HAPPY VALLEY ELEMENTARY
SCHOOL DISTRICT

COUNTY OF SANTA CRUZ
SANTA CRUZ, CALIFORNIA

ANNUAL FINANCIAL REPORT
JUNE 30, 2022

ROBERTSON & ASSOCIATES, CPAs
A Professional Corporation

HAPPY VALLEY ELEMENTARY SCHOOL DISTRICT
JUNE 30, 2022

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JUNE 30, 2022

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Happy Valley Elementary School District
Santa Cruz, California

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Happy Valley Elementary School District (District), as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the 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 District, as of June 30, 2022, and the respective changes in financial position and, 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 District, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis of Matter

As discussed in Note 1 to the financial statements, the District has adopted the provisions of Government Accounting Standards Board (GASB) Statement No. 87, Leases. As a result of this implementation, there was no impact to the beginning governmental activities net position.

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 District's ability to continue

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

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the required supplementary information, budgetary comparison information, schedule of the District's proportionate share of the net pension liability, and the schedule of the District pension contributions, be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial 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 District's basic financial statements. The accompanying combining nonmajor fund financial statements and other supplementary information listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining non-major fund financial statements, and the other supplementary information listed in the table of contents are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 1, 2023 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Robertson & Associates, CPAs

Lakeport, California
June 1, 2023

Happy Valley Elementary School District
Management's Discussion and Analysis
June 30, 2022

INTRODUCTION

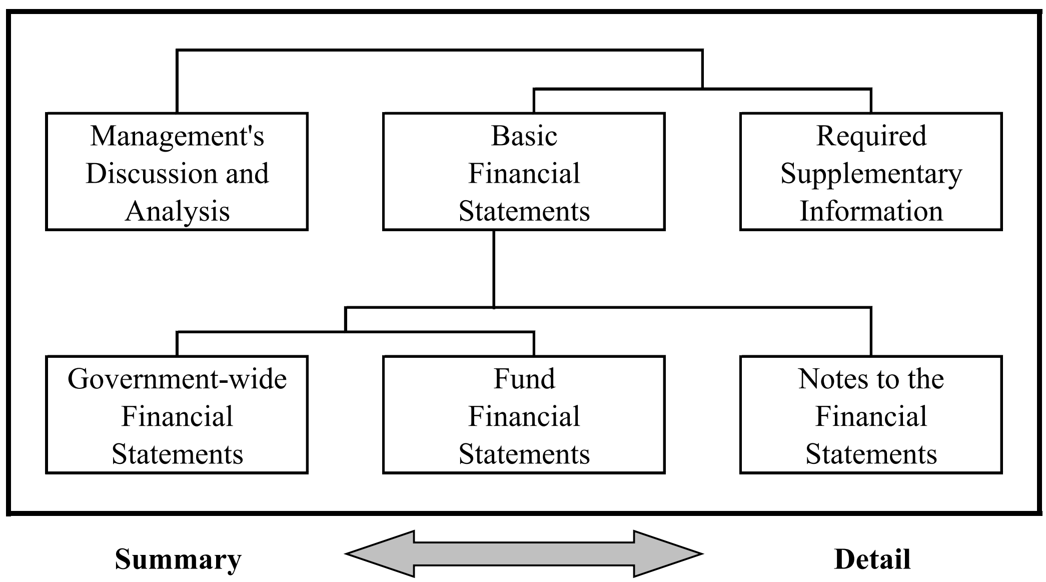
Our discussion and analysis of Happy Valley Elementary School District (District's) financial performance provides an overview of the District's financial activities for the year ended June 30, 2022. It should be read in conjunction with the District's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- Total net position was $1,839,393 at June 30, 2022. This was a decrease of $461,970 from the prior year.
- Overall revenues were $1,582,973, overall expenses were $2,044,943.

OVERVIEW OF FINANCIAL STATEMENTS

Components of the Financials Section



This annual report consists of three parts – Management's Discussion and Analysis (this section), the basic financial statements, and required supplementary information. The three sections together provide a comprehensive overview of the District. 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 District's overall financial position.
- **Fund financial statements** focus on reporting the individual parts of District operations in more detail. The fund financial statements comprise the remaining statements.
    - **Governmental fund** statements tell how general government services were financed in the short term as well as what remains for future spending.

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 and other supplementary information that further explain and support the financial statements.

Government-Wide Statements

The government-wide statements report information about the District using accounting methods similar to those used by private-sector companies. The statement of net position includes all the government's assets and liabilities. All 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 District's net position and how they have changed. Net position, the difference between assets and liabilities, is one way to measure the District's financial health or position.

- Over time, increases or decreases in the District's net position is an indicator of whether its financial health is improving or deteriorating, respectively. The net position of the District has decreased by 25% in the past year.
- The net change in all funds from 2020/2021 to 2021/2022 was a decrease of $461,970. This is due to the GASB 31 adjustments offsetting the increase in the Fund 01 balance and a decrease in Net Pension liability.
- To assess the overall health of the District, one needs to consider additional non-financial factors such as changes in enrollment, changes in the property tax base, and changes in program funding by the Federal and State governments, and condition of facilities. The District's enrollment increased by 4 in the past year.
- Average Daily Attendance (ADA) was 102.07 and funded ADA was 109.37 per the prior year ADA guarantee. The decrease in ADA has not had any impact on funding because the District is Basic Aid and receives its funding through property tax revenues. In 2021/2022, property tax revenue increased by $35,988 over the prior year which is a 3.3% increase.

The government-wide statements of the District include all governmental activities. All of the District's basic services are included here, such as regular education, food service, maintenance and general administration. LCFF funding and federal and state grants finance most of these activities.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

Fund Financial Statements

The fund financial statements provide more detailed information about the District's most significant governmental funds, not the District as a whole. Funds are accounting devices that the District uses to keep track of specific sources of funding and spending for programs.

- Some funds are required to be established by State law and by bond covenants.

- The governing board establishes other funds to control and manage money for particular purposes or to show that the District is meeting legal responsibilities for using certain revenues.

The District has one type of fund:

- Governmental funds – All of the District'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 determine whether there are more or fewer financial resources than previously to finance the District's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information following the governmental funds' statements that explains the relationship (or differences) between them.

The financial performance of the District is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported a combined fund balance of $2,719,202 as compared to the prior year's ending fund balance of $2,784,346.

FINANCIAL ANALYSIS OF THE ENTITY AS A WHOLE

Net Position

The District's combined net position was $1,839,393 at June 30, 2022.

	Governmental Activities 2022	Governmental Activities 2021	Net Change
ASSETS			
Cash and Equivalents	$ 1,818,571	$ 1,655,913	$ 162,658
Investments	921,715	1,098,542	(176,827)
Other Current Assets	96,842	97,093	(251)
Capital Assets, Net of Accumulated Depreciation	574,435	608,489	(34,054)
TOTAL ASSETS	$ 3,411,563	$ 3,460,037	$ (48,474)
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Outflow of Resources - Pensions	$ 558,003	$ 605,543	$ (47,540)
TOTAL DEFERRED OUTFLOWS OF RESOURCES	$ 558,003	$ 605,543	$ (47,540)
LIABILITIES			
Current Liabilities	$ 117,926	$ 67,202	$ 50,724
Long-Term Liabilities	733,823	1,347,696	(613,873)
TOTAL LIABILITIES	$ 851,749	$ 1,414,898	$ (563,149)
DEFERRED INFLOWS OF RESOURCES			
Deferred Inflows of Resources - Pensions	$ 1,278,424	$ 349,319	$ 929,105
TOTAL DEFERRED INFLOWS OF RESOURCES	$ 1,278,424	$ 349,319	$ 929,105
NET POSITION			
Invested in Capital Assets, Net of Related Debt	$ 574,435	$ 608,489	$ (34,054)
Restricted	1,205,459	1,329,601	(124,142)
Unrestricted	59,499	363,273	(303,774)
TOTAL NET POSITION	$ 1,839,393	$ 2,301,363	$ (461,970)

Changes in Net Position

	Governmental Activities		
	2022	2021	Net Change
REVENUES			
Program Revenues:			
Charges for Services	$ 11,772	$ 10,096	$ 1,676
Operating Grants and Contributions	275,945	531,510	(255,565)
General Revenues:			
Property Taxes	1,170,585	1,134,660	35,925
Unrestricted Federal and State Aid	122,485	121,433	1,052
Miscellaneous and Other Local	2,186	20,216	(18,030)
TOTAL REVENUES	1,582,973	1,817,915	(234,942)
EXPENSES			
Instruction	1,269,031	793,475	475,556
Instruction-Related Services	398,532	351,903	46,629
Pupil Services	28,238	9,331	18,907
General Administration	240,713	195,870	44,843
Plant Services	108,291	109,982	(1,691)
Transfers Between Agencies	138	126	12
TOTAL EXPENSES	2,044,943	1,460,687	584,256
INCREASE (DECREASE) IN NET POSITION	(461,970)	357,228	(819,198)
NET POSITION - BEGINNING	2,301,363	1,944,135	357,228
NET POSITION - ENDING	$ 1,839,393	$ 2,301,363	$ (461,970)

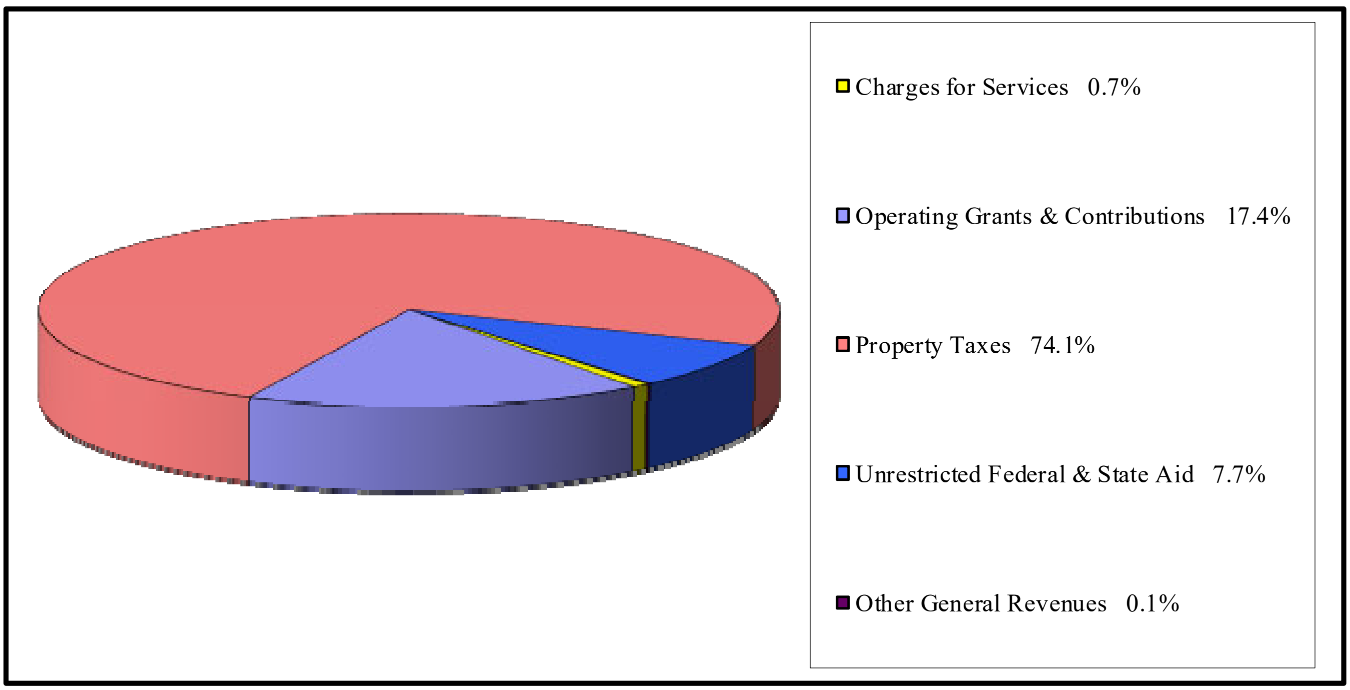
Governmental Activities

Net cost is total cost less fees generated by the related activity. The net cost reflects amounts funded by charges for services, operating grants and capital grants and contributions.

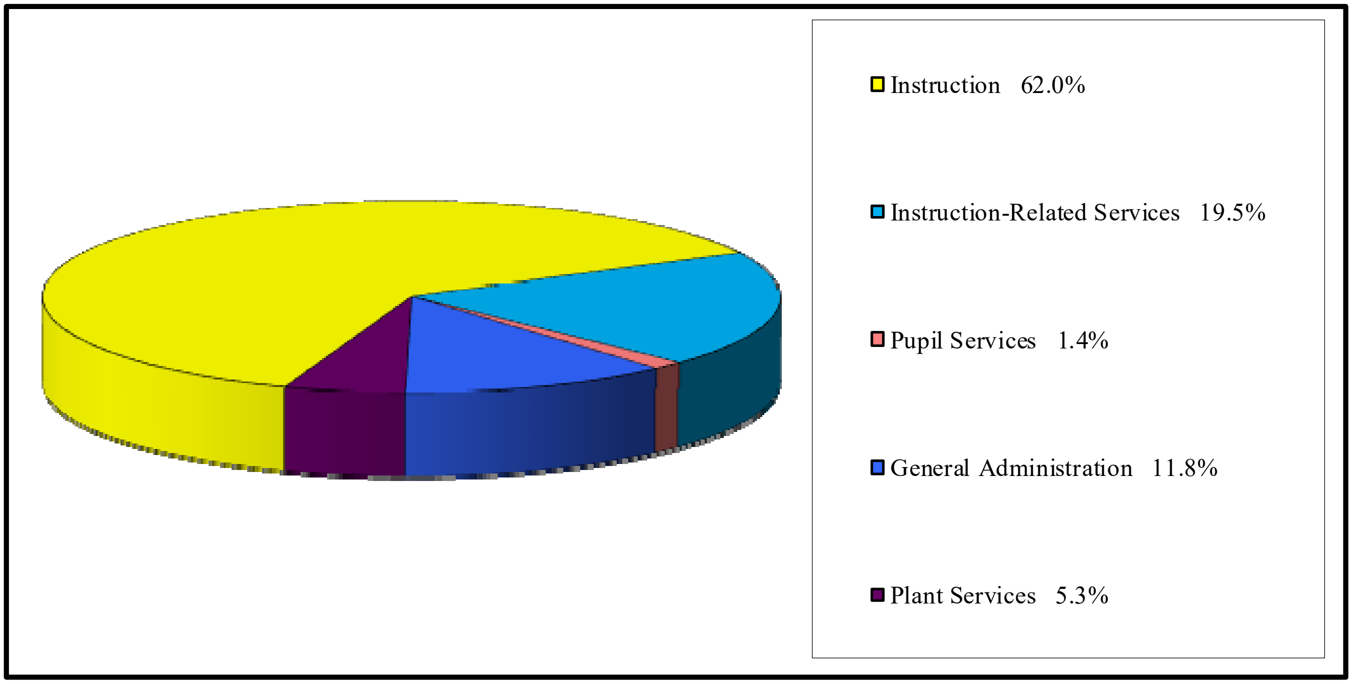
Net Cost of Services

	Net Cost of Services		
	2022	2021	Net Change
NET COST OF SERVICES			
Instruction	$ 1,004,785	$ 492,510	$ 512,275
Instruction-Related Services	384,490	217,889	166,601
Pupil Services	30,253	3,133	27,120
General Administration	229,268	118,756	110,512
Plant Services	108,292	109,982	(1,690)
Facility Acquisition and Construction	-	(14,687)	14,687
Transfers Between Agencies	138	126	12
Other Outgo	-	(8,628)	8,628
TOTAL NET COSTS OF SERVICES	$ 1,757,226	$ 919,081	$ 838,145

2021/2022 Summary of Revenues for Governmental Activities



2021/2022 Summary of Expenses for Governmental Activities



Fund Balance Comparison

The District currently maintains the following funds:

	Ending Fund Balance 2022	Ending Fund Balance 2021	Net Change
FUNDS			
Governmental:			
General	$ 1,691,705	$ 1,618,490	$ 73,215
Cafeteria Special Revenue	-	1	(1)
Capital Facilities	20,634	9,721	10,913
County School Facilities	13,217	-	13,217
Foundation Permanent	993,646	1,156,134	(162,488)
Total Governmental	2,719,202	2,784,346	(65,144)
TOTAL FUNDS	$ 2,719,202	$ 2,784,346	$ (65,144)

General Fund

General Fund Revenues increased overall in 2021/2022 over prior year by approximately $150,000. The source of the increase was the implementation of ongoing Extended Learning Opportunity Program (ELO-P) funds as well as one-time ESSER, In Person Instruction, and Educator Effectiveness funds.

Increases to General Fund salaries for certificated staff were $48,000. Salaries for classified staff increased by $68,000. These increases are due to step & column and the addition of one-time funded positions, including donation-funded classroom aides. Supplies and materials expenses are lower due to purchasing equipment necessary for distance learning in prior year. Contracts and services increased slightly over 2020/2021 with in-person learning being reintroduced.

Transfers in and out increased due to moving the remainder of the modernization funds as well as a transfer from the endowment fund for aides returning to the classroom.

Other Governmental Funds

Other governmental funds had the following activity and changes for the year ended June 30, 2022:

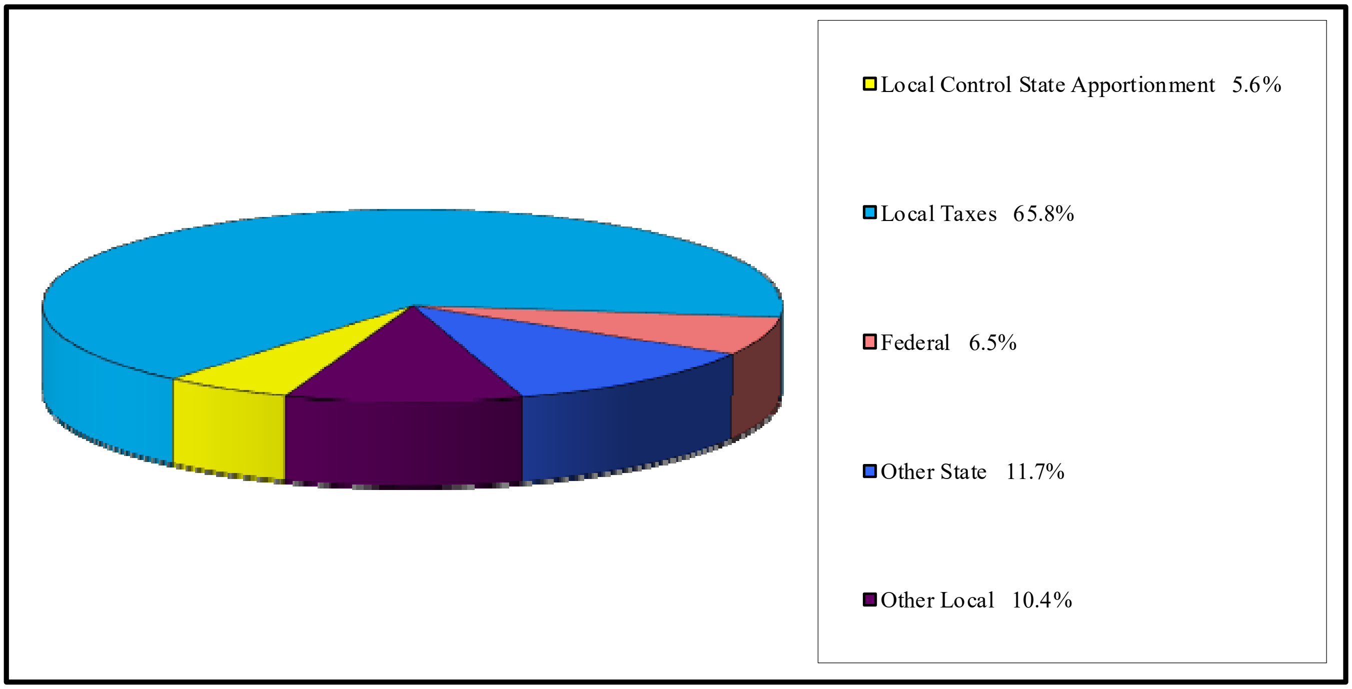
The Cafeteria Special Revenue Fund - There were no significant changes year over year.

The Capital Facilities Fund - This fund received $11,000 in interest in 2021/2022, but otherwise was not used.

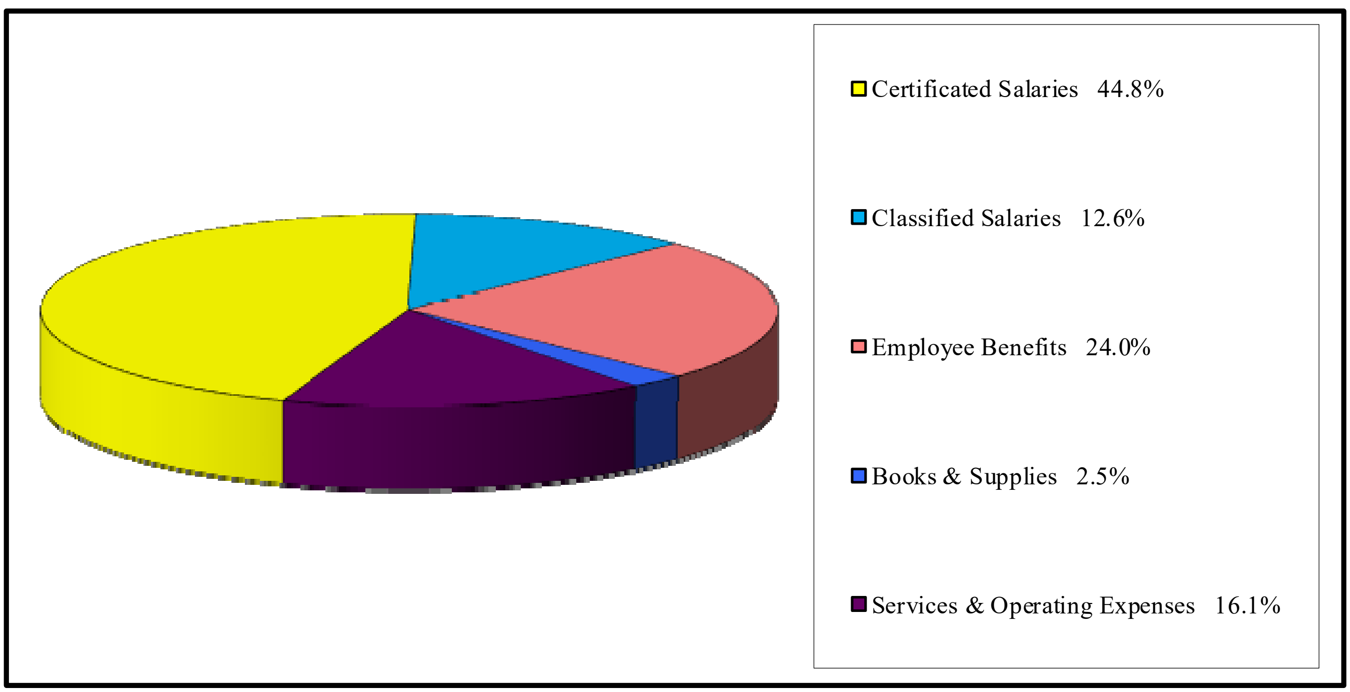
The Foundation Permanent Fund - The Foundation Permanent Fund consists of three separately funded programs. The original Foundation funds are held by the Santa Cruz County Treasurer. This program earned interest and disbursed the annual contribution to the General Fund for the educational purpose of support for classroom aides. The two remaining funded programs are held by the Community Foundation of Santa Cruz County. The Flex fund had an adjustment of $34,768 due to the net change in Fair Market Value per GASB 31. The Foundation Endowment Account received $29,000 in interest however, this increase was wiped out with a $104,000 Fair Market Value adjustment, for a total decrease in fund balance of $75,000.

The following charts graphically depict revenues and expenditures, both by major object as well as by function.

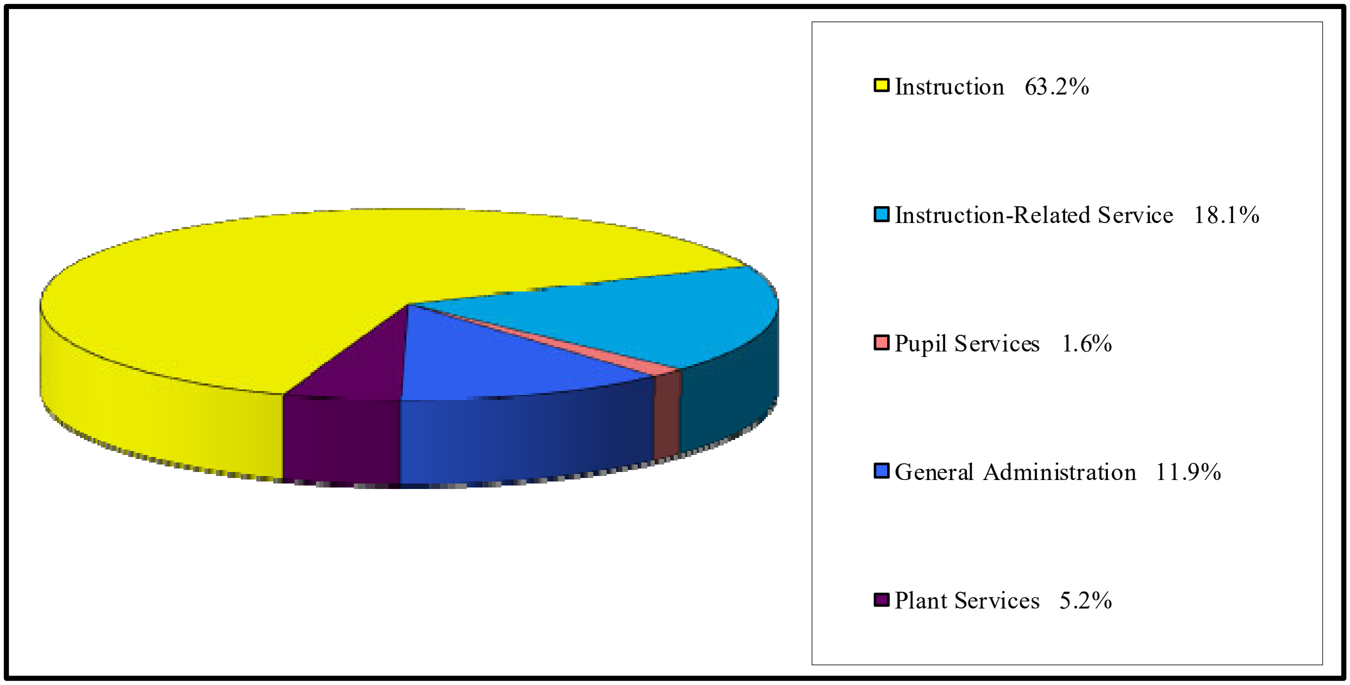
2021/2022 General Fund Revenues



2021/2022 General Fund Expenditures by Object



2021/2022 General Fund Expenditures by Function



CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2022, the District had $574,435 invested, net of accumulated depreciation, in capital assets. Current year depreciation expense is $34,404. The additions in 2021/2022 were $350 in work in progress expenses related to the modernization planning.

	Governmental Activities		
	2022	2021	Net Change
CAPITAL ASSETS			
Construction In Progress	$ 174,671	$ 174,321	$ 350
Land Improvements	528,645	528,645	-
Buildings And Improvements	1,048,724	1,048,724	-
Accumulated Depreciation	(1,177,605)	(1,143,201)	(34,404)
NET CAPITAL ASSETS	$ 574,435	$ 608,489	$ (34,054)

Long-Term Debt

At year end, the District had $733,823 in long-term debt. With the implementation of GASB 68, the District must reflect the District's amount of unfunded STRS/PERS liability with the State of California's retirement systems. The District's portion of the unfunded STRS/PERS liability with the State of California decreased $613,873 in 2021/2022.

	Governmental Activities		
	2022	2021	Net Change
LONG-TERM DEBT			
Net Pension Liability	$ 733,823	$ 1,347,696	$ (613,873)
TOTAL LONG-TERM DEBT	$ 733,823	$ 1,347,696	$ (613,873)

GENERAL FUND BUDGETARY HIGHLIGHTS

The difference in the original versus final budget amounts and actual versus budget amounts is primarily due to the following:

- The difference in Fund 01 Revenue between original and final budget is an increase totaling $120,667. This increase is due to property taxes, recognizing one-time federal unearned revenues, one-time state revenues, and higher donations. The increase was offset slightly by the GASB 31 Fair Market Value Adjustment. The revenues from original to final budget change due to additional information learned as the year progresses and the funding source allocations get finalized and actual deposits get realized.
- The difference in Fund 01 expenses between original and final budget is an increase totaling $36,709. While salaries and benefits were reduced by $57,460, materials and supplies, services and transfers out were increased by $94,169.
- Overall Revenue received was approximately $16,870 more than budgeted amounts. The source was State Lottery and ELO-P funds.
- Overall Expenditures spent were $21,754 less than the final budget amounts. This is due to the budgeted amounts not spent mostly in ESSER, special education, and legal costs.

Over the course of the year, the District revises its annual budget to reflect unexpected changes in revenues and expenditures. The final amendment to the budget was approved June 15, 2022. A schedule of the District's General Fund original and final budget amounts compared with actual revenues and expenditures is provided with the basic financial statements in the audited financial report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

At the time these financial statements were prepared and audited, the District was aware of several circumstances that could affect its future financial health:

- Current enrollment is projected at 123 which is a 12.8% increase over 2021/2022. Enrollment has fluctuated due to the pandemic, families moving in and out of the area as well as 6th graders not going to middle school. The District is expecting an increase in enrollment due to the addition of Transitional Kindergarten.
- The District is projected to realize a 4.9% increase in property taxes over prior year actuals, returning to 2019/2020 levels prior to the pandemic and wildfires.
- Modernization planning is still underway, and costs are being tracked in Fund 35 – County School Facilities Fund. Funding for modernization has been approved and is expected beginning in June of 2023. Currently the capital facilities fund only receives revenue from developer fees.
- The Parcel Tax continues to be another source of revenue for the District through fiscal year 2023/2024.
- Beginning in 2022/2023, the impact of Special Education costs on the district will be increasing.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, parents, participants, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report, or need additional financial information, contact Michelle Stewart, 3125 Branciforte Drive, Santa Cruz, CA 95065, phone 831-429-1456.

FINANCIAL SECTION

HAPPY VALLEY ELEMENTARY SCHOOL DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2022

		Governmental Activities
ASSETS		
Cash and equivalents	$	1,818,571
Investments		921,715
Accounts receivable		96,842
Capital assets:		
Non-depreciable		174,671
Depreciable, net of accumulated depreciation		399,764
Total Assets	$	3,411,563
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows of resources - Pensions	$	558,003
Total Deferred Outflows of Resources	$	558,003
LIABILITIES		
Accounts payable	$	86,829
Unearned revenue		31,097
Long-term debt:		
Due after one year		733,823
Total Liabilities	$	851,749
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows of resources - Pensions	$	1,278,424
Total Deferred Inflows of Resources	$	1,278,424
NET POSITION		
Net Investment in capital assets	$	574,435
Restricted for:		
Capital projects		33,851
Educational programs		177,962
Other purposes (nonexpendable)		993,646
Unrestricted		59,499
Total Net Position	$	1,839,393

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

HAPPY VALLEY ELEMENTARY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2022

Functions	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Net (Expense) Revenue and Change in Net Position: Revenue and Governmental Activities
GOVERNMENTAL ACTIVITIES				
Instruction	$ 1,269,031	$ 10,397	$ 253,849	$ (1,004,785)
Instruction-related services:				
Supervision of instruction	29,092	-	928	(28,164)
Instructional library, media and technology	400	-	-	(400)
School site administration	369,040	1,341	11,773	(355,926)
Pupil services:				
All other pupil services	28,238	-	(2,015)	(30,253)
General administration:				
Data processing	4,222	-	-	(4,222)
All other general administration	236,491	29	11,416	(225,046)
Plant services	108,291	5	(6)	(108,292)
Transfers between agencies	138	-	-	(138)
Total Governmental Activities	$ 2,044,943	$ 11,772	$ 275,945	(1,757,226)
GENERAL REVENUES				
Taxes and subventions:				
Property taxes levied for general purposes				1,118,412
Taxes levied for other specific purposes				52,173
Federal and state aid not restricted to specific purposes				122,485
Interest and investment earnings				(51,768)
Miscellaneous				53,954
Total General Revenues				1,295,256
Change in Net Position				(461,970)
Net Position - Beginning				2,301,363
Net Position - Ending				$ 1,839,393

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

HAPPY VALLEY ELEMENTARY SCHOOL DISTRICT
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2022

	General Fund	Foundation Permanent Fund	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and equivalents	$ 1,712,788	$ 71,931	$ 33,852	$ 1,818,571
Investments	-	921,715	-	921,715
Accounts receivable	96,842	-	-	96,842
Due from other funds	1	-	-	1
Total Assets	$ 1,809,631	$ 993,646	$ 33,852	$ 2,837,129
LIABILITIES				
Accounts payable	$ 86,829	$ -	$ -	$ 86,829
Due to other funds	-	-	1	1
Unearned Revenue	31,097	-	-	31,097
Total Liabilities	117,926	-	1	117,927
FUND BALANCES				
Non spendable				
Cash in revolving fund	150	-	-	150
Restricted	177,962	921,715	33,851	1,133,528
Assigned				
Other assignments	256,305	71,931	-	328,236
Unassigned				
Reserve for economic uncertainties	83,535	-	-	83,535
Unassigned amount	1,173,753	-	-	1,173,753
Total Fund Balance	1,691,705	993,646	33,851	2,719,202
Total Liabilities and Fund Balance	$ 1,809,631	$ 993,646	$ 33,852	$ 2,837,129

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

HAPPY VALLEY ELEMENTARY SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION
JUNE 30, 2022

	Detail	Total
Total fund balances - governmental funds		$ 2,719,202
Amounts reported for governmental activities in the Statement of Net Position differ from amounts reported in governmental funds as follows:		
Capital Assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.		
Historical cost of capital assets	$ 1,752,040	
Accumulated depreciation	(1,177,605)	
		574,435
Contributions to pension plans made subsequent to the measurement date are reported as expenditures in governmental funds, however, these contributions are reported as deferred outflows of resources in the statement of net position.		144,782
Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. Long-term liabilities, net of unamortized premiums, discounts, and deferred charges, are included in the Statement of Net Position.		
Net pension liability		(733,823)
Deferred outflows and inflows of resources relating to pensions: In governmental funds, deferred outflows and inflows of resources relating to pensions are not reported because they are applicable to future periods. In the statement of net position, deferred outflows and inflows of resources relating to pension are reported.		
Deferred outflows of resources related to pensions		413,221
Deferred inflows of resources relating to pensions		(1,278,424)
Total net position, governmental activities		$ 1,839,393

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

HAPPY VALLEY ELEMENTARY SCHOOL DISTRICT
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2022

	General Fund	Foundation Permanent Fund	Other Governmental Funds	Total Governmental Funds
REVENUES				
LCFF sources:				
State apportionments	$ 95,750	$ -	$ -	$ 95,750
Local sources	1,118,412	-	-	1,118,412
Federal	111,194	-	-	111,194
Other state	199,652	-	-	199,652
Other local	176,673	(129,494)	10,786	57,965
Total Revenues	1,701,681	(129,494)	10,786	1,582,973
EXPENDITURES				
Instruction	1,033,607	-	-	1,033,607
Instruction related services:				
Supervision of instruction	25,649	-	-	25,649
School site administration	270,966	10,752	-	281,718
Pupil services:				
All other pupil services	26,319	-	-	26,319
General administration:				
Data processing	4,222	-	-	4,222
All other general administration	190,245	-	235	190,480
Plant services	85,634	-	-	85,634
Facility acquisition and construction	-	-	350	350
Transfers between agencies	138	-	-	138
Total Expenditures	1,636,780	10,752	585	1,648,117
Excess (deficiency) of revenues over (under) expenditures	64,901	(140,246)	10,201	(65,144)
OTHER FINANCING SOURCES (USES)				
Operating transfers in	22,243	-	13,929	36,172
Operating transfers out	(13,929)	(22,242)	(1)	(36,172)
Total Other Financing Sources (Uses)	8,314	(22,242)	13,928	-
Excess of revenues and other financing sources over (under) expenditures and other financing sources (uses)	73,215	(162,488)	24,129	(65,144)
Fund Balance - Beginning	1,618,490	1,156,134	9,722	2,784,346
Fund Balance - Ending	$ 1,691,705	$ 993,646	$ 33,851	$ 2,719,202

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

HAPPY VALLEY ELEMENTARY SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2022

	Detail	Total
Total change in fund balances - governmental funds		$ (65,144)
Amounts reported for governmental activities differ from amounts reported in governmental funds as follows:		
Capital Outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.		
Capital outlay	$ 350	
Depreciation expense	(34,404)	
		(34,054)
Contributions to pension plans made subsequent to the measurement date are reported as expenditures in governmental funds, however, these contributions are reported as deferred outflows of resources in the statement of net position.		144,782
Changes in the net pension liability, deferred outflows of and deferred inflows of resources are reported as pension expenses in the statement of activities.		(507,554)
Change in net position of governmental activities		$ (461,970)

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

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES

A. General Statement

The Happy Valley Elementary School District is a public educational agency operating under the applicable laws and regulations of the State of California. It is governed by a five-member Board of Trustees (Board), elected by registered voters of the District. The District, comprised an area in Santa Cruz County, was established in 1864, and currently serves students of Kindergarten through sixth grade.

B. Accounting Policies

The District prepares its basic financial statements in conformity with Generally Accepted Accounting Principles (GAAP), as prescribed by the Governmental Accounting Standards Board (GASB), and the American Institute of Certified Public Accountants (AICPA). The District complies with the policies and procedures of the Department of Education's *California School Accounting Manual.*

C. Reporting Entity

The Board, elected by the public, has authority to make decisions, appoint administrators and managers, and significantly influence operations; furthermore, it has primary accountability for fiscal matters. The District is therefore a financial reporting entity, as defined by the GASB in its Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*.

The District has reviewed criteria to determine whether other entities with District-benefiting activities should be included within its financial reporting entity. The criteria include, but are not limited to: whether the District exercises oversight-responsibility (including financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations, and accountability for fiscal matters), the scope of public service, and a special financing relationship.

The District determined that no outside entity meets these criteria, and therefore, no agency has been included as a component unit in the District's general-purpose financial statements. Additionally, the District is not aware of any entity that would exercise such oversight-responsibility resulting in the District being considered a component unit of that entity.

D. Change in Accounting Principles

GASB Statement No. 87, *Leases*

As of July 1, 2021, the District adopted GASB Statement No. 87, Leases. The implementation of this standard establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The standard requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. This statement was originally effective for fiscal years beginning after December 15, 2019, but due to the adoption of GASB Statement No. 95, the implementation date was extended to reporting periods beginning after June 15, 2021. There was no change in the District's net position as a result of the implementation.

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Governmental Accounting Standards Board Statements Issued, Not Yet Effective

The Governmental Accounting Standards Board (GASB) has issued pronouncements prior to June 30, 2022, that have effective dates that may impact future financial presentations; however, the impact of the implementation of each of the statements below to the District's financial statements has not been assessed at this time.

Statement No. 91, *Conduit Debt Obligations*

In May 2019, GASB issued Statement No. 91 *Conduit Debt Obligations*. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2021. Earlier application is encouraged.

Statement No. 96, *Subscription-Based Information Technology Arrangements*

In May 2020, GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, Leases, as amended.

The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged.

Assets and liabilities resulting from SBITAs should be recognized and measured using the facts and circumstances that existed at the beginning of the fiscal year in which this Statement is implemented. Governments are permitted, but are not required, to include in the measurement of the subscription asset capitalizable outlays associated with the initial implementation stage and the operation and additional implementation stage incurred prior to the implementation of this Statement.

Statement No. 99, Omnibus 2022

In April of 2022, GASB issued Statement No. 99, Omnibus 2022. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing (1) practice issues that have been identified during implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees.

This Statement clarifies certain provision of GASB Statement Nos. 34, 53, 63, 87, 94, and 96. In addition, the Statement extends the period during which the LIBOR is considered an appropriate benchmark interest rate for the qualified evaluation of the effectiveness of an interest rate swap that hedges the interest rate risk of taxable debt; clarifies account for the distribution of benefits as part of

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

the Supplemental Nutrition Assistance Program; clarifies disclosures related to nonmonetary transactions; and clarifies pledges of future revenues when resources are not received by the pledging government.

Some requirements of this Statement are effective upon issuance while others are effective for fiscal years beginning after June 15, 2022, or June 15, 2023.

Statement No. 100, *Accounting Changes and Error Corrections – an amendment of GASB Statement No. 62*

In June of 2022, GASB issued Statement No. 100, *Accounting Changes and Error Corrections – an amendment of GASB Statement No. 62.* The primary objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability.

This Statement defines *accounting changes* as changes in accounting principles, changes in accounting estimates, and changes to or within the financial reporting entity and describes the transactions or other events that constitute those changes. As part of those descriptions, for (1) certain changes in accounting principles and (2) certain changes in accounting estimates that result from a change in measurement methodology, a new principle or methodology should be justified on the basis that it is preferable to the principle or methodology used before the change.

The requirements of this Statement are effective for accounting changes and error corrections made in fiscal years beginning after June 15, 2023, and all reporting periods thereafter. Earlier application is encouraged.

Statement No. 101, *Compensated Absences*

In June of 2022, GASB issued Statement No. 101, *Compensated Absences.* The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures.

This Statement requires that liabilities for compensated absences be recognized for (1) leave that has not been used and (2) leave that has been used but not yet paid in cash or settled through noncash means. A liability should be recognized for leave that has not been used if (a) the leave is attributable to services already rendered, (b) the leave accumulates, and (c) the leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means. Leave is attributable to services already rendered when an employee has performed the services required to earn the leave.

The requirements of this Statement are effective for fiscal years beginning after December 15, 2023, and all reporting periods thereafter. Earlier application is encouraged.

The District will analyze the impact of these new Statements prior to the effective dates listed above. The provisions of these Statements are generally required to be applied retroactively for all periods presented. Early application, if allowable, was not adopted.

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Basis of Presentation

1. Government-Wide Financial Statements

Government-wide financial statements (i.e., statement of net position, and the statement of activities) report information on all the nonfiduciary activities of the District and its component units. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely significantly on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which it is financially accountable.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. The District does not allocate indirect expenses to functions in the statement of activities. Program revenues include charges paid by the recipients of goods or services offered by a program, as well as grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the District.

2. Fund Financial Statements

The financial transactions of the District are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, reserves, fund equity, revenues and expenditures or expenses, as appropriate.

The emphasis in fund financial statements is on the major funds in either the governmental-activities categories. Non-major funds by category are summarized into a single column. GASB Statement No. 34 sets forth minimum criteria (percentage of the assets, liabilities, revenues or expenditures/expenses of either fund category or the governmental and enterprise funds combined) for the determination of major funds. The non-major funds are combined in a column in the fund financial statements.

The District's accounts are organized into major and non-major governmental funds as follows:

a. Major Governmental Funds

The *General Fund* is the general operating fund of the District. It is used to account for all financial resources, except those specifically requiring accounting for in another fund.

The *Foundation Permanent Fund* is used to account for restricted endowment donations and related earned income. The District maintains these funds with the Community Foundation of Santa Cruz County and the County Treasury. A Board Resolution, relating to funds with the Community Foundation of Santa Cruz County, restricts twenty-five percent of earned income to additional principal, and allows seventy-five percent of earned income to supplement instructional programs in the General Fund, with board approval.

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

b. Non-major Governmental Funds

Special Revenue Funds are used to account for proceeds of specific revenue sources legally restricted to expenditures for specific purposes. The District maintains the following non-major special revenue fund:

The *Cafeteria Fund* is used to account for revenues and expenditures associated with the District's food service program.

Capital Projects Funds are used to account for acquisition and construction of all major governmental capital assets. The District maintains the following non-major capital projects fund:

The *Capital Facilities Fund* is used to account for resources received from developer impact fees assessed under California Environmental Quality Act (CEQA) provisions.

The *County School Facilities Fund* is used to account for State apportionments provided from State School Facility Program funding, and expenditures relating to acquisition, construction, or renovation of approved capital facilities projects.

G. Basis of Accounting

Basis of accounting refers to when transactions are recorded in the financial records and reported in the financial statements. The government-wide financial statements are reported using the economic resources measurement focus, and the accrual basis of accounting.

Governmental funds are reported using the current financial resources measurement focus, and the modified accrual basis of accounting.

1. Revenues - Exchange and Non-exchange Transactions

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded under the accrual basis when the exchange takes place. Under the modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. "Available" means the resources will be collected within the current fiscal year, or are expected to be collected soon enough thereafter, for use in paying liabilities of the current fiscal year. For the District, "available" means collectable within the current period or within 45, 60, or 90 days after year-end, depending on the revenue source.

However, to achieve comparability of reporting among California Districts, and as to not distort normal revenue patterns, with specific respect to reimbursement grants and corrections to state aid apportionments, the California Department of Education has defined available as collectible within one year.

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Non-exchange transactions are those in which the District receives value without directly giving equal value in return, including property taxes, grants, and entitlements. Under the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and entitlements is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when resources are to be used, or the fiscal year when use is first permitted; matching requirements, in which the District must provide local resources to be used for a specific purpose; and expenditure requirements, in which resources are provided to the District on a reimbursement basis. Under modified accrual basis, revenue from non-exchange transactions must also be available before it is recognized.

2. Unearned Revenue

Unearned revenue arises when assets are received before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements are met are recorded as unearned revenue. On governmental fund financial statements, receivables associated with non-exchange transactions that will not be collected within the availability period have also been recorded as unearned revenue.

3. Expenses/Expenditures

Under accrual basis of accounting, expenses are recognized at the time incurred. However, 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 related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized on governmental fund financial statements.

H. Budgets and Budgetary Accounting

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for all governmental funds. By state law, the District’s governing board must adopt a final budget no later than July 1. A public hearing must be conducted to receive comments prior to adoption. The District’s governing board satisfied these requirements.

During the year, these budgets are revised by the District’s governing board and superintendent to give consideration to unanticipated revenue and expenditures. Original and final revised budgets for the General Fund are presented as required supplementary information in these financial statements.

During the year, formal budgetary integration was employed as a management control device for all budgeted funds. The District employs budget control by minor object and individual appropriation accounts. Expenditures cannot legally exceed appropriations by major object account.

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Encumbrances

Encumbrance accounting is used in all budgeted funds to reserve portions of applicable appropriations for which commitments have been made. Encumbrances are recorded for purchase orders, contracts, and other commitments when they are written. Encumbrances are liquidated when the commitments are paid. All encumbrances are liquidated on June 30.

J. Assets, Liabilities, and Equity

1. Cash and Equivalents

The District considers all highly liquid investments, with a maturity of three months or less at the time of purchase, to be cash equivalents.

2. Receivables

Accounts receivable in governmental fund types consist primarily of receivables from federal, state, and local governments for various programs.

3. Prepaid Expenditures

The District has the option of reporting expenditures for prepaid items in governmental funds either when paid, or during the benefiting period. The District has chosen to report the expenditure when paid and, therefore, no asset is reported.

4. Capital Assets

Capital assets are those purchased or acquired with an original cost of $20,000 or more, and are reported at historical cost, or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. The costs of normal maintenance and repairs that do not add to the value of the assets, or materially extend the asset's lives, are not capitalized, but are expensed as incurred. Depreciation on all capital assets is computed using a straight-line basis and an annual convention over the following estimated useful lives:

Land improvements	20
Buildings and improvements	20 - 50

5. Compensated Absences

Accumulated sick leave benefits are not recognized as liabilities of the District. The District's policy is to record sick leave as an operating expense in the period taken, since such benefits do not vest, nor is payment probable; however, unused sick leave is added to the creditable service period, for calculation of retirement benefits, when the employee retires.

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

6. 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 District's plans (Plans), and additions to/deductions from the Plans' fiduciary net position, have been determined on the same basis as they are reported by the California State Teachers' Retirement System (CalSTRS) and the California Public Employees' Retirement System (CalPERS). For this purpose, benefit payments (including refunds of employee contributions) are recognized when due, and payable in accordance with the benefit terms. Investments are reported at fair value.

Generally accepted accounting principles require that the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following time frames are used:

Valuation Date	June 30, 2020		
Measurement Date	June 30, 2021		
Measurement Period	July 1, 2020	to	June 30, 2021

7. Accrued Liabilities and Long-Term Obligations

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

8. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position or fund balance that applies to a future period(s) and thus, will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position or fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

9. Fund Balance Classifications

The governmental fund financial statements present fund balances based on a classification hierarchy that depicts the extent to which the District is bound by spending constraints imposed on the use of its resources. The classifications used in the governmental fund financial statements are as follows:

a. Non-spendable Fund Balance

The non-spendable fund balance classification reflects amounts that are not in spendable form. Examples include inventory and prepaid items. This classification also reflects amounts that are in spendable form but that are legally or contractually required to remain intact.

b. Restricted Fund Balance

The restricted fund balance classification reflects amounts subject to externally imposed and legally enforceable constraints. Such constraints may be imposed by creditors, grantors, contributors, or laws or regulations of other governments, or may be imposed by law through constitutional provisions or enabling legislation. These are the same restrictions used to determine restricted net position as reported in the government-wide statements.

c. Committed Fund Balance

The committed fund balance classification reflects amounts subject to internal constraints self-imposed by formal action of the highest level of decision-making authority. The governing board is the highest level of decision-making authority for the District. Commitments may be established, modified, or rescinded only through resolutions or other action as approved by the governing board.

d. Assigned Fund Balance

The assigned fund balance classification reflects amounts that the District intends to be used for specific purposes. Assignments may be established either by the Board of Trustees or by a designee of the Board of Trustees and are subject to neither the restricted nor committed levels of constraint.

Constraints giving rise to assigned fund balance are not required to be imposed, modified, or removed by formal action of the highest level of decision-making authority. The action may be delegated to another body or official.

e. Unassigned Fund Balance and Minimum Fund Balance Policy

In the General Fund only, the unassigned fund balance classification reflects the residual balance that has not been assigned to other funds and that is not restricted, committed, or assigned to specific purposes.

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

f. Spending Order Policy

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

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

g. Minimum Fund Balance Policy

The District has adopted a minimum fund balance policy in order to protect against revenue shortfalls and unexpected one-time expenditures. The policy requires a reserve for economic uncertainties consisting of unassigned amounts which represent the minimum recommended reserve consistent with the criteria and standards for fiscal solvency adopted by the State Board of Education. The minimum recommended reserve for a district this size is 5% of budgeted General Fund expenditures and other financing uses.

10. Local Control Funding Formula / Property Taxes

The District's local control funding formula revenue is received from a combination of local property taxes, state apportionments, and other local sources.

The county is responsible for assessing, collecting, and apportioning property taxes. Taxes are levied for each fiscal year on taxable real and personal property in the county. The levy is based on the assessed values as of the preceding January 1, which is also the lien date. Property taxes on the secured roll are due on November 1 and February 1, and taxes become delinquent after December 10 and April 10, respectively. Property taxes on the unsecured roll are due on the lien date (January 1), and become delinquent if unpaid by August 31.

Secured property taxes are recorded as revenue when apportioned, in the fiscal year of the levy. The county apportions secured property tax revenue in accordance with the alternate method of distribution prescribed by Section 4705 of the California Revenue and Taxation Code. This alternate method provides for crediting each applicable fund with its total secured taxes upon completion of the secured tax roll - approximately October 1 of each year.

The County Auditor reports the amount of the District's allocated property tax revenue to the California Department of Education. Property taxes are recorded as local control funding formula sources by the District.

The California Department of Education reduces the District's entitlement by the District local property tax revenue. The balance is paid from the state General Fund and is known as the State Apportionment.

The District's Base Local Control Funding Formula Revenue is the amount of general-purpose tax revenue, per average daily attendance (ADA), that the District is entitled to by law. This amount is multiplied by the second period ADA to derive the District's total entitlement.

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenditures during the reporting period. Actual amounts could differ from those estimates.

NOTE 2. CASH, EQUIVALENTS, AND INVESTMENTS

Cash, equivalents and investments at June 30, 2022 are classified in the accompanying financial statements as follows:

	Governmental Activities
Cash and Equivalents	
Pooled Funds:	
Cash in county treasury	$ 1,878,921
Fair value adjustment to cash in county treasury	(60,500)
Net Cash in County Treasury	1,818,421
Deposits:	
Cash in revolving fund	150
Total Cash and Equivalents	$ 1,818,571
Investments:	
Santa Cruz Community Foundation	$ 921,715
Total Investments	$ 921,715

A. Cash in County Treasury

The District is considered to be an involuntary participant in an external investment pool as the District is required to deposit all receipts and collections of monies with their County Treasurer (Education Code Section 41001) under the oversight of the County Treasurer. The fair value of the District's investment in the pool is reported in the accounting financial statements at amounts based upon the District's pro-rata share of the amortized costs which approximate 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.

NOTE 2. CASH, EQUIVALENTS AND INVESTMENTS (Continued)

The Treasury is authorized to deposit cash and invest excess funds by *California Government Code* Section 53648 et seq. The funds maintained by the Treasury are either secured by federal depository insurance or are collateralized.

The Treasury is restricted by *Government Code* Section 53635, pursuant to Section 53601, to invest in time deposits; U.S. government securities; state registered warrants, notes or bonds; the State Treasurer's investment pool; bankers' acceptances; commercial paper; negotiable certificates of deposit; and repurchase or reverse repurchase agreements.

B. Investments Authorized by the District's Investment Policy

The table below identifies investment types authorized for the District by the *California Government Code* Section 53601. This table also identifies certain provisions of the *California Government Code* that address interest rate risk, credit risk, and concentration of credit risk.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Local Agency Bonds	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
State Obligations CA and Others	5 years	None	None
CA Local Agency Obligations	5 years	None	None
U.S. Agency Obligations	5 years	None	None
Bankers Acceptances	180 days	40%	None
Commercial Paper - Non-Pooled Funds	270 days or less	25% of the agency's money	Highest letter and number rating by an NRSRO
Commercial Paper - Pooled Funds	270 days or less	40% of the agency's money	Highest letter and number rating by an NRSRO
Negotiable Certificates of Deposit	5 years	30%	None
Non-negotiable Certificates of Deposit	5 years	None	None
Placement Service Deposits	5 years	50%	None
Placement Service Certificates of Deposit	5 years	50%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements and Securities Lending Agreements	92 days	20% of the base value of the portfolio	None
Medium-Term Notes	5 years or less	30%	"A" rating category or its equivalent or better
Mutual Funds and Money Market Mutual Funds	N/A	20%	Multiple
Collateralized Bank Deposits	5 years	None	None
Mortgage Pass-Through and Asset-Backed Securities	5 years or less	20%	"AA" rating category or its equivalent or better
County Pooled Investment Funds	N/A	None	None
Joint Power Authority Pools	N/A	None	Multiple
Local Agency Investment Funds (LAIF)	N/A	None	None
Voluntary Investment Program Fund	N/A	None	None
Supranational Obligations	5 years or less	30%	"AA" rating category or its equivalent or better
Public Bank Obligations	5 years	None	None

NOTE 2. CASH, EQUIVALENTS AND INVESTMENTS (Continued)

C. Investment Valuation

The District categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

	Maturities	Fair Value	Standard & Poor's Rating
Mutual Funds and Money Market Mutual Funds (Level 2)	Not Applicable	$ 921,715	Not Rated
Total Investments		$ 921,715	

D. 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 values to changes in market interest rates. As of June 30, 2022, the weighted average maturity of the investments contained in the Treasury investment pool was 430 days.

E. Credit Risk

Generally, 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 Treasury investment pool does not have a rating provided by a nationally recognized statistical rating organization.

F. Custodial Credit Risk – Deposits

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a formal policy for custodial credit risk for deposits.

Cash balances in banks and revolving funds are insured up to $250,000 by the Federal Deposit Insurance Corporation (FDIC). As of June 30, 2022, the District's bank balances were fully insured.

G. Custodial Credit Risk – Investments

This is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. The *California Government Code* and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments.

NOTE 3. INVESTMENT FUND HELD AT SANTA CRUZ COMMUNITY FOUNDATION

The Santa Cruz Community Foundation (Foundation) acts as an agent on behalf of the District holding mutual funds and marketable securities that were previously donated to the District. The Foundation invests the funds on the District's behalf in instruments that are fully insured or collateralized. The Foundation reports the District's fund as an agency fund, providing the District with annual audited financial statements and interim unaudited data on a quarterly basis.

NOTE 4. INTERFUND TRANSACTIONS

Interfund transactions are reported as either loans, services provided, reimbursements, or transfers. Loans are reported as interfund receivables and payables, as appropriate, and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund, and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers among governmental and/or proprietary funds are netted as part of the reconciliation to the government wide financial statements.

A. Interfund Receivables/Payables (Due From/Due To)

As of June 30, 2022, interfund receivables and payables were as follows:

Due from	Due to	Amount	Purpose
General Fund	Cafeteria Fund	$ 1	Transfer remainder of fund 13 balance to General Fund to close unused fund.
Total		$ 1	

All interfund receivables and payables are scheduled to be paid within one year.

B. Interfund Transfers

Permanent reallocations of resources between funds of the reporting District are classified as interfund transfers. As of June 30, 2022, interfund transfers are as follows:

Transfers In	Transfers Out	Amount	Purpose
County School Facilities Fund	General Fund	$ 13,929	Unused Modernization funds were in the incorrect fund. Transfer to fund 35 for expenditures.
General Fund	Cafeteria Fund	1	Close out unused Fund 13.
General Fund	Foundation Permanent Fund	22,242	Annual transfer from the Endowment for the educational purpose of classroom aides in each room.
Total		$ 36,172	

NOTE 5. CAPITAL ASSETS

The changes in capital assets for the year ended June 30, 2022, are shown below:

	Balance July 1, 2021	Additions	Decreases	Balance June 30, 2022
Capital Assets Not Being Depreciated:				
Construction in progress	$ 174,321	$ 350	$ -	$ 174,671
Total Capital Assets Not Being Depreciated	174,321	350	-	174,671
Capital Assets Being Depreciated:				
Land improvements	528,645	-	-	528,645
Buildings and improvements	1,048,724	-	-	1,048,724
Total Capital Assets Being Depreciated	1,577,369	-	-	1,577,369
Less Accumulated Depreciation for:				
Land improvements	(188,473)	(22,657)	-	(211,130)
Buildings and improvements	(954,728)	(11,747)	-	(966,475)
Total Accumulated Depreciation	(1,143,201)	(34,404)	-	(1,177,605)
Total Capital Assets Being Depreciated, Net	434,168	(34,404)	-	399,764
Total Governmental Activities Capital Assets, Net	$ 608,489	$ (34,054)	$ -	$ 574,435

Depreciation expense was charged to governmental activities as follows:

Instruction	$ 11,347
Instruction related services:	
Instructional library, media, and technology	400
Plant services	22,657
Total Depreciation Expense	$ 34,404

NOTE 6. PENSION PLANS

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

A. California State Teachers' Retirement System

1. Plan Description and Provisions

The District contributes to CalSTRS, a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalSTRS, which acts as a common investment and administrative agent for its participating member employers. Benefit provisions are established by state statutes, as legislatively amended, within the State Teachers' Retirement Law. CalSTRS issues publicly available reports, including full description of the pension plans regarding benefit provisions, assumptions, and membership information, found on CalSTRS' website.

2. Benefits Provided

The plan provides retirement, disability, and survivor benefits to beneficiaries. Beneficiaries of a retired member who elected an option receive a continuing lifetime benefit upon the member's death.

The Plans' provisions and benefits in effect at June 30, 2022, are summarized as follows:

Hire Date	After January 1, 2013	On Or Before December 31, 2012
Benefit Formula	2% @ age 62	2% @ age 60
Benefit Vesting Schedule	5 years of service	5 years of service
Benefit Payments	Payable upon retirement	Payable upon retirement
Retirement Age	Age 55 with at least 5 years service.	Age 55 with at least 5 years service, or age 50 with 30 years of service.
Monthly Benefits as a % of Eligible Compensation	Variable based on age factor 2.0% at age 62 to 2.4% maximum at age 65 or older.	Variable based on age factor 2.0% at age 60 to 2.4% maximum at age 63 or older.
Required Employee Contribution Rates	10.205%	10.250%
Required Employer Contribution Rates	16.92%	16.92%
Required State Contribution Rates	10.828%	10.828%

NOTE 6. PENSION PLANS (Continued)

3. Contributions

Active plan members are required to contribute 10.25% of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalSTRS Teachers' Retirement Board.

For the year ended June 30, 2022, the contributions recognized as part of pension expense for the Plan were as follows:

Contributions - employer	$	102,153
Contributions - state on behalf	$	77,612

4. Discount Rate

The discount rate used to measure the total pension liability was 7.10 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at statutory contribution rates in accordance with the rate increase per Assembly Bill 1469. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.10 percent) and assuming that contribution, benefit payments, and administrative expense occurs midyear. Based on those assumptions, the State Teachers Retirement Plan's (STRP) 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 the total pension liability.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. The best-estimate ranges were developed using capital market assumptions from CalSTRS general investment consultant (Pension Consulting Alliance - PCA) as an input to the process. Based on the model from CalSTRS consulting actuary's (Milliman) investment practice, a best estimate range was determined by assuming the portfolio is re-balanced annually and that annual returns are lognormally distributed and independent from year to year to develop expected percentiles for the long-term distribution of annualized returns.

NOTE 6. PENSION PLANS (Continued)

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

	Asset Allocation	Long-Term Expected Real Rate of Return
Public Equity	42.00%	4.80%
Real Assets	15.00%	3.60%
Private Equity	13.00%	6.30%
Fixed Income	12.00%	1.30%
Risk Mitigating Strategies	10.00%	1.80%
Inflation Sensitive	6.00%	3.30%
Liquidity (Cash)	2.00%	-0.40%

5. On Behalf Payment

The State of California makes contributions to STRS on behalf of the District. Under accounting principles generally accepted in the United States of America, these amounts have been recorded as revenue in the government-wide financial statements. For the year ended June 30, 2022 the District has recorded $77,612 of State on behalf payments as revenue.

NOTE 6. PENSION PLANS (Continued)

California Public Employees' Retirement System

1. Plan Description and Provisions

   The District contributes to the School Employer Pool under the CalPERS, a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS, which acts as a common investment and administrative agent for its participating member employers. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Law. CalPERS issues publicly available reports, including full description of the pension plans regarding benefit provisions, assumptions, and membership, found on CalPERS' website.

2. Benefits Provided

   The plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Law. Benefits are based on years of credited service, equal to one year of full-time employment. Members with five years of total service are eligible to retire at age fifty with statutorily reduced benefits. All members are eligible for non-duty disability benefits after ten years of service.

   The Plans' provisions and benefits in effect at June 30, 2022, are summarized as follows:

	PEPRA	**Classic**
Hire Date	After January 1, 2013	On Or Before December 31, 2012
Benefit Formula	2% @ age 62	2% @ age or 55
Benefit Vesting Schedule	5 years of service	5 years of service
Benefit Payments	Monthly	Monthly
Retirement Age	Age 52 with at least 5 years service	Age 50 with at least 5 years service
Monthly Benefits as a % of Eligible Compensation	Variable based on age factor 2.0% at age 62 to 2.4% maximum	Variable based on age factor 2.0% at age 55 to 2.5% maximum
Required Employee Contribution Rates	7.00%	7.00%
Required Employer Contribution Rates	20.70%	20.70%

3. Contributions

   Active plan members are required to contribute 7.0% of their salary, while the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions for determining the rate are those adopted by CalPERS' Board of Administration.

NOTE 6. PENSION PLANS (Continued)

For the year ended June 30, 2022, the contributions recognized as part of pension expense for the Plan were as follows:

Contributions - employer	$	26,951

4. Discount Rate

The discount rate used to measure the total pension liability was 7.15 percent. A projection of expected benefit payments and contributions was performed to determine if assets would be exhausted. The test revealed the assets would not run out. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine total pension liability for the Schools Pool. The results of the crossover testing for the Schools Pool are presented in a detailed report found at CalPERS' website.

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.

In determining long-term expected rate of return, staff considered both short and long-term market return expectations, as well as expected pension fund cash flows. Such cash flows were developed assuming that, in all future years, both members and employers will make their required contributions as scheduled. Using historical returns of all fund asset classes, expected compound (geometric) returns were calculated over short-term (first 10 years) and long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short and long-term, the present value of benefits was calculated for each fund. Expected rate of return was set by calculating the single equivalent expected return arriving at the present value of benefits for cash flows equal to that calculated using both short and long-term returns. The expected rate of return was then set as the single equivalent rate and rounded down to the nearest quarter of a percent.

NOTE 6. PENSION PLANS (Continued)

The table below reflects long-term expected real rate of return by asset class. The rate of return was calculated using capital market assumptions applied to determine the discount rate and asset allocation. These geometric rates of return are net of administrative expenses.

	Asset Allocation	Real Return Years 1 - 10 (a)	Real Return Years 11+ (b)
Global Entity	50.00%	4.80%	5.98%
Fixed Income	28.00%	1.00%	2.62%
Inflation Assets	0.00%	0.77%	1.81%
Private Equity	8.00%	6.30%	7.23%
Real Assets	13.00%	3.75%	4.93%
Liquidity	1.00%	0.00%	-0.92%

(a) an expected inflation of 2.00% used for this period
(b) an expected inflation of 2.92% used for this period

B. Social Security

As established by Federal law, public-sector employees who are not members of their employer's existing retirement system (STRS or PERS) must be covered by social security or an alternative plan. The District has elected to use Social Security.

NOTE 6. PENSION PLANS (Continued)

C. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions

1. Pension Liability

As of June 30, 2022, the District reported net pension liabilities for its proportionate shares of each Plan's net pension liability as follows:

CalSTRS	$	549,186
CalPERS		184,637
Total District net pension liability		733,823
State's proportionate share of the CalSTRS net pension liability associated with the District		276,329
Total	$	1,010,152

The District's net pension liability for each Plan is measured as its proportionate share of the net pension liability. The net pension liability of each Plan is measured as of June 30, 2021. The total pension liability for each Plan used to calculate net pension liability was determined by an actuarial valuation as of June 30, 2020, rolled forward to June 30, 2021 using standard update procedures. The District's proportion of net pension liability was based on a projection of the District's long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined. The District's proportionate share of net pension liability for each Plan as of June 30, 2020 and 2021 was as follows:

	CalSTRS	CalPERS
District Proportion - June 30, 2020	0.0011%	0.0008%
District Proportion - June 30, 2021	0.0012%	0.0009%
Change - Increase (Decrease)	0.0001%	0.0001%

NOTE 6. PENSION PLANS (Continued)

2. Pension Expenses and Deferred Outflows/Inflows of Resources

For the year ended June 30, 2022, the District recognized pension expense of ($507,554). At June 30, 2022, the District reported deferred outflows and inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	$ 144,782	$ -
Differences between actual and expected experience	16,814	(66,626)
Changes in assumptions	157,096	-
Change in employer's proportion and difference between the employer's contributions and the employer's proportionate share contributions	219,420	(783,599)
Net differences between projected and actual earnings on plan investments	19,891	(428,199)
Total	$ 558,003	$ (1,278,424)

The $144,782 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of net pension liability in the year ended June 30, 2022. Other amounts reported as deferred inflows and outflows of resources related to pensions will be recognized as pension expense as follows:

For the Year Ended June 30:	
2023	$ (106,999)
2024	(141,174)
2025	(156,645)
2026	(166,005)
2027	(64,790)
Thereafter	(229,590)
	$ (865,203)

NOTE 6. PENSION PLANS (Continued)

3. Actuarial Assumptions.

The total pension liabilities in the June 30, 2020 actuarial valuations were determined using the following actuarial assumptions:

	CalSTRS	CalPERS
Valuation Date	June 30, 2020	June 30, 2020
Measurement Date	June 30, 2021	June 30, 2021
Measurement Period	July 1, 2020 through June 30, 2021	July 1, 2020 through June 30, 2021
Actuarial Cost Method	Individual Entry Age Normal	Individual Entry Age Normal
Actuarial Assumptions:		
Discount Rate	7.10%	7.15%
Inflation Rate	2.75%	2.50%
Payroll Growth	3.50%	Varies by Entry Age and Service
Investment Rate of Return	7.10%	7.15%
Experience Study / Period Upon Which Actuarial Experience Survey Assumptions Were Based	2015 - 2018	1997-2015
Mortality Rate	(Custom CalSTRS rates) See June 30, 2020 DB Program funding valuation for details.	Derived using CalPERS' Membership Data for all Funds
Post-retirement Benefit Increases	2.00% simple for DB (Annually) Maintain 85% purchasing power level DB, Not applicable for DBS/CBB	2.00% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.50% thereafter

NOTE 6. PENSION PLANS (Continued)

4. Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

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

	CalSTRS	CalPERS
1% Decrease	6.10%	6.15%
Net Pension Liability	$ 1,117,946	$ 311,323
Current Discount Rate	7.10%	7.15%
Net Pension Liability	$ 549,186	$ 184,637
1% Increase	8.10%	8.15%
Net Pension Liability	$ 77,126	$ 79,460

5. Pension Plan Fiduciary Net Position

Detailed information about each pension plan's fiduciary net position is available in the separately issued financial reports.

NOTE 7. GENERAL LONG-TERM DEBT – SCHEDULE OF CHANGES

A schedule of changes in long-term debt for the year ended June 30, 2022 is shown below:

	Balance July 1, 2021	Additions	Reductions	Balance June 30, 2022	Due within One Year
Net Pension Liability	$ 1,347,696	$ -	$ 613,873	$ 733,823	$ -
Totals	$ 1,347,696	$ -	$ 613,873	$ 733,823	$ -

The net pension liability is liquidated from the funds for which the related employees are compensated.

NOTE 8. RESTRICTED NET POSITION

The District is a recipient of federal and state awards restricted categorical programs and as a result reported restricted net position in the amount of $1,205,459. The District is not aware of any planned changes to the underlying legislation enabling restrictions.

NOTE 9. JOINT POWERS AGREEMENTS

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During the fiscal year ending June 30, 2022 the District participated in several joint powers agreements (JPAs) to manage these risks. There were no significant reductions in coverage during the year. Settled claims have not exceeded coverage in any of the past three years.

The various JPAs and the services they provide the District are as follows:

- The Southern Peninsula Region Property and Liability Insurance Group (SPRIG) arrange for and provide property and liability insurance coverage for its member agencies.
- The Santa Cruz - San Benito County Schools Insurance Group (SC-SBCSIG) is an insurance purchasing pool, the intent of which is to achieve the benefits of a reduced premium for the member agencies by virtue of its grouping and representation with other participants in the SC-SBCSIG. The workers' compensation experience of the participating districts is calculated as one experience and a common premium rate is applied to all districts in the SC-SBCSIG. Each participant pays its workers' compensation premium based on its individual rate. Total savings are then calculated, and each participant's individual performance is compared to the overall savings. A participant will then either receive money from or be required to contribute to the "equity-pooling fund." This "equity-pooling fund" arrangement insures that each participant shares equally in the overall performance of the SC-SBCSIG.
- The Self-Insured Schools of California (SISC III) arranges for and provides medical insurance coverage for its member school districts.
- The Santa Cruz County School Health Insurance Group (HIG) arranges for and provides dental and vision insurance coverage for its member school districts.

The District also participated in one JPAs for other administrative and program operations as follows:

- The North Santa Cruz County Special Education Local Plan Area arranges for and provides special education services for students of member school districts.

The relationship between the District and the JPAs is such that the JPAs are not component units of the District for financial reporting purposes. The JPAs are governed by boards consisting of representatives from the member agencies. The boards control the operations of the JPAs, including selection of management and approval of operating budgets, independent of any influence by the member agencies beyond their representation on the board. Each member district pays premiums commensurate with the level of coverage or service requested, and shares surpluses and deficits proportionate to its participation in the JPA. Separately issued financial statements can be requested from each JPA.

NOTE 10. STATE TEACHERS' RETIREMENT SYSTEM EARLY RETIREMENT INCENTIVE PROGRAM

The District did not enter into any early retirement incentive agreements during 2021/2022, pursuant to California Education Code, Sections 22714 and 44929, whereby the service credit to eligible employees is increased by two years.

NOTE 11. COMMITMENTS AND CONTINGENCIES

A. Grants

As of June 30, 2022 the District is not currently involved in any litigation.

B. Commitments

As of June 30, 2022 the District had no material commitments outstanding.

NOTE 12. SUBSEQUENT EVENTS

Events that occur after the balance sheet date but before the financial statements were available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the balance sheet date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the balance sheet date, require disclosure in the accompanying notes. Management evaluated the activity of the District through June 1, 2023 and concluded that no subsequent event(s) have occurred that would require recognition in the financial statements or disclosure in the notes to the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION SECTION

HAPPY VALLEY ELEMENTARY SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2022

	Budgeted Amounts			Variance with Final Budget
	Original	Final	Actual Amounts	Favorable (Unfavorable)
REVENUES				
Local control sources:				
State apportionments	$ 21,874	$ 95,750	$ 95,750	$ -
Local sources	1,179,812	1,118,135	1,118,412	277
Federal	54,193	107,977	111,194	3,217
Other state	129,704	143,556	199,652	56,096
Other local	213,246	230,689	176,673	(54,016)
Total Revenues	1,598,829	1,696,107	1,701,681	5,574
EXPENDITURES				
Certificated salaries	773,292	728,534	733,223	(4,689)
Classified salaries	213,718	206,257	206,255	2
Employee benefits	403,164	394,781	393,233	1,548
Books and supplies	20,204	41,784	41,217	567
Services and other operating expenditures	203,303	300,787	262,714	38,073
Other outgo	322	322	138	184
Total Expenditures	1,614,003	1,672,465	1,636,780	35,685
Excess (deficiency) of revenues over expenditures before other financing Sources (uses)	(15,174)	23,642	64,901	41,259
OTHER FINANCING SOURCES (USES)				
Transfers in	19,223	22,243	22,243	-
Transfers out	-	-	(13,929)	(13,929)
Total Other Financing Sources (Uses)	19,223	22,243	8,314	(13,929)
Net Increase (Decrease) in Fund Balance	4,049	45,885	73,215	27,330
Fund Balance - Beginning	1,618,490	1,618,490	1,618,490	-
Fund Balance - Ending	$ 1,622,539	$ 1,664,375	$ 1,691,705	$ 27,330

See accompanying notes to required supplementary information.

HAPPY VALLEY ELEMENTARY SCHOOL DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE
SHARE OF THE NET PENSION LIABILITY
FOR THE YEAR ENDED JUNE 30, 2022

	2015	2016	2017	2018	2019	2020	2021	2022
CalSTRS								
Proportion as a percentage of the net pension liability	0.0013%	0.0015%	0.0014%	0.0014%	0.0016%	0.0013%	0.0011%	0.0012%
Proportionate share of the net pension liability	$ 759,681	$ 1,009,860	$ 1,133,883	$ 1,324,802	$ 1,511,125	$ 1,195,591	$ 1,092,824	$ 549,186
State's proportionate share of the net pension liability	458,733	534,057	645,499	783,742	865,190	652,275	563,351	276,329
Total	$ 1,218,414	$ 1,543,917	$ 1,779,382	$ 2,108,544	$ 2,376,315	$ 1,847,866	$ 1,656,175	$ 825,515
Covered payroll	$ 375,265	$ 462,633	$ 469,180	$ 499,308	$ 541,532	$ 849,837	$ 369,052	$ 395,942
Proportionate share of the net pension liability as a percentage of its covered payroll	202%	218%	242%	265%	279%	141%	296%	139%
Plan fiduciary net position as a percentage of the total pension liability	77%	74%	70%	70%	71%	73%	71.8%	87%
CalPERS								
Proportion as a percentage of the net pension liability	0.0022%	0.0020%	0.0019%	0.0021%	0.0021%	0.0021%	0.0008%	0.0009%
Proportionate share of the net pension liability	$ 249,754	$ 294,802	$ 375,251	$ 503,713	$ 559,169	$ 610,864	$ 254,872	$ 184,637
Covered payroll	$ 116,309	$ 106,725	$ 115,885	$ 160,675	$ 162,214	$ 286,087	$ 91,523	$ 115,670
Proportionate share of the net pension liability as a percentage of its covered payroll	215%	276%	324%	313%	345%	214%	278%	160%
Plan fiduciary net position as a percentage of the total pension liability	84%	79%	74%	72%	71%	70%	70.0%	75%

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

See accompanying notes to required supplementary information.

HAPPY VALLEY ELEMENTARY SCHOOL DISTRICT
SCHEDULE OF CONTRIBUTIONS - PENSION
FOR THE YEAR ENDED JUNE 30, 2022

	2015	2016	2017	2018	2019	2020	2021	2022
CalSTRS								
Contractually required contribution	$ 48,929	$ 59,919	$ 76,614	$ 95,275	$ 126,295	$ 115,840	$ 110,412	$ 123,792
Less contributions in relation to the contractually required contribution	49,535	59,217	78,353	97,365	119,137	260,050	105,918	102,153
Contribution deficiency (excess)	$ (606)	$ 702	$ (1,739)	$ (2,090)	$ 7,158	$ (144,210)	$ 4,494	$ 21,639
Covered payroll	$ 375,265	$ 462,633	$ 469,180	$ 499,308	$ 541,532	$ 849,837	$ 369,052	$ 395,942
Contributions as a percentage of covered payroll*	13%	13%	17%	20%	22%	31%	29%	26%
CalPERS								
Contractually required contribution	$ 26,048	$ 25,765	$ 27,095	$ 37,318	$ 42,961	$ 52,443	$ 31,127	$ 26,952
Less contributions in relation to the contractually	25,937	26,041	27,117	37,116	43,149	75,527	23,613	26,951
Contribution deficiency (excess)	$ 111	$ (276)	$ (22)	$ 202	$ (188)	$ (23,084)	$ 7,514	$ 1
Covered payroll	$ 116,309	$ 106,725	$ 115,885	$ 160,675	$ 162,214	$ 286,087	$ 91,523	$ 115,670
Contributions as a percentage of covered payroll*	22%	24%	23%	23%	27%	26%	26%	23%

* Statements 67 and 68 required presentation of covered-employee payroll, which is the payroll of employees that are provided with pensions through the pension plan, and ratios that use the measure in schedules of required supplementary information. Statement No. 82 amends Statements 67 and 68 to instead require the presentation of covered payroll, defined as the payroll on which contributions to a pension plan are based, and ratios that use that measure.

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

See accompanying notes to required supplementary information.

NOTE 1. PURPOSE OF REQUIRED SUPPLEMENTARY INFORMATION

A. Budgetary Comparison Schedule

Budgetary comparison schedules are required to be presented for the General Fund and each major special revenue fund that has a legally adopted budget. The originally adopted and final revised budgets are presented for such funds. The District 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 States of America as prescribed by Governmental Accounting Standards Board. The budgets are revised during the year by the Board of Trustees to provide for revised priorities. Expenditures cannot legally exceed appropriations by major object code.

B. Schedule of the District's Proportionate Share of the Net Pension Liability

The schedule presents information on the District's proportionate share of the net pension liability, the plans' fiduciary net position and, when applicable, the state's proportionate share of the net pension liability associated with the District. In the future, as data becomes available, 10 years of information will be presented.

Benefit changes – None

Changes of Assumptions:

2019-20

CalSTRS Board adopted a new experience study which updated assumptions for termination rates and service rates.

2018-19

CalPERS Board adopted new mortality assumptions for the plan. Assumption for inflation rate was reduced from 2.75% to 2.50%. Assumption for individual salary increases and overall payroll growth was reduced from 3.00% to 2.75%.

2017-18

CalSTRS Board adopted new mortality assumptions and new mortality tables for the plan. Assumption for inflation rate was reduced from 3.00% to 2.75%. Assumption for payroll growth was reduced from 3.75% to 3.50%.

CalPERS applied a new discount rate decreasing the rate from 7.65% to 7.15%.

2015-16

CalPERS applied a new discount rate increasing the rate from 7.50% to 7.65%.

NOTE 1. PURPOSE OF REQUIRED SUPPLEMENTARY INFORMATION (Continued)

C. Schedule of the District's Plan Contributions

This schedule presents information on the District'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.

NOTE 2. EXCESS OF EXPENDITURES OVER APPROPRIATIONS

For the year ended June 30, 2022, expenditures exceeded appropriations by the following amounts:

Appropriations Category	Excess Expenditures
General Fund:	
Certificated salaries	$ 4,689
Transfers out	13,929

These excess expenditures were offset by unexpended appropriations in other categories.

SUPPLEMENTARY INFORMATION SECTION

HAPPY VALLEY ELEMENTARY SCHOOL DISTRICT
LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE
JUNE 30, 2022

The Happy Valley Elementary School District (District) was established on September 1, 1843 and comprises an area located in Santa Cruz County. There were no changes in the boundaries of the District during the current year. The District currently operates one elementary school.

BOARD OF TRUSTEES

Name	Office	Term Expires
Ms. Katie Freeman	President	November, 2024
Mr. Jacob Willet	Clerk	November, 2022
Mr. Kyle Frandle	Trustee	November, 2024
Ms. Rachel Click Richardson	Trustee	November, 2022
Mr. Cliff Hodges	Trustee	November, 2022

ADMINISTRATION

Name	Title	Tenure
Ms. Michelle Stewart	Superintendent / Principal	1 Year

ADDRESS OF DISTRICT OFFICE

3125 Branciforte Drive
Santa Cruz, CA 95065

HAPPY VALLEY ELEMENTARY SCHOOL DISTRICT
SCHEDULE OF AVERAGE DAILY ATTENDANCE
FOR THE YEAR ENDED JUNE 30, 2022

	Second Period Report		Annual Report	
	Original	Revised	Original	Revised
Certification Numbers	C80FB5FE		EECBC1EF	
Grades TK / K-3:				
Regular Average Daily Attendance	59.03	N/A	59.34	N/A
Grades TK / K-3 Totals	59.03	N/A	59.34	N/A
Grades 4 - 6:				
Regular Average Daily Attendance	43.04	N/A	43.25	N/A
Grades 4 - 6 Totals	43.04	N/A	43.25	N/A
Total ADA	102.07	N/A	102.59	N/A

N/A - There were no audit findings resulting in necessary revisions to attendance.

HAPPY VALLEY ELEMENTARY SCHOOL DISTRICT
SCHEDULE OF INSTRUCTIONAL TIME
FOR THE YEAR ENDED JUNE 30, 2022

Grade Level	Required Minutes	2021/2022 Actual Minutes	Traditional Number of Instructional Days Offered [1 / 2]	Status
Kindergarten	36,000	42,300	180	In Compliance
Grade one	50,400	51,540	180	In Compliance
Grade two	50,400	51,540	180	In Compliance
Grade three	50,400	51,540	180	In Compliance
Grade four	54,000	55,710	180	In Compliance
Grade five	54,000	55,710	180	In Compliance
Grade six	54,000	55,710	180	In Compliance

[1] The District did not utilize a multitrack calendar during the 2021/2022 year.

[2] The District did not have any emergency closure days that would require the Form J-13A to be filed with the California Department of Education.

HAPPY VALLEY ELEMENTARY SCHOOL DISTRICT
SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2022

General Fund:	(Budgeted) * 2022/2023	2021/2022	2020/2021	2019/2020
Revenues and Other Financing Sources	$ 1,742,247	$ 1,723,924	$ 1,582,572	$ 1,773,772
Expenditures	1,833,848	1,636,780	1,446,345	1,489,018
Other Uses and Transfers Out	20,000	13,929	-	44,500
Total Outgo	1,853,848	1,650,709	1,446,345	1,533,518
Change in Fund Balance	(111,601)	73,215	136,227	240,254
Ending Fund Balance	$ 1,580,104	$ 1,691,705	$ 1,618,490	$ 1,482,263
Available Reserves [1]	$ 1,183,025	$ 1,257,288	$ 1,187,074	$ 1,144,075
Reserve for Economic Uncertainties	$ 92,692	$ 83,535	$ 73,317	$ 77,676
Unassigned Fund Balance	$ 1,090,333	$ 1,173,753	$ 1,113,757	$ 1,066,399
Available Reserves as a percentage of Total Outgo	63.8%	76.2%	82.1%	74.6%
Total Long-Term Debt	$ 733,823	$ 733,823	$ 1,347,696	$ 1,238,198
Average Daily Attendance at P-2	113	102	109	109

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

The General Fund balance has increased by $209,442 over the past two years. The District has not incurred an operating deficit in any of the past three years. The 2022/2023 General Fund budget projects a decrease of $111,601 (-6.6%).

For a District of this size, the state recommends available reserves of at least 5% of total General Fund expenditures, transfers out, and other uses (other outgo).

Total long-term debt has decreased by $504,375 over the past two years.

Average daily attendance has decreased by 7 ADA over the past two years. The ADA is anticipated to increase 11 ADA during the fiscal year 2022/2023.

* The 2022/2023 budget is included for analytical purposes only and has not been subjected to audit.

[1] Available reserves consists of all unassigned fund balances and reserves for economic uncertainty that are contained within the governmental funds. Unassigned fund balances are typically only reported in the General Fund. However, other governmental funds may report negative unassigned fund balances and are included in the reported available reserves.

HAPPY VALLEY ELEMENTARY SCHOOL DISTRICT
RECONCILIATION OF ANNUAL FINANCIAL AND
BUDGET REPORT (SACS) WITH AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2022

	General Fund	Special Reserve Fund for Other Than Capital Outlay Projects *	Foundation Permanent Fund
June 30, 2022 Annual Financial and Budget Report (SACS) Fund Balance	$ 1,351,865	$ 339,840	$ 1,049,942
Adjustments and Reclassifications:			
Reclassification for financial statement presentation	339,840	(339,840)	-
Audit Adjustment	-	-	(56,296)
June 30, 2022 Audited Financial Statement Fund Balance	$ 1,691,705	$ -	$ 993,646

* This audit reclassification is made for financial presentation purposes only, pursuant to GASB 54 which, when applied, does not recognize these funds as special revenue fund types. Therefore, the fund balances are consolidated with the General Fund. However, the District is permitted under current State law to account for these funds as a special revenue fund type for interim reporting and budgeting purposes.

	Capital Assets
June 30, 2022 Annual Financial and Budget Report (SACS) Capital Assets	$ 608,838
Adjustments and Reclassifications:	
Depreciation:	
Land improvements	(22,656)
Buildings and improvements	(11,747)
June 30, 2022 Audited Financial Statement Balance	$ 574,435

See accompanying notes to supplementary information.

HAPPY VALLEY ELEMENTARY SCHOOL DISTRICT
OTHER GOVERNMENTAL FUNDS FINANCIAL STATEMENT
COMBINING BALANCE SHEET
JUNE 30, 2022

	Cafeteria Fund	Capital Facilities Fund	County School Facilities Fund	Total Other Governmental Funds
ASSETS				
Cash and equivalents	$ 1	$ 20,634	$ 13,217	$ 33,852
Total Assets	$ 1	$ 20,634	$ 13,217	$ 33,852
LIABILITIES AND FUND BALANCE				
Liabilities:				
Due to other funds	$ 1	$ -	$ -	$ 1
Total Liabilities	1	-	-	1
Fund Balance:				
Restricted	-	20,634	13,217	33,851
Total Fund Balance	-	20,634	13,217	33,851
Total Liabilities and Fund Balance	$ 1	$ 20,634	$ 13,217	$ 33,852

See accompanying notes to supplementary information.

HAPPY VALLEY ELEMENTARY SCHOOL DISTRICT
OTHER GOVERNMENTAL FUNDS FINANCIAL STATEMENT
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2022

	Cafeteria Fund	Capital Facilities Fund	County School Facilities Fund	Total Other Governmental Funds
REVENUES				
Other local	$ -	$ 11,148	$ (362)	$ 10,786
Total Revenues	-	11,148	(362)	10,786
EXPENDITURES				
Services and other operating expenditures	-	235	350	585
Total Expenditures	-	235	350	585
Excess (deficiency) of revenues over expenditures before other financing sources (uses)	-	10,913	(712)	10,201
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	13,929	13,929
Transfers out	(1)	-	-	(1)
Total Other Financing Sources (Uses)	(1)	-	13,929	13,928
Net Increase (Decrease) in Fund Balance	(1)	10,913	13,217	24,129
Fund Balance - Beginning	1	9,721	-	9,722
Fund Balance - Ending	$ -	$ 20,634	$ 13,217	$ 33,851

NOTE 1. PURPOSE OF SUPPLEMENTARY INFORMATION

A. Local Education Agency Organization Structure

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

B. Schedule of Average Daily Attendance

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

C. Schedule of Instructional Time

The District has received incentive funding for increasing instructional time as provided by the Incentives for Longer Instructional Day. This schedule presents information on the amount of instructional time offered by the District and whether the District complied with the provisions of Education Code Sections 46200 through 46206.

Districts must maintain their instructional minutes at the 1986-87 requirements, as required by Education Code Section 46201.

D. Schedule of Financial Trends and Analysis

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

E. Reconciliation of Annual Financial and Budget Report (SACS) with Audited Financial Statements

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

F. Schedule of Charter School

The District has not authorized any Charter Schools; therefore this schedule has not been included for 2021/2022.

OTHER INDEPENDENT AUDITOR’S REPORTS

ROBERTSON & ASSOCIATES, CPAs
A PROFESSIONAL CORPORATION

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UKIAH, CA 95482
PHONE: (707) 468-5711 ♦ FAX: (707) 468-0132
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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*

Board of Trustees
Happy Valley Elementary School District
Santa Cruz, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Happy Valley Elementary School District (District), as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated June 1, 2023.

Report on Internal Control over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified a certain deficiency in internal control, described in the accompanying schedule of findings and responses as item 2022-001, that we consider to be a significant deficiency.

Report on Compliance and Other Matters

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

District's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the District's response to the findings identified in our audit and described in the accompanying schedule of findings and responses. The District's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of This Report

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

Robertson & Associates, CPAs

Lakeport, California
June 1, 2023

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Independent Auditor's Report on State Compliance; Report on Internal Control Over Compliance Required by the 2021-2022 *Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*

Board of Trustees
Happy Valley Elementary School District
Santa Cruz, California

Report on State Compliance

Opinion

We have audited Happy Valley Elementary School District (District)'s compliance with the types of compliance requirements identified as subject to audit in the *2021-2022 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, published by the Education Audit Appeals Panel for the year ended June 30, 2022. The District's state compliance requirements are identified in the table provided below.

In our opinion, the District complied, in all material respects, with the state compliance requirements referred to in the table provided below for the year ended June 30, 2022.

Basis for Opinion

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*); and the audit requirements of the *2021-2022 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. Our responsibilities under those standards and the *2021-2022 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* 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 District 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 state compliance with the compliance requirements subject to audit in the *2021-2022 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. Our audit does not provide a legal determination of the District's compliance with the compliance requirements referred to below.

Responsibilities of Management for State Compliance

Management is responsible for compliance with the requirements of the state compliance requirements as identified in the table below 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 District's state programs.

Auditor's Responsibilities for the Audit of State Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements listed in the table below has occurred, whether due to fraud or error, and express an opinion on the District's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards, and the 2021-2022 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* will always detect 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 District's compliance with the requirements listed in the table below.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the District'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 District's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control 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 noncompliance that we identified during the audit of the compliance areas identified in the table below.

Report on Internal Control over State 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 state 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 state 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 compliance requirements as identified in the table below 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.

Compliance Requirements Tested

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

Description	Procedures Performed
Local Education Agencies Other Than Charter Schools:	
Attendance	Yes
Teacher Certification and Misassignments	Yes
Kindergarten Continuance	Yes
Independent Study	Not Applicable
Continuation Education	Not Applicable
Instructional Time	Yes
Instructional Materials	Yes
Ratios of Administrative Employees to Teachers	No, see below
Classroom Teacher Salaries	Yes
Early Retirement Incentive	No, see below
Gann Limit Calculation	Yes
School Accountability Report Card	Yes
Juvenile Court Schools	Not Applicable
Middle or Early College High Schools	Not Applicable
K-3 Grade Span Adjustment	Yes
Transportation Maintenance of Effort	No, see below
Apprenticeship: Related and Supplemental Instruction	Not Applicable
Comprehensive School Safety Plan	Yes
District of Choice	No, see below

Description	Procedures Performed
School Districts, County Office of Education and Charter Schools	
California Clean Energy Jobs Act	No, see below
After School Education and Safety Program	Not Applicable
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	Not Applicable
In Person Instruction Grant	Yes
Charter Schools	
Attendance	Not Applicable
Mode of Instruction	Not Applicable
Nonclassroom-Based Instruction/Independent Study For Charter Schools	Not Applicable
Determination of Funding for Nonclassroom-Based Instruction	Not Applicable
Annual Instructional Minutes - Classroom Based	Not Applicable
Charter School Facility Grant Program	Not Applicable

The term "Not Applicable" used above is to mean either the District did not offer the program during the current fiscal year or the program applies to a different type of local education agency.

We did not perform testing for Ratios of Administrative Employees to Teachers because the District has one or fewer administrators.

The District 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 testing for Transportation Maintenance of Effort because the District did not participate in the program in 2012/2013 and therefore had no expenditures.

The District did not apply to be a District of Choice; therefore, we did not perform any procedures related to this program.

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

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

We did not perform testing for immunization as the District was not on the list of LEA that required testing.

The purpose of this report on internal control over state compliance is solely to describe the scope of our testing of internal control over state compliance and the results of that testing based on the requirements of the *2021-2022 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. Accordingly, this report is not suitable for any other purpose.

Robertson & Associates, CPAs

Lakeport, California
June 1, 2023

FINDINGS AND RESPONSES SECTION

Financial Statement Findings

2022-001 Investment balance and interest earnings misstated
State Code 30000 Internal Control

Criteria

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

Condition

During our audit of the investment balance with the Santa Cruz County Community Foundation, we identified an entry that was made incorrectly causing the ending investment balance to be overstated by $56,296 and net investment losses to be understated by the same amount. Additional audit procedures applied to the account balances identified that an entry of $28,148 was recorded in reverse. The error was not detected by management or employees in the normal course of performing their assigned functions.

Effect

The investment ending balance was overstated, net investment losses were understated, and the ending fund balance / net position balances was overstated.

Cause

The error was caused by a formula error in the reconciliation.

Questioned Cost

None.

Recommendation

Implement procedures that require year-end closing entries to including appropriate supporting documentation and to be reviewed and approved. Additionally, review account balances and/or journal entries after posting to the general ledger to ensure the entry was properly input. As part of the year-end closing process and preparation of financial statements, verify material account balances to supporting documents to ensure amounts are accurate. Finally, management should analytically review material account balances to ensure they are in line with management's expectations; balances that significantly differ from these expectations should be investigated.

2022-001 Investment balance and interest earnings misstated
State Code 30000 Internal Control (Continued)

District Response and Action Plan

The District and County Office of Education recognize that an error was made in closing the books when posting the activity from the investment account with the Santa Cruz County Community Foundation to the District's financial system. Disbursements to the district were posted in reverse due to a formula error in the reconciliation spreadsheet. This was not caught in subsequent examination of the data due to human error, as staff do perform all of the checks that are noted above in the auditor recommendation section, with the exception of reviewing balances in the district's other funds in comparison to anticipated outcomes. COE staff will incorporate that additional step into the final review procedures for the other funds to ensure that material errors are found and corrected before the books are closed.

Federal Award Findings and Questioned Costs

There were no findings or questioned costs relative to federal awards or programs.

State Award Findings and Questioned Costs

There were no findings or questioned costs relative to state awards or programs.

HAPPY VALLEY ELEMENTARY SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2022

Finding/Recommendation	Current Status	District Explanation, If Not Implemented
There were no prior year findings.		