.

Santa Cruz County Superintendent of Schools

Notes to Financial Statements

June 30, 2023

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:

<u>Year Ended June 30,</u>	<u>Deferred Outflows/(Inflows) of Resources</u>
2024	\$ 579,051
2025	513,578
2026	262,342
2027	<u>2,117,217</u>
Total	<u>\$ 3,472,188</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 3.9 years and will be recognized in pension expense as follows:

<u>Year Ended June 30,</u>	<u>Deferred Outflows/(Inflows) of Resources</u>
2024	\$ 559,773
2025	591,916
2026	446,055
2027	<u>(23,771)</u>
Total	<u>\$ 1,573,973</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, 2021, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2021
Measurement date	June 30, 2022
Experience study	July 1, 1997 through June 30, 2015
Actuarial cost method	Entry age normal
Discount rate	6.90%
Investment rate of return	6.90%
Consumer price inflation	2.30%
Wage growth	Varies by entry age and service

The mortality table used was developed based on CalPERS-specific data. The rates incorporate Generational Mortality to capture ongoing mortality improvement using 80% of Scale MP-2020 published by the Society of Actuaries.

In determining the long-term expected rate of return, CalPERS took into account long-term market return expectations as well as the expected pension fund cash flows. Projected returns for all asset classes are estimated and, combined with risk estimates, are used to project compound (geometric) returns over the long term. The discount rate used to discount liabilities was informed by the long-term projected portfolio return. 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 - cap-weighted	30%	4.45%
Global Equity non-cap-weighted	12%	3.84%
Private Equity	13%	7.28%
Treasury	5%	0.27%
Mortgage-backed Securities	5%	0.50%
Investment Grade Corporates	10%	1.56%
High Yield	5%	2.27%
Emerging Market Debt	5%	2.48%
Private Debt	5%	3.57%
Real Assets	15%	3.21%
Leverage	(5%)	(0.59%)

Discount Rate

The discount rate used to measure the total pension liability was 6.90%. The projection of cash flows used to determine the discount rate assumed the contributions from plan members and employers will be made at the current member contribution rates and that contributions from employers will be made at statutorily required rates, actuarially determined. 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 expected rate of return on the School Employer Pool investments 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 (5.90%)	\$ 42,480,156
Current discount rate (6.90%)	29,407,177
1% increase (7.90%)	18,602,840

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 \$1,015,007 (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, 2023.

Litigation

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

Construction Commitments

As of June 30, 2023, the County had the following commitments with respect to the unfinished capital projects:

<u>Capital Project</u>	<u>Remaining Construction Commitment</u>	<u>Expected Date of Completion</u>
Data Center Switch Upgrade	<u>\$ 500,000</u>	June 30, 2026

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, 2023, the County made payments of \$642,500, \$539,904, and \$190,505 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.



Required Supplementary Information
June 30, 2023

Santa Cruz County Superintendent of Schools

Santa Cruz County Superintendent of Schools
Budgetary Comparison Schedule – County School Service Fund
Year Ended June 30, 2023

	Budgeted Amounts		Actual	Variances - Positive (Negative) Final to Actual
	Original	Final		
Revenues				
Local Control Funding Formula	\$ 28,928,775	\$ 31,623,708	\$ 33,241,430	\$ 1,617,722
Federal sources	7,612,195	7,595,480	6,012,866	(1,582,614)
Other State sources	9,999,286	9,557,041	9,292,475	(264,566)
Other local sources	10,406,706	13,686,858	12,532,916	(1,153,942)
Total revenues ¹	56,946,962	62,463,087	61,079,687	(1,383,400)
Expenditures				
Current				
Certificated salaries	13,153,374	13,049,614	12,912,921	136,693
Classified salaries	15,235,143	14,541,110	14,365,514	175,596
Employee benefits	17,010,105	16,011,445	15,673,534	337,911
Books and supplies	1,937,279	3,072,206	1,870,981	1,201,225
Services and operating expenditures	9,583,429	9,181,486	7,613,615	1,567,871
Other outgo	(140,883)	(160,925)	252,603	(413,528)
Capital outlay	485,120	333,962	286,037	47,925
Debt service				
Debt service - principal	392,587	392,587	392,587	-
Debt service - interest and other	232,169	232,169	232,169	-
Total expenditures ¹	57,888,323	56,653,654	53,599,961	3,053,693
Excess (Deficiency) of Revenues Over Expenditures	(941,361)	5,809,433	7,479,726	1,670,293
Other Financing Sources (Uses)				
Transfers in	-	360,626	360,626	-
Proceeds from leases	-	-	118,405	118,405
Transfers out	-	(475,000)	(2,279,057)	(1,804,057)
Other uses, payments to other agencies	(4,500,000)	(4,500,000)	(3,318,821)	1,181,179
Net financing sources (uses)	(4,500,000)	(4,614,374)	(5,118,847)	(504,473)
Net Change in Fund Balances	(5,441,361)	1,195,059	2,360,879	1,165,820
Fund Balance - Beginning	37,199,647	37,199,647	37,199,647	-
Fund Balance - Ending	\$ 31,758,286	\$ 38,394,706	\$ 39,560,526	\$ 1,165,820

¹ 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, 2023

	Budgeted Amounts		Actual	Variances - Positive (Negative)
	Original	Final		Final to Actual
Revenues				
Federal sources	\$ 4,685,698	\$ 4,685,698	\$ 5,040,520	\$ 354,822
Other State sources	5,479,589	5,479,589	7,931,132	2,451,543
Other local sources	14,500	305,647	252,408	(53,239)
Total revenues	10,179,787	10,470,934	13,224,060	2,753,126
Other Financing Uses				
Other uses, payment to other agencies	(9,889,505)	(9,889,505)	(12,154,458)	(2,264,953)
Net Change in Fund Balances	290,282	581,429	1,069,602	488,173
Fund Balance - Beginning	307,233	307,233	307,233	-
Fund Balance - Ending	\$ 597,515	\$ 888,662	\$ 1,376,835	\$ 488,173

Santa Cruz County Superintendent of Schools
Schedule of Changes in the County's Net OPEB Liability and Related Ratios
Year Ended June 30, 2023

	2023	2022	2021	2020	2019	2018
Total OPEB Liability						
Service cost	\$ 339,179	\$ 486,669	\$ 473,644	\$ 403,067	\$ 392,279	\$ 381,780
Interest	644,464	688,629	668,053	550,815	521,490	491,261
Benefit payments	(1,011,983)	(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	104,960	(461,816)	(17,380)	1,392,603	-	-
Changes in assumption	-	32,601	-	-	-	-
Net change in total OPEB liability	76,620	(187,462)	282,730	1,791,565	468,216	415,203
Total OPEB Liability - Beginning	9,831,549	10,019,011	9,736,281	7,944,716	7,476,500	7,061,297
Total OPEB Liability - Ending (a)	<u>\$ 9,908,169</u>	<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	\$ 1,174,543	\$ 1,336,559	\$ 858,815	\$ 873,118	\$ 595,554	\$ 557,838
Interest	(1,780,310)	-	-	-	-	-
Net investment income	-	2,736,582	335,208	563,364	601,237	740,457
Benefit payments	(1,011,983)	(933,545)	(841,587)	(773,118)	(502,479)	(457,838)
Actual minus expected benefit payments	-	-	-	-	56,926	-
Administrative expense	(3,295)	(3,739)	(4,600)	-	-	-
Other	-	-	-	-	7,330	-
Net change in plan fiduciary net position	(1,621,045)	3,135,857	347,836	663,364	758,568	840,457
Plan Fiduciary Net Position - Beginning	12,543,353	9,407,496	9,059,660	8,396,296	7,637,728	6,797,271
Plan Fiduciary Net Position - Ending (b)	<u>\$ 10,922,308</u>	<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>\$ (1,014,139)</u>	<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	110.24%	127.58%	93.90%	93.05%	105.68%	102.16%
Covered Payroll	N/A ¹	N/A ¹	N/A ¹	N/A ¹	N/A ¹	N/A ¹
Net OPEB (Asset)/Liability as a Percentage of Covered Payroll	N/A ¹	N/A ¹	N/A ¹	N/A ¹	N/A ¹	N/A ¹
Measurement Date	June 30, 2022	June 30, 2021	June 30, 2020	June 30, 2019	June 30, 2018	June 30, 2017

¹ 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.

Santa Cruz County Superintendent of Schools
Schedule of the County's Proportionate Share of the Net OPEB Liability – MPP Program
Year Ended June 30, 2023

Year ended June 30,	2023	2022	2021	2020	2019	2018
Proportion of the net OPEB liability	0.0273%	0.0320%	0.0342%	0.0333%	0.0332%	0.0332%
Proportionate share of the net OPEB liability	\$ 89,888	\$ 127,613	\$ 144,851	\$ 124,556	\$ 120,821	\$ 127,684
Covered payroll	N/A ¹	N/A ¹	N/A ¹	N/A ¹	N/A ¹	N/A ¹
Proportionate share of the net OPEB liability as a percentage of it's covered payroll	N/A ¹	N/A ¹	N/A ¹	N/A ¹	N/A ¹	N/A ¹
Plan fiduciary net position as a percentage of the total OPEB liability	(0.94%)	(0.80%)	(0.71%)	(0.81%)	(0.40%)	0.01%
Measurement Date	June 30, 2022	June 30, 2021	June 30, 2020	June 30, 2019	June 30, 2018	June 30, 2017

¹ 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, 2023

	2023	2022	2021	2020	2019
CalSTRS					
Proportion of the net pension liability	0.0182%	0.0213%	0.0196%	0.0189%	0.0176%
Proportionate share of the net pension liability	\$ 12,633,989	\$ 9,686,133	\$ 19,009,830	\$ 17,076,252	\$ 16,162,680
State's proportionate share of the net pension liability	6,327,052	4,873,687	9,799,570	9,316,235	9,253,890
Total	\$ 18,961,041	\$ 14,559,820	\$ 28,809,400	\$ 26,392,487	\$ 25,416,570
Covered payroll	\$ 11,477,949	\$ 10,934,000	\$ 8,859,790	\$ 10,404,233	\$ 9,561,423
Proportionate share of the net pension liability as a percentage of its covered payroll	110.07%	88.59%	214.56%	164.13%	169.04%
Plan fiduciary net position as a percentage of the total pension liability	81%	87%	72%	73%	71%
Measurement Date	June 30, 2022	June 30, 2021	June 30, 2020	June 30, 2019	June 30, 2018
CalPERS					
Proportion of the net pension liability	0.0855%	0.0852%	0.0834%	0.0827%	0.0815%
Proportionate share of the net pension liability	\$ 29,407,177	\$ 17,322,306	\$ 25,594,009	\$ 24,098,441	\$ 21,727,160
Covered payroll	\$ 12,578,577	\$ 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	233.79%	147.36%	222.42%	217.65%	208.84%
Plan fiduciary net position as a percentage of the total pension liability	70%	81%	70%	70%	71%
Measurement Date	June 30, 2022	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, 2023

	2018	2017	2016	2015
CalSTRS				
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	\$ 24,674,858	\$ 21,456,124	\$ 21,954,170	\$ 24,193,290
Covered payroll	\$ 8,958,810	\$ 8,863,027	\$ 9,494,981	\$ 11,592,138
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
CalPERS				
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	\$ 9,686,705	\$ 8,789,783	\$ 8,800,872	\$ 9,190,072
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, 2023

	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>
CalSTRS					
Contractually required contribution	\$ 2,290,888	\$ 1,942,069	\$ 1,765,841	\$ 1,515,024	\$ 1,690,102
Less contributions in relation to the contractually required contribution	<u>2,290,888</u>	<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>	<u>\$ -</u>
Covered payroll	<u>\$ 11,994,178</u>	<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>19.10%</u>	<u>16.92%</u>	<u>16.15%</u>	<u>17.10%</u>	<u>16.24%</u>
CalPERS					
Contractually required contribution	\$ 3,477,466	\$ 2,881,752	\$ 2,433,293	\$ 2,269,228	\$ 1,996,656
Less contributions in relation to the contractually required contribution	<u>3,477,466</u>	<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>	<u>\$ -</u>
Covered payroll	<u>\$ 13,707,000</u>	<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>25.370%</u>	<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, 2023

	2018	2017	2016	2015
CalSTRS				
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>
CalPERS				
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.

This schedule presents information for the original and final budgets and actual results of operations, as well as the variances from the final budget to actual results of operations.

At June 30, 2023, the County's Special Education Pass-Through Fund exceeded the budgeted amount in total as follows:

Fund	Expenditures and Other Uses		
	Budget	Actual	Excess
Special Education Pass-Through Fund	\$ 9,889,505	\$ 12,154,458	\$ (2,264,953)

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* - There were no changes in assumptions 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 2.16% to 3.54% 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 the CalSTRS plan from the previous valuations. The CalPERS plan rate of investment return assumption was changed from 7.15% to 6.90% since the previous valuation.

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, 2023

Santa Cruz County Superintendent of Schools

Santa Cruz County Superintendent of Schools

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2023

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal Financial Assistance Listing 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	\$ 252,109	\$ -
Title I, Part D, Subpart 2, Local Delinquent Programs	84.010	14357	182,562	-
Title I, Comprehensive Support for Improvement for LEAs	84.010	15438	220,706	-
Title I, Comprehensive Support for Improvement for COEs	84.010	15439	81,504	-
Subtotal Title I (84.010)			736,881	-
COVID-19, Elementary and Secondary School Emergency Relief Fund (ESSER II)	84.425D	15547	622,765	-
COVID-19, Elementary and Secondary School Emergency Relief Fund (ESSER III)	84.425U	15559	375,656	-
COVID-19, Expanded Learning Opportunities (ELO) Grant: ESSER III State Reserve, Learning Loss	84.425U	15621	11,129	-
COVID-19, Elementary and Secondary School Emergency Relief Fund (ESSER III), Learning Loss	84.425U	10155	184,422	-
COVID-19, American Rescue Plan - Homeless Children and Youth (ARP-HYC) Program	84.425W	15564	73,338	-
COVID-19, American Rescue Plan - Homeless Children and Youth (ARP-HYC II) Program	84.425W	15564	4,701	-
Subtotal (84.425)			1,272,011	-
Title II, Supporting Effective Instruction State Grants - Teacher Quality	84.367	14341	31,445	-
Title IV, Part A, Student Support and Academic Enrichment Program	84.424	15396	22,836	-
Title X McKinney-Vento Homeless Children Assistance Grants	84.196	14332	126,964	-

Santa Cruz County Superintendent of Schools

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2023

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal Financial Assistance Listing 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 Basic Local Assistance Entitlement	84.027	13379	5,089,980	4,685,512
COVID-19, IDEA Basic ARP Local Assistance Entitlement	84.027	15638	41,004	-
IDEA Mental Health Services, Part B	84.027A	15197	242,457	200,352
Subtotal (84.027)			5,373,441	4,885,864
IDEA Preschool Grants, Part B, Section 619	84.173	13430	154,656	154,656
IDEA Preschool Staff Development	84.173A	13431	118	-
Subtotal (84.173)			154,774	154,656
Subtotal Special Education Cluster			5,528,215	5,040,520
Special Education - Grants for Infants and Families IDEA Early Intervention Grants	84.181	23761	102,304	-
Adult Education - Basic Grants to States: Basic & ESL	84.002A	14508	8,840	-
Adult Education - Basic Grants to States: Secondary Education	84.002	13978	18,645	-
Adult Education - Basic Grants to States: Institutionalized Adults	84.002	13971	19,160	-
Subtotal (84.002)			46,645	-
Passed Through California Department of Rehabilitation (DOR):				
State Vocational Rehabilitation Services Program - We Can Work	84.126A	[1]	120,432	-
Total U.S Department of Education			7,987,733	5,040,520

[1] Pass-Through Entity Identifying Number not available

Santa Cruz County Superintendent of Schools

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2023

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal Financial Assistance Listing Number	Pass-Through Entity Identifying Number	Federal Expenditures	Amounts Passed Through to Subrecipients
U.S. Department of Health and Human Services				
Foster Care - Title IV-E	93.658	[1]	249,549	-
Passed through California Department of Public Health:				
COVID-19, Public Health Workforce Supplemental Funding: Health and Safety Champions Program	93.354	[1]	103,933	-
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	196,149	-
COVID-19, American Rescue Plan - Child Care and Development Block Grant:				-
CCIP Expansion Grant	93.575	24553	279,463	-
COVID-19, American Rescue Plan - Child Care and Development Block Grant:				-
Child Care Resource & Referral Project	93.575	24553	69,941	-
Subtotal CCDF Cluster			598,670	-
Passed Through Stanislaus County Office of Education:				
Head Start Cluster				
Migrant Head Start	93.600	[1]	1,881,858	-
COVID-19, Coronavirus Response and Relief Supplemental Appropriations				-
(CRRSA) Act One-Time Stipend Migrant Head Start	93.600	[1]	19,711	-
COVID-19, American Rescue Plan Migrant Head Start	93.600	[1]	87,359	-
Subtotal Head Start Cluster			1,988,928	-
Total U.S Department of Health and Human Services			2,941,080	-

[1] Pass-Through Entity Identifying Number not available

Santa Cruz County Superintendent of Schools

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2023

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal Financial Assistance Listing 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	642,673	-
Total U.S Department of Labor			642,673	-
Federal Communications Commission				
COVID-19, Emergency Connectivity Fund	32.009	[1]	1,784	-
Total Federal Communications Commission			1,784	-
U.S. Department of Commerce				
NOAA California Bay Watershed Education and Training Program	11.429	[1]	4,511	-
Marine Sanctuary Program - Every Classroom a Green Classroom	11.429	[1]	88,981	-
Total U.S Department of Commerce			93,492	-
U.S. Department of Agriculture				
Passed Through California Department of Education (CDE):				
Child Nutrition Cluster				
National School Lunch	10.555	13391	72,398	-
Subtotal Child Nutrition Cluster			72,398	-
Total U.S Department of Agriculture			72,398	-
Total Federal Financial Assistance			\$ 11,739,160	\$ 5,040,520

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
Bruce Van Allen	President	2026
Sue Roth	Vice President	2026
Alyssa Alto	Member	2024
Abel Sanchez	Member	2026
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, 2023

	Second Period Report	Annual Report
Elementary School ADA		
Probation referred, on probation or parole, expelled	6.71	8.00
Total elementary school ADA	6.71	8.00
High School ADA		
Juvenile halls, homes and camps	65.28	65.50
Probation referred, on probation or parole, expelled	825.06	865.08
Total high school ADA	890.34	930.58
Total ADA	897.05	938.58
Santa Cruz County Career Advancement Charter School		
Regular ADA, All Non-Classroom Based		
Ninth through twelfth	137.98	141.06

Santa Cruz County Superintendent of Schools
Reconciliation of Annual Financial and Budget Report with Audited Financial Statements
Year Ended June 30, 2023

There were no adjustments to the Unaudited Actual Financial Report, which required reconciliation to the audited financial statements at June 30, 2023.

Santa Cruz County Superintendent of Schools

Schedule of Financial Trends and Analysis

Year Ended June 30, 2023

	(Budget) 2024 ¹	2023	2022 ¹	2021 ¹
County School Service Fund ³				
Revenues	\$ 61,707,038	\$ 61,079,687	\$ 54,094,876	\$ 52,673,801
Other sources and transfers in	-	479,031	-	-
Total Revenues and Other Sources	<u>61,707,038</u>	<u>61,558,718</u>	<u>54,094,876</u>	<u>52,673,801</u>
Expenditures	67,690,006	53,599,961	48,934,701	45,792,535
Other uses and transfers out	60,850	5,597,878	3,487,653	5,855,312
Total Expenditures and Other Uses	<u>67,750,856</u>	<u>59,197,839</u>	<u>52,422,354</u>	<u>51,647,847</u>
Increase/(Decrease) in Fund Balance	<u>(6,043,818)</u>	<u>2,360,879</u>	<u>1,672,522</u>	<u>1,025,954</u>
Ending Fund Balance	<u>\$ 33,516,708</u>	<u>\$ 39,560,526</u>	<u>\$ 37,199,647</u>	<u>\$ 35,527,125</u>
Available Reserves ²	<u>\$ 3,104,802</u>	<u>\$ 3,104,802</u>	<u>\$ 2,566,782</u>	<u>\$ 2,647,664</u>
Available Reserves as a Percentage of Total Outgo	<u>5%</u>	<u>5%</u>	<u>5%</u>	<u>5%</u>
Long-Term Liabilities ⁵	<u>Not Available</u>	<u>\$ 49,805,762</u>	<u>\$ 35,111,564</u>	<u>\$ 53,923,289</u>
Average Daily Attendance at Annual ⁴	<u>939</u>	<u>939</u>	<u>870</u>	<u>1,005</u>

The County School Service Fund balance has increased by \$4,033,401 over the past two years. The fiscal year 2023-2024 budget projects a decrease of \$6,043,818 (15.28%). 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 2023-2024 fiscal year. Total long-term liabilities have decreased by \$4,117,527 over the past two years, primarily due to changes in the County's net pension liability and County's other postemployment benefits obligation becoming a net plan asset.

Average daily attendance has decreased by 66 over the past two years. No change in ADA is anticipated during fiscal year 2023-2024.

¹ Financial information for 2024, 2022, and 2021 are included for analytical purposes only and has not been subjected to audit.

² 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, 2023

³ 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.

⁴ Annual ADA excludes county operated Special Education programs and charter school ADA.

⁵ 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, 2023

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, 2023

	Charter School Fund	Child Development Fund	Cafeteria Fund	County School Facilities Fund	Debt Service Fund	Total Non-Major Governmental Funds
Assets						
Deposits and investments	\$ 1,476,311	\$ 16,833	\$ 20,949	\$ 737,924	\$ -	\$ 2,252,017
Receivables	371,449	453,304	25,303	-	-	850,056
Due from other funds	25,055	-	-	-	2,254,057	2,279,112
	<u>25,055</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,254,057</u>	<u>2,279,112</u>
Total assets	<u>\$ 1,872,815</u>	<u>\$ 470,137</u>	<u>\$ 46,252</u>	<u>\$ 737,924</u>	<u>\$ 2,254,057</u>	<u>\$ 5,381,185</u>
Liabilities and Fund Balances						
Liabilities						
Accounts payable	\$ 131,208	\$ 29,236	\$ -	\$ -	-	\$ 160,444
Due to other funds	114,190	269,210	-	-	-	383,400
Unearned revenue	44,588	25,576	614	-	-	70,778
	<u>44,588</u>	<u>25,576</u>	<u>614</u>	<u>-</u>	<u>-</u>	<u>70,778</u>
Total liabilities	<u>289,986</u>	<u>324,022</u>	<u>614</u>	<u>-</u>	<u>-</u>	<u>614,622</u>
Fund Balances						
Restricted	419,976	145,165	45,638	737,924	-	1,348,703
Committed	-	-	-	-	2,254,057	2,254,057
Assigned	1,162,853	950	-	-	-	1,163,803
	<u>1,162,853</u>	<u>950</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,163,803</u>
Total fund balances	<u>1,582,829</u>	<u>146,115</u>	<u>45,638</u>	<u>737,924</u>	<u>2,254,057</u>	<u>4,766,563</u>
Total liabilities and fund balances	<u>\$ 1,872,815</u>	<u>\$ 470,137</u>	<u>\$ 46,252</u>	<u>\$ 737,924</u>	<u>\$ 2,254,057</u>	<u>\$ 5,381,185</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, 2023

	Charter School Fund	Child Development Fund	Cafeteria Fund	County School Facilities Fund	Debt Service Fund	Total Non-Major Governmental Funds
Revenues						
Local Control Funding Formula	\$ 1,641,102	\$ -	\$ -	\$ -	\$ -	\$ 1,641,102
Federal sources	227,897	601,057	72,398	-	-	901,352
Other State sources	548,816	737,649	80,090	960,726	-	2,327,281
Other local sources	308,704	247,784	1,341	169,434	-	727,263
Total revenues	<u>2,726,519</u>	<u>1,586,490</u>	<u>153,829</u>	<u>1,130,160</u>	<u>-</u>	<u>5,596,998</u>
Expenditures						
Current						
Instruction	1,165,681	-	-	-	-	1,165,681
Instruction-related activities						
Supervision of instruction	371,190	-	-	-	-	371,190
Instructional library, media, and technology	8,834	-	-	-	-	8,834
School site administration	350,652	-	-	-	-	350,652
Pupil services						
Food services	-	-	192,708	-	-	192,708
All other pupil services	22,554	-	-	-	-	22,554
Administration						
All other administration	28,250	118,309	-	-	-	146,559
Community services	-	1,422,272	-	-	-	1,422,272
Total expenditures	<u>1,947,161</u>	<u>1,540,581</u>	<u>192,708</u>	<u>-</u>	<u>-</u>	<u>3,680,450</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>779,358</u>	<u>45,909</u>	<u>(38,879)</u>	<u>1,130,160</u>	<u>-</u>	<u>1,916,548</u>
Other Financing Sources (Uses)						
Transfers in	-	-	25,000	-	2,254,057	2,279,057
Transfers out	-	-	-	(360,626)	-	(360,626)
Net Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>25,000</u>	<u>(360,626)</u>	<u>2,254,057</u>	<u>1,918,431</u>
Net Change in Fund Balances	<u>779,358</u>	<u>45,909</u>	<u>(13,879)</u>	<u>769,534</u>	<u>2,254,057</u>	<u>3,834,979</u>
Fund Balance - Beginning	<u>803,471</u>	<u>100,206</u>	<u>59,517</u>	<u>(31,610)</u>	<u>-</u>	<u>931,584</u>
Fund Balance - Ending	<u>\$ 1,582,829</u>	<u>\$ 146,115</u>	<u>\$ 45,638</u>	<u>\$ 737,924</u>	<u>\$ 2,254,057</u>	<u>\$ 4,766,563</u>

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, 2023. 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 Santa Cruz County Superintendent of Schools, it is not intended to and does not present the net position, changes in net position or fund balances of Santa Cruz County Superintendent of Schools.

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.

SEFA Reconciliation

The total federal expenditures reported on the schedule differs from the total federal revenue recognized within the financial statements due to the County receiving revenues in the current year that were unspent.

	Federal Financial Assistance Listing Number	Amount
Description		
Total Federal Revenues reported on the financial statements		\$ 11,954,738
COVID-19, Public Health Workforce Supplemental Funding:		
Health and Safety Champions Program	93.354	(213,191)
COVID-19, American Rescue Plan - Child Care and Development		
Block Grant: Child Care Resource & Referral Project	93.575	(2,387)
Total Federal Financial Assistance		<u>\$ 11,739,160</u>

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, 2023

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 (*Government Auditing Standards*), the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Santa Cruz County Superintendent of Schools (the County), as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the County's basic financial statements and have issued our report thereon dated February 7, 2024.

Report on Internal Control over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the 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 were not identified.

Report on Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the County'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 County'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 7, 2024



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' (the County) 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 the County's major federal programs for the year ended June 30, 2023. The County's 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, the County 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, 2023.

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 the County 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 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 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 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 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 the County's 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 the County's compliance with the compliance requirements referred to above and performing such other procedures as we considered 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 Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the County's 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 7, 2024



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 *2022-2023 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, 2023.

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, 2023.

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 (*Government Auditing Standards*), and the *2022-2023 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 *2022-2023 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 *2022-2023 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 *2022-2023 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:

2022-2023 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)

2022-2023 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	No (see below)
Home to School Transportation Reimbursement	No (see below)
Independent Study Certification for ADA Loss Mitigation	Yes
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)
Transitional Kindergarten	No (see below)
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 does not offer kindergarten instruction; 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.

We did not perform Middle or Early College High Schools procedures because the program is not offered by the County.

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

The County is not a school district, therefore, transportation maintenance of effort was not applicable.

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

The County did not elect to operate as a school district of choice; therefore, we did not perform procedures related to District of Choice.

The County did not receive Home-to-School Transportation Reimbursement; therefore, we did not perform procedures related to Home-to-School Transportation Reimbursement.

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 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.

The County did not report ADA for transitional kindergarten; therefore, we did not perform procedures related to Transitional Kindergarten.

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 *2022-2023 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 7, 2024



Schedule of Findings and Questioned Costs
June 30, 2023

Santa Cruz County Superintendent of Schools

Santa Cruz County Superintendent of Schools

Summary of Auditor's Results

Year Ended June 30, 2023

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 Number</u>
COVID-19, Elementary and Secondary School Emergency Relief Fund (ESSER II)	84.425D
COVID-19, Elementary and Secondary School Emergency Relief Fund (ESSER III)	84.425U
COVID-19, Expanded Learning Opportunities (ELO) Grant: ESSER III State Reserve, Learning Loss	84.425U
COVID-19, Elementary and Secondary School Emergency Relief Fund (ESSER III), Learning Loss	84.425U
COVID-19, American Rescue Plan - Homeless Children and Youth (ARP-HYC) Program	84.425W
COVID-19, American Rescue Plan - Homeless Children and Youth (ARP-HYC II) Program	84.425W
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?	Yes

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.