

HAPPY VALLEY ELEMENTARY SCHOOL DISTRICT

COUNTY OF SANTA CRUZ
SANTA CRUZ, CALIFORNIA

AUDITED FINANCIAL STATEMENTS

JUNE 30, 2025



HAPPY VALLEY ELEMENTARY SCHOOL DISTRICT
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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 Happy Valley Elementary School District (the District), as of and for the year ended June 30, 2025, 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 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, 2025, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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.

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 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 generally accepted auditing standards 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 generally accepted auditing standards 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 (unaudited) on pages 4 through 13, and required supplementary information on pages 43 through 49 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying combining and individual nonmajor fund financial statements and other supplementary information listed in the table of contents are presented for purpose 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 and individual nonmajor 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.

The schedule of financial trends and analysis, which is the responsibility of management, is presented for the purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other Information

Management is responsible for the other information included in the financial statements. The other information comprises the LEA organization structure schedule but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon. In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 08, 2025, 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.

Harshmal & Company LLP

San Diego, California
December 08, 2025

**HAPPY VALLEY ELEMENTARY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2025**

INTRODUCTION

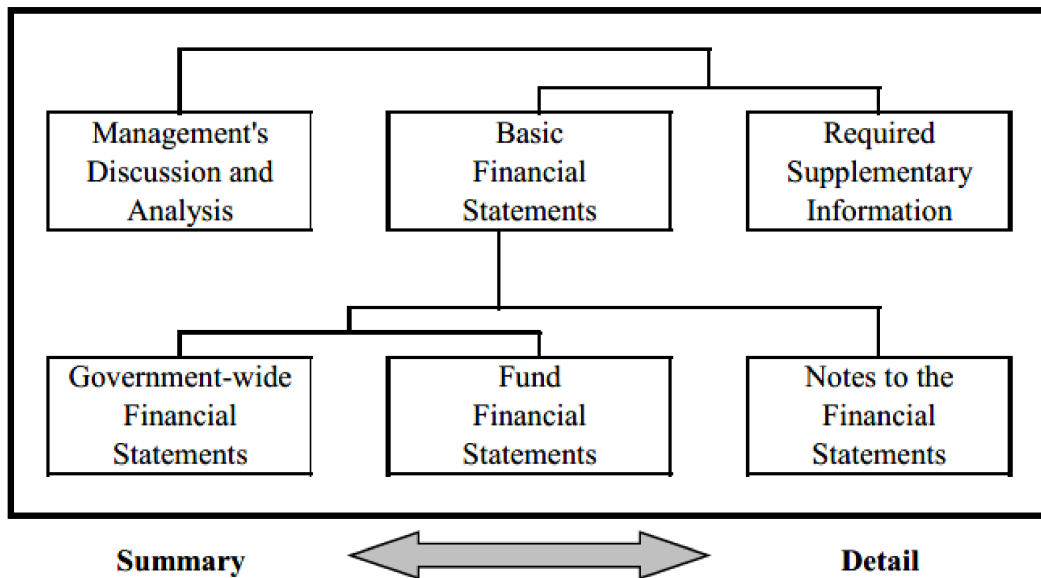
Our discussion and analysis of Happy Valley Elementary School District (the "District") financial performance provides an overview of the District's financial activities for the year ended June 30, 2025. It should be read in conjunction with the District's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- ◆ Total net position was \$3,657,636, as of June 30, 2025. This was an increase of \$122,745 from the prior year.
- ◆ With overall revenues were \$2,188,512, overall expenses were \$2,065,767.

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's financial position. 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 the District operations in more detail. The fund financial statements comprise the remaining statements.
 - ◆ **Governmental fund** financial 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 supplementary information that further explains and supports the financial statements.

**HAPPY VALLEY ELEMENTARY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2025**

Government-Wide Financial Statements

The government-wide financial statements provide information about the District's overall financial position, similar to those used by private-sector companies. The statement of net position includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net position and how it has 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 increased by 3.47% in the past year.
- ◆ The net change in all funds from 2023-24 to 2024-25 was a decrease of \$1,400,383.
- ◆ To assess the overall health of the District, one needs to consider additional nonfinancial factors such as changes in enrollment, changes in the property tax base, and changes in program funding by the Federal and State governments, and the condition of facilities. The District's enrollment decreased by 15 in the past year.
- ◆ Average Daily Attendance (ADA) was 102, and funded ADA was 116 using current year ADA data. The increase in ADA has not had any impact on funding because the District is Basic Aid and receives its funding through property tax revenues. In 2024-25, property tax revenue increased by \$63,193 over the prior year, which is a 4.91% increase.

The government-wide financial 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. The Locally Controlled Funding Formula 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 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 particular 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 financial statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the government-wide financial statements, we provide additional information at the bottom of the government funds statement that explains the relationship (or differences) between them.

**HAPPY VALLEY ELEMENTARY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2025**

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 \$2,597,828 as compared to the prior year's ending fund balance of \$3,998,211.

In the government-wide financial statements, the District's activities are reported as governmental activities. Most of the District's services are included here, such as regular and special education and administration. Funding received from the state of California through the revenue limit, along with categorical and special funding received from the federal and state governments fund most of these activities.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Position

The District's total net position was a balance of \$3,657,636 as of June 30, 2025. See Table 1 for a comparison of the 2024-25 net position to 2023-24 net position.

Table 1: Summary of Net Position

	June 30, 2025	June 30, 2024	Net Change	Percentage Change
Assets				
Current assets	\$ 2,685,627	\$ 4,080,162	\$ (1,394,535)	(34.18)%
Other current assets	50,419	150,031	(99,612)	(66.39)%
Non current assets	<u>2,027,668</u>	<u>698,568</u>	<u>1,329,100</u>	<u>190.26%</u>
Total assets	<u>4,763,714</u>	<u>4,928,761</u>	<u>(165,047)</u>	<u>(3.35)%</u>
Deferred outflows of resources				
Pension	<u>659,275</u>	<u>689,060</u>	<u>(29,785)</u>	<u>(4.32)%</u>
Total deferred outflows of resources	<u>659,275</u>	<u>689,060</u>	<u>(29,785)</u>	<u>(4.32)%</u>
Liabilities				
Current liabilities	138,218	231,982	(93,764)	(40.42)%
Long-term liabilities	<u>1,158,071</u>	<u>1,312,380</u>	<u>(154,309)</u>	<u>(11.76)%</u>
Total liabilities	<u>1,296,289</u>	<u>1,544,362</u>	<u>(248,073)</u>	<u>(16.06)%</u>
Deferred inflows of resources				
Pension	<u>469,064</u>	<u>538,568</u>	<u>(69,504)</u>	<u>(12.91)%</u>
Total deferred inflows of resources	<u>469,064</u>	<u>538,568</u>	<u>(69,504)</u>	<u>(12.91)%</u>
Net position				
Net investment in capital assets	2,027,668	698,568	1,329,100	190.26%
Restricted	1,459,365	2,694,198	(1,234,833)	(45.83)%
Unrestricted	<u>170,603</u>	<u>142,125</u>	<u>28,478</u>	<u>20.04%</u>
Total net position	<u>\$ 3,657,636</u>	<u>\$ 3,534,891</u>	<u>\$ 122,745</u>	<u>3.47%</u>

**HAPPY VALLEY ELEMENTARY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2025**

CHANGE IN NET POSITION

The District's total revenues were \$2,188,512. A majority of the revenue comes from the property taxes and from Federal and State support, not restricted for specific purposes.

The total expenditures for all programs and services totaled \$2,065,767. The District's expenses are predominantly related to instructional services for students with instruction, instruction-related services and pupil services accounting for over \$1,587,466 of total expenses. Administrative activities accounted for just \$246,687 of total costs. The remaining expenses were for plant services (maintenance and operations), and other education-related expenditures.

Table 2: Change in Net Position

	<u>June 30,</u> <u>2025</u>	<u>June 30,</u> <u>2024</u>	<u>Net Change</u>	<u>Percentage</u> <u>Change</u>
Revenues:				
Program revenues:				
Charges for services	\$ 1,594	\$ 5,196	\$ (3,602)	(69.32)%
Operating grants and contribution	531,624	490,649	40,975	8.35%
Capital grants and contribution	-	1,636,478	(1,636,478)	(100.00)%
General revenues:				
Property taxes	1,349,008	1,285,815	63,193	4.91%
Unrestricted federal and state aid	123,712	127,894	(4,182)	(3.27)%
Miscellaneous and other local	<u>182,574</u>	<u>176,329</u>	<u>6,245</u>	<u>3.54%</u>
Total revenues	<u>2,188,512</u>	<u>3,722,361</u>	<u>(1,533,849)</u>	<u>(41.21)%</u>
Expenses:				
Instruction	1,168,654	1,206,193	(37,539)	(3.11)%
Instruction - related services	350,976	357,788	(6,812)	(1.90)%
Pupil services	67,836	97,076	(29,240)	(30.12)%
General administration	246,687	247,166	(479)	(0.19)%
Plant services	163,840	172,778	(8,938)	(5.17)%
Facilities acquisition and maintenance	39,514	5,660	33,854	598.13%
Transfer between agencies	<u>28,260</u>	<u>99,764</u>	<u>(71,504)</u>	<u>(71.67)%</u>
Total expenses	<u>2,065,767</u>	<u>2,186,425</u>	<u>(120,658)</u>	<u>(5.52)%</u>
Change in net position	122,745	1,535,936	(1,413,191)	(92.01)%
Net position, beginning of year	<u>3,534,891</u>	<u>1,998,955</u>	<u>1,535,936</u>	<u>76.84%</u>
Net position, end of year	<u><u>\$ 3,657,636</u></u>	<u><u>\$ 3,534,891</u></u>	<u><u>\$ 122,745</u></u>	<u><u>3.47%</u></u>

**HAPPY VALLEY ELEMENTARY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2025**

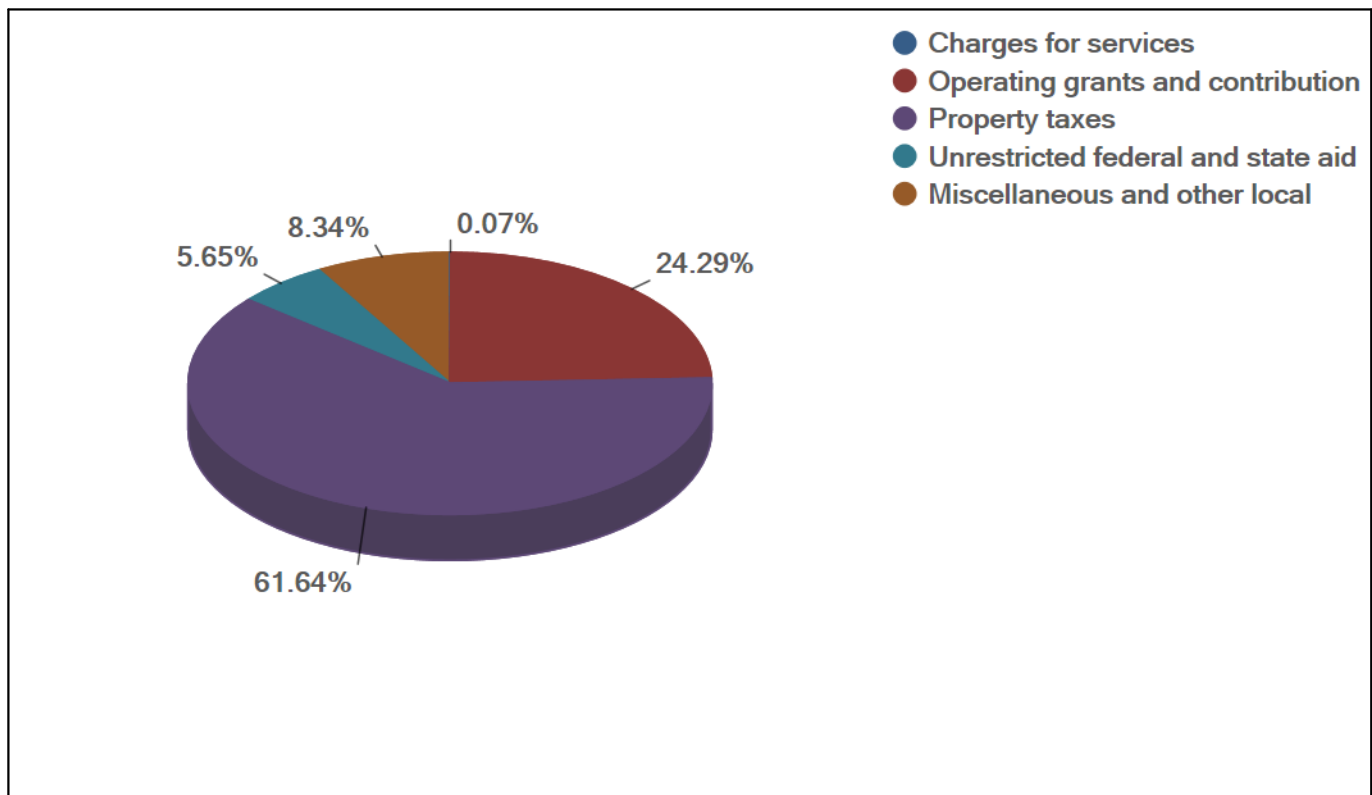
Governmental Activities

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.

Table 3: Net Cost of Services

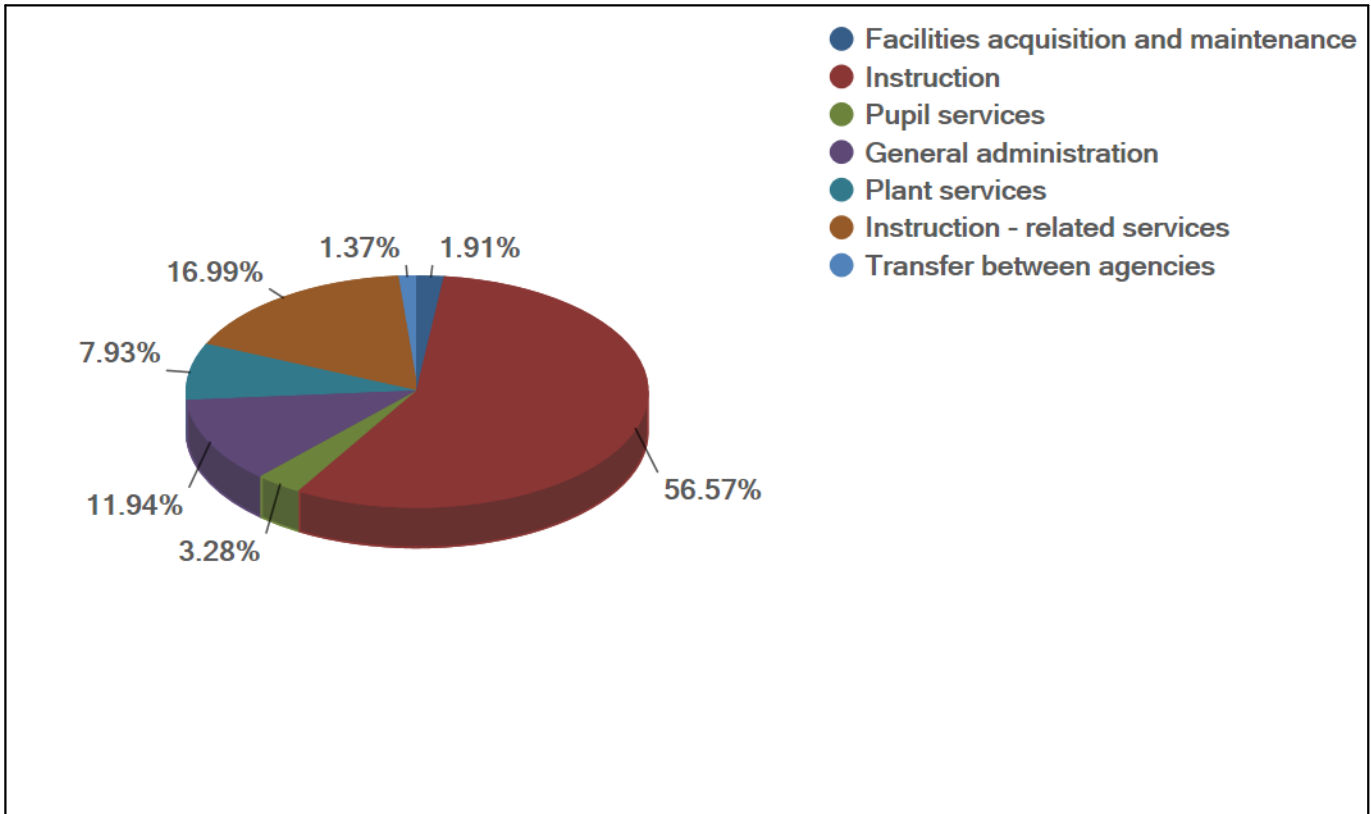
	<u>June 30, 2025</u>	<u>June 30, 2024</u>	<u>Net Change</u>	<u>Percentage Change</u>
Instruction	\$ 919,593	\$ (714,026)	\$ 1,633,619	(229)%
Instruction - related services	335,569	338,333	(2,764)	(1)%
Pupil services	36,720	70,844	(34,124)	(48)%
General administration	239,937	237,165	2,772	1 %
Plant services	140,823	119,057	21,766	18 %
Facilities acquisition and maintenance	(168,353)	(97,035)	(71,318)	73 %
Transfer between agencies	28,260	99,764	(71,504)	(72)%
Total net cost of services	<u>\$ 1,532,549</u>	<u>\$ 54,102</u>	<u>\$ 1,478,447</u>	<u>2,733 %</u>

2024-25 Summary of Revenues for Governmental Activities



**HAPPY VALLEY ELEMENTARY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2025**

2024-25 Summary of Expenses for Governmental Activities



Fund Balance Comparison

The District currently maintains the following funds:

Table 4: Fund Balance

	<u>June 30, 2025</u>	<u>June 30, 2024</u>	<u>Net Change</u>	<u>Percentage Change</u>
FUNDS				
Governmental:				
General fund	\$ 1,309,491	\$ 1,450,993	\$ (141,502)	(10)%
Capital facilities fund	3	14	(11)	(79)%
County school facilities fund	130,885	1,454,550	(1,323,665)	(91)%
Foundation permanent fund	<u>1,157,449</u>	<u>1,092,654</u>	<u>64,795</u>	<u>6 %</u>
Total fund balance	<u>\$ 2,597,828</u>	<u>\$ 3,998,211</u>	<u>\$ (1,400,383)</u>	<u>(35)%</u>

General Fund

General Fund Revenues increased overall in 2024-25 over the prior year by approximately \$3,681. The source of the increase was property taxes and fund interest.

Decreases to General Fund salaries for certificated staff were \$36,479. Salaries for classified staff decreased by \$9,442. These decreases are due to utilizing a service for the after school program, rather than staff members, and the reduction of one aide for the Transitional Kindergarten class. Books and supplies expenses decreased by \$31,426 due to large one-time expenditures in prior year in both Parcel Tax and After School program.

**HAPPY VALLEY ELEMENTARY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2025**

Contracts and services increased over 2024-25 by \$49,190 due to an increase in special education contracts. Transfers in and out increased due to a one-time transfer in 2024-25.

Other Governmental Funds

Other governmental funds had the following activity and changes for the year ended June 30, 2025:

The Cafeteria Special Revenue Fund - There were no significant changes year over year. This fund is not in regular use.

The Capital Facilities Fund - This fund received revenue totaling \$1,604 in the form of interest and developer fees. Expenditures were \$1,615 related to the modernization of the school site.

The Foundation Permanent Fund - The Foundation Permanent Fund consists of three separately funded programs:

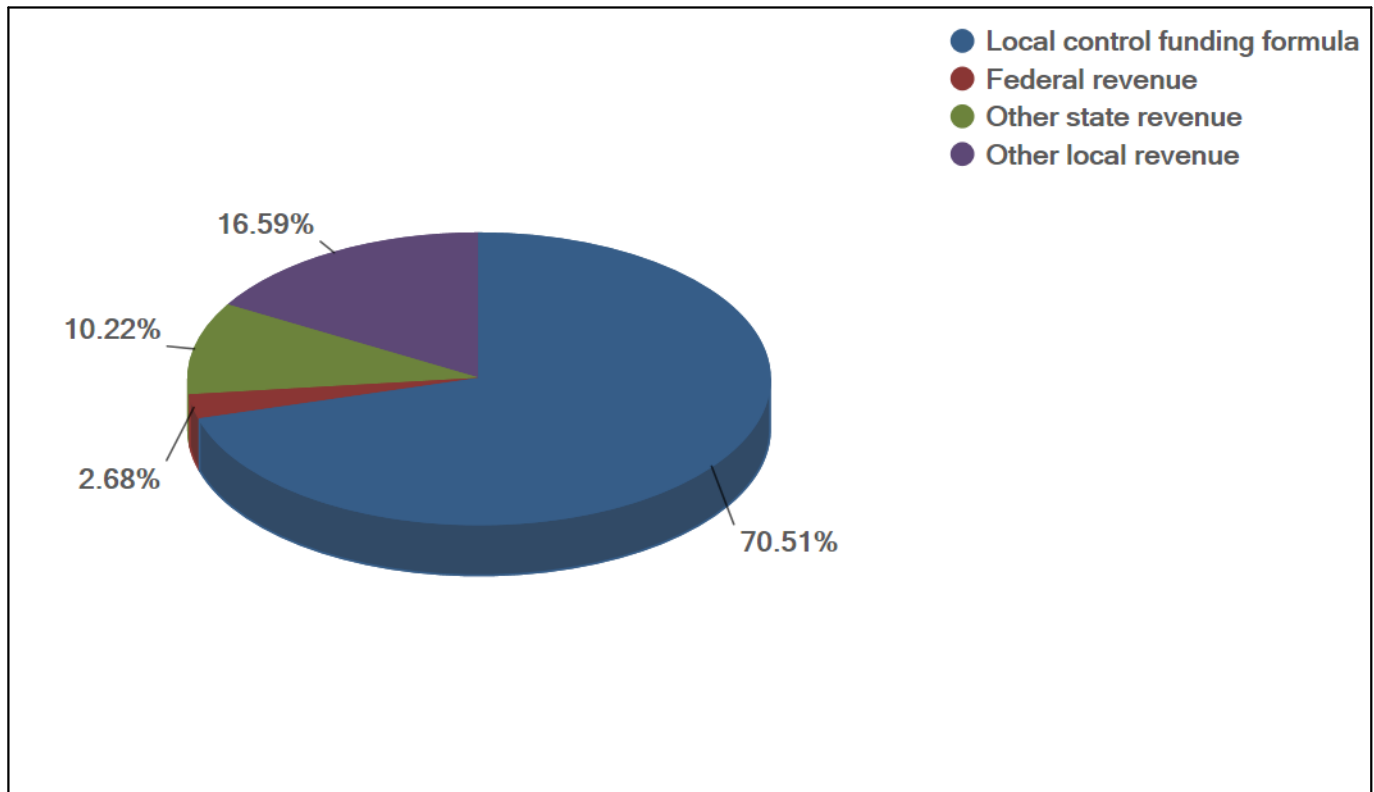
The original foundation funds are held by the Santa Cruz County Treasurer. This program earned interest of \$2,804 and disbursed the annual contribution to the General Fund for the educational purpose of support for classroom aides in the amount of \$63,852.

However, this fund also had a prior year change in fair market value adjustment of \$1,931. The current year fair market value adjustment to the Foundation Permanent Fund was \$8,865 and was accounted for properly.

The overall net change in fund balance for the current year is \$64,795.

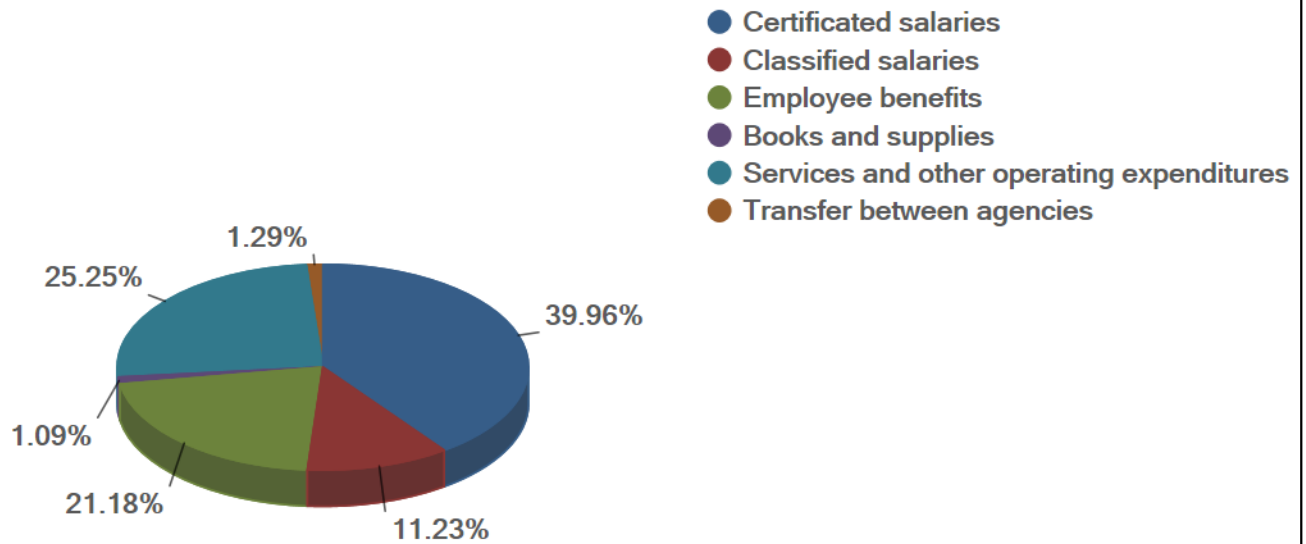
The following charts graphically depict revenues and expenditures, both by major object as well as by function.

2024-25 General Fund Revenues

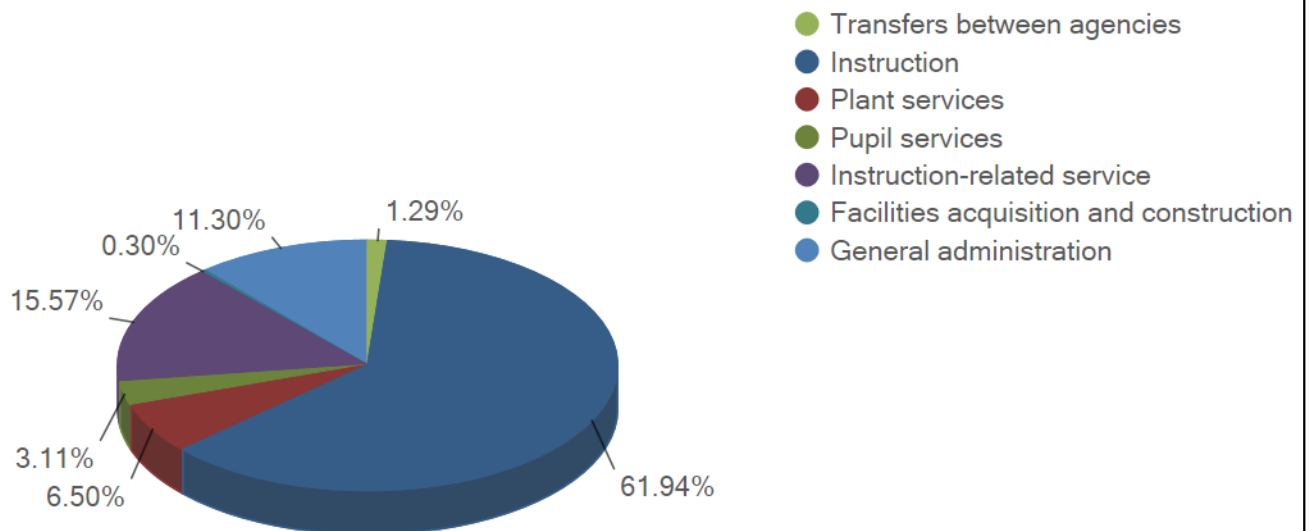


**HAPPY VALLEY ELEMENTARY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2025**

2024-25 General Fund Expenditures by Object



2024-25 General Fund Expenditures by Function



**HAPPY VALLEY ELEMENTARY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2025**

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of June 30, 2025, the District had \$2,027,668 invested, net of accumulated depreciation, in capital assets. Current year depreciation expense is \$30,873. The transfer out 2024-25 was \$373,976 from construction in progress expenses to Building and improvements, related to the modernization planning.

Table 5: Capital Assets

	<u>June 30, 2025</u>	<u>June 30, 2024</u>	<u>Net Change</u>	<u>Percentage Change</u>
Construction in progress	\$ -	\$ 373,976	\$ (373,976)	(100.00)%
Land improvements, net	528,645	528,645	-	0.00%
Buildings and improvements	2,697,065	963,116	1,733,949	180.04%
Accumulated depreciation	<u>(1,198,042)</u>	<u>(1,167,169)</u>	<u>(30,873)</u>	<u>2.65%</u>
Total capital assets, net	<u>\$ 2,027,668</u>	<u>\$ 698,568</u>	<u>\$ 1,329,100</u>	<u>190.26%</u>

Long-Term Debt

At year's end, the District had \$1,158,071 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 by \$154,309 in 2024-25.

Table 6: Outstanding Long-Term Debt

	<u>June 30, 2025</u>	<u>June 30, 2024</u>	<u>Net Change</u>	<u>Percentage Change</u>
Long-term debts:				
Net pension liability	\$ 1,158,071	\$ 1,312,380	\$ (154,309)	(11.76)%
Total long-term debts	<u>\$ 1,158,071</u>	<u>\$ 1,312,380</u>	<u>\$ (154,309)</u>	<u>(11.76)%</u>

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 the Fund 01 and Fund 17 revenue between the original and final budget is an increase totaling \$13,769. This increase is due to increasing 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 the original to the final budget change due to additional information learned as the year progresses and the funding source allocations are finalized and actual deposits realized.
- ◆ The difference in the Fund 01 and Fund 17 expenses between the original and final budget is an increase totaling \$11,984. This is due to special education expenditures.
- ◆ Overall Revenue received was approximately \$92,971 more than the budgeted amounts. The source was property taxes.

**HAPPY VALLEY ELEMENTARY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2025**

- ◆ Overall Expenditures were \$141,129 less than the final budget amounts. This is due to the Special Education contracts coming in significantly lower than projected, budgeted expenses related to the restroom modular project being delayed to the 2025-26 fiscal year, and transferring Transitional Kindergarten students to a neighboring district, thereby removing all TK expenditures.

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 on June 18, 2025. 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 111, which is an increase of 4 students from the prior year.
- ◆ The District is projecting a 3% increase in property taxes.
- ◆ The modernization project has been completed. With the declared savings from modernization, the district has acquired a modular building for the new student restrooms. Costs over and above the declared savings have been absorbed by donations and the general fund, including the monthly lease charges to continue for 5 years.
- ◆ The parcel tax continues to be another source of revenue for the district through 2032. The new parcel tax was approved by voters in March 2024.
- ◆ Special Education costs continue to have a significant impact on the district.

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.

BASIC FINANCIAL STATEMENTS

GOVERNMENT - WIDE FINANCIAL STATEMENTS

HAPPY VALLEY ELEMENTARY SCHOOL DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2025

	<u>Governmental Activities</u>
ASSETS	
Cash and cash equivalents	\$ 1,571,539
Investments	1,114,088
Accounts receivable	50,419
Capital assets, net	<u>2,027,668</u>
Total assets	<u>4,763,714</u>
DEFERRED OUTFLOWS OF RESOURCES	
Related to pension	<u>659,275</u>
Total deferred outflows of resources	<u>659,275</u>
Total assets and deferred outflows of resources	<u>5,422,989</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	
LIABILITIES	
Accounts payable	102,542
Unearned revenue	35,676
Net pension liability	<u>1,158,071</u>
Total liabilities	<u>1,296,289</u>
DEFERRED INFLOWS OF RESOURCES	
Related to pension	<u>469,064</u>
Total deferred inflows of resources	<u>469,064</u>
Total liabilities and deferred inflows of resources	<u>1,765,353</u>
NET POSITION	
Net investment in capital assets	2,027,668
Restricted for:	
Capital projects	130,888
Educational programs	214,389
Other purpose (nonexpendable)	1,114,088
Unrestricted	<u>170,603</u>
Total net position	<u>3,657,636</u>
Total liabilities, deferred inflows of resources, and net position	<u><u>\$ 5,422,989</u></u>

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, 2025

		Program Revenues		Net (Expense)/ Revenue and Changes in Net Position
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
Governmental activities:				
Instruction	\$ 1,168,654	\$ 69	\$ 248,992	\$ (919,593)
Instruction-related services:				
Instructional supervision and administration	9,049	-	711	(8,338)
Instruction library, media, and technology	359	-	-	(359)
School site administration	341,568	12	14,684	(326,872)
Pupil services:				
Home-to-school transportation	15,304	-	5,111	(10,193)
Food services	13,760	-	-	(13,760)
All other pupil services	38,772	-	26,005	(12,767)
General administration:				
Centralized data processing	4,761	-	-	(4,761)
All other general administration	241,926	-	6,750	(235,176)
Plant services	163,840	3	23,014	(140,823)
Facilities acquisition and maintenance	39,514	1,510	206,357	168,353
Transfer between agencies	<u>28,260</u>	<u>-</u>	<u>-</u>	<u>(28,260)</u>
Total governmental activities	<u>\$ 2,065,767</u>	<u>\$ 1,594</u>	<u>\$ 531,624</u>	<u>(1,532,549)</u>
General revenues:				
Taxes and subventions:				
Taxes levied for general purposes				1,297,429
Taxes levied for specific purposes				51,579
Federal and state aid not restricted to specific purposes				123,712
Interest and investment earnings				117,430
Miscellaneous				<u>65,144</u>
Total general revenues				<u>1,655,294</u>
Change in net position				122,745
Net position, beginning of year				<u>3,534,891</u>
Net position, end of year				<u>\$ 3,657,636</u>

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

GOVERNMENTAL FUND FINANCIAL STATEMENTS

HAPPY VALLEY ELEMENTARY SCHOOL DISTRICT
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2025

	General Fund	County School Facilities Fund	Foundation Permanent Fund	Nonmajor Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 1,355,348	\$ 172,827	\$ 43,361	\$ 3	\$ 1,571,539
Investments	-	-	1,114,088	-	1,114,088
Accounts receivable	50,419	-	-	-	50,419
Due from other funds	<u>37,590</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>37,590</u>
Total assets	<u>1,443,357</u>	<u>172,827</u>	<u>1,157,449</u>	<u>3</u>	<u>2,773,636</u>
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts payable	98,190	4,352	-	-	102,542
Due to other funds	-	37,590	-	-	37,590
Unearned revenue	<u>35,676</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>35,676</u>
Total liabilities	<u>133,866</u>	<u>41,942</u>	<u>-</u>	<u>-</u>	<u>175,808</u>
FUND BALANCES					
Restricted	214,389	130,885	1,114,088	3	1,459,365
Assigned:					
Other assignments	325,444	-	43,361	-	368,805
Unassigned	<u>769,658</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>769,658</u>
Total fund balances	<u>1,309,491</u>	<u>130,885</u>	<u>1,157,449</u>	<u>3</u>	<u>2,597,828</u>
Total liabilities and fund balances	<u>\$ 1,443,357</u>	<u>\$ 172,827</u>	<u>\$ 1,157,449</u>	<u>\$ 3</u>	<u>\$ 2,773,636</u>

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

**HAPPY VALLEY ELEMENTARY SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
JUNE 30, 2025**

Total fund balances - governmental funds		\$ 2,597,828
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.		
Capital assets	3,225,710	
Less: accumulated depreciation	<u>(1,198,042)</u>	2,027,668
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		(1,158,071)
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 pensions are reported.		
Deferred outflows of resources related to pension	659,275	
Deferred inflows of resources relating to pension	<u>(469,064)</u>	<u>190,211</u>
Total net position - governmental activities		<u><u>\$ 3,657,636</u></u>

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

HAPPY VALLEY ELEMENTARY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2025

	General Fund	County School Facilities Fund	Foundation Permanent Fund	Nonmajor Funds	Total Governmental Funds
REVENUES					
Local control funding formula	\$ 1,394,820	\$ -	\$ -	\$ -	\$ 1,394,820
Federal revenue	53,091	-	-	-	53,091
Other state revenue	202,232	-	-	-	202,232
Other local revenue	<u>328,175</u>	<u>69,246</u>	<u>139,344</u>	<u>1,604</u>	<u>538,369</u>
Total revenues	<u>1,978,318</u>	<u>69,246</u>	<u>139,344</u>	<u>1,604</u>	<u>2,188,512</u>
EXPENDITURES					
Current					
Instruction	1,352,500	-	-	-	1,352,500
Instruction-related services:					
Instructional supervision and administration	9,049	-	-	-	9,049
School site administration	330,871	-	10,697	-	341,568
Pupil services:					
Home-to-school transportation	15,304	-	-	-	15,304
Food services	13,760	-	-	-	13,760
All other pupil services	38,772	-	-	-	38,772
General administration:					
Centralized data processing	4,761	-	-	-	4,761
All other general administration	241,894	-	-	32	241,926
Plant services	141,925	-	-	1,583	143,508
Facilities acquisition and construction	6,576	1,392,911	-	-	1,399,487
Transfer between agencies	<u>28,260</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>28,260</u>
Total expenditures	<u>2,183,672</u>	<u>1,392,911</u>	<u>10,697</u>	<u>1,615</u>	<u>3,588,895</u>
Excess/(deficiency) of revenues over/(under) expenditures	<u>(205,354)</u>	<u>(1,323,665)</u>	<u>128,647</u>	<u>(11)</u>	<u>(1,400,383)</u>
Other financing sources (uses)					
Operating transfers in	63,852	-	-	-	63,852
Operating transfers out	<u>-</u>	<u>-</u>	<u>(63,852)</u>	<u>-</u>	<u>(63,852)</u>
Total other financing sources (uses)	<u>63,852</u>	<u>-</u>	<u>(63,852)</u>	<u>-</u>	<u>-</u>
Net change in fund balance	(141,502)	(1,323,665)	64,795	(11)	(1,400,383)
Fund balances, beginning of year	<u>1,450,993</u>	<u>1,454,550</u>	<u>1,092,654</u>	<u>14</u>	<u>3,998,211</u>
Fund balances, end of year	<u>\$ 1,309,491</u>	<u>\$ 130,885</u>	<u>\$ 1,157,449</u>	<u>\$ 3</u>	<u>\$ 2,597,828</u>

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

HAPPY VALLEY ELEMENTARY SCHOOL DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS TO THE STATEMENT OF
ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2025

Total net change in fund balances - governmental funds	\$ (1,400,383)
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Amounts reported for governmental activities differ from amounts reported in governmental funds as follows:

Capital outlays are reported in 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 outlays	1,359,973	
Less: depreciation expenses	<u>(30,873)</u>	1,329,100

Changes in the net pension liability, deferred outflows of and deferred inflows of resources are reported as pension expenses in the statement of activities.

194,028

Changes in net position - governmental activities

\$ 122,745

HAPPY VALLEY ELEMENTARY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2025

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General Statement

Happy Valley Elementary School District (the "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 of an area in Santa Cruz County, was established in 1864 and is currently serving students of kindergarten through sixth grade.

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*.

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.

Basis of Presentation

Government-Wide Financial Statements: The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all 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 the primary government 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.

HAPPY VALLEY ELEMENTARY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2025

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONT'D

Basis of Presentation - Cont'd

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 that 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.

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:

Major Governmental Funds

General Fund - 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.

County School Facilities Fund - 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.

Foundation Permanent 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.

Nonmajor Governmental Funds

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

Basis of Accounting

The 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.

HAPPY VALLEY ELEMENTARY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2025

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONT'D

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 collectible within the current period or within 45, 60, or 90 days after year-end, depending on the revenue source.

To ensure comparability of reporting among California districts and to avoid distorting normal revenue patterns, particularly regarding reimbursement grants and corrections to State aid apportionments, the California Department of Education has defined 'available' for districts as collectible within one year.

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 a modified accrual basis, revenue from non-exchange transactions must also be available before it is recognized.

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.

Expenses/Expenditures

Under the 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.

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.

HAPPY VALLEY ELEMENTARY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2025

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONT'D

Budgets and Budgetary Accounting - Cont'd

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 objects and individual appropriation accounts. Expenditures cannot legally exceed appropriations by major object account.

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 as of June 30, 2025.

Cash and Cash 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.

Accounts Receivable

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

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 has been reported.

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:

<u>Asset Class</u>	<u>Estimated Useful Lives in Years</u>
Land improvements	20
Building and improvements	20-50

HAPPY VALLEY ELEMENTARY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2025

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONT'D

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.

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, 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 pertain to liability and asset information within certain defined timeframes. For this report, the following time frames are used:

Valuation Date	June 30, 2023
Measurement Date	June 30, 2024
Measurement Period	July 1, 2023 to June 30, 2024

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.

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.

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:

HAPPY VALLEY ELEMENTARY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2025

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONT'D

Fund Balance Classifications - Cont'd

- **Nonspendable Fund Balance** - The nonspendable 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.
- **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.
- **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 actions as approved by the governing board.
- **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 balances 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.
- **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.
- **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.
- **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 that 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.

HAPPY VALLEY ELEMENTARY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2025

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONT'D

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's 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.

Accounting Estimates

The presentation 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 the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Current Accounting Pronouncements

The District has adopted all current statements of the Governmental Accounting Standards Board (GASB) that are applicable. As of June 30, 2025, the District implemented the following new standards issued by GASB:

GASB has issued Statement No. 101, *Compensated Absences*, effective for the year ending June 30, 2025. This Statement amends the existing requirements related to Compensated Absences by updating the recognition and measurement guidance.

GASB has issued Statement No. 102, *Certain Risk Disclosures*, effective for the year ending June 30, 2025. This Statement's objective is to provide users of governmental financial statements with essential information about risks related to a government's vulnerabilities due to certain concentrations or constraints.

HAPPY VALLEY ELEMENTARY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2025

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONT'D

Future Changes in Accounting Pronouncements

GASB has issued Statement No. 103, *Financial Reporting Model Improvements*, effective for the year ending June 30, 2026. This Statement's objective is to improve key components of the financial reporting model to enhance effectiveness in providing information that is essential for decision-making and assisting a government's accountability. Additionally, the statements also address certain application issues.

In March 2024, Governmental Accounting Standards Board (GASB) issued Statement No. 104, *Disclosure of Certain Capital Assets*. The objective of this Statement is to enhance the note disclosures about certain classes of capital assets—including lease assets, subscription-based information technology assets, intangible right-to-use assets, and capital assets held for sale. The provisions of GASB 104 are effective for fiscal years beginning after June 15, 2025, and application is to all periods presented.

The District will evaluate the impact each of these pronouncements may have on its financial statements and will implement them as applicable and when material.

NOTE 2 - CASH, CASH EQUIVALENTS, AND INVESTMENTS

Cash, equivalents, and investments as of June 30, 2025 are classified in the accompanying financial statements as follows:

Cash and Equivalents:

Pooled Funds:

Cash in county treasury	\$ 1,554,508
Fair value adjustment to cash in county treasury	<u>17,031</u>
Total Cash and Equivalents	<u><u>\$ 1,571,539</u></u>

Investments:

Community Foundation Santa Cruz County	<u>\$ 1,114,088</u>
Total Investments	<u><u>\$ 1,114,088</u></u>

Cash with 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 its 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 the fair value provided by the County Treasurer for the entire portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by the County Treasurer, which is recorded on the amortized cost basis.

HAPPY VALLEY ELEMENTARY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2025

NOTE 2 - CASH, CASH EQUIVALENTS, AND INVESTMENTS - CONT'D

The Treasury is authorized to deposit cash and invest excess funds under *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.

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, and concentration of credit risk.

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

HAPPY VALLEY ELEMENTARY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2025

NOTE 2 - CASH, CASH EQUIVALENTS, AND INVESTMENTS - CONT'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, 2025, the weighted average maturity of the investments contained in the Treasury Investment Pool was 431 days.

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 assigning 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.

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 - FAIR VALUE MEASUREMENTS

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. The following provides a summary of the hierarchy used to measure fair value:

- Level 1 inputs - quoted prices in active markets for identical assets.
- Level 2 inputs - quoted prices in active or inactive markets for the same or similar assets.
- Level 3 inputs - estimates using the best information available when there is little or no market.

<u>Investments</u>	<u>Fair Value</u>	<u>Level of Input</u>
Mutual Funds and Money Market Mutual Funds	\$ 1,114,088	Level 2
Total Investments	<u>\$ 1,114,088</u>	

As of June 30, 2025, the District's investments in the Santa Cruz County Treasury Investment Pool and State Investment Pools are uncategorized.

NOTE 4 - INVESTMENT FUND HELD AT THE COMMUNITY FOUNDATION SANTA CRUZ COUNTY

The Community Foundation Santa Cruz County 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.

HAPPY VALLEY ELEMENTARY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2025

NOTE 5 - CAPITAL ASSETS

The changes in capital assets for the year ended June 30, 2025, are shown below:

	Balance July 01, 2024	Additions	Transfer	Balance June 30, 2025
Capital assets, not being depreciated				
Construction in progress	\$ 373,976	\$ -	\$ (373,976)	\$ -
Total capital assets, not being depreciated	373,976	-	(373,976)	-
Capital assets being depreciated				
Land improvements	528,645	-	-	528,645
Buildings and improvements	963,116	1,359,973	373,976	2,697,065
Total capital assets, being depreciated	1,491,761	1,359,973	373,976	3,225,710
Less: accumulated depreciation for				
Land improvements	(256,444)	(22,657)	-	(279,101)
Buildings and improvements	(910,725)	(8,216)	-	(918,941)
Total accumulated depreciation	(1,167,169)	(30,873)	-	(1,198,042)
Total capital assets, being depreciated, net	324,592	1,329,100	373,976	2,027,668
Governmental activities capital assets, net	<u>\$ 698,568</u>	<u>\$ 1,329,100</u>	<u>\$ -</u>	<u>\$ 2,027,668</u>

Depreciation expense was charged to governmental activities as follows:

Instruction	\$ 10,182
Instruction related services:	
Instructional library, media, and technology	359
Plant services	<u>20,332</u>
Total depreciation expense	<u>\$ 30,873</u>

NOTE 6 - 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. 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 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, 2025, interfund receivables and payables were as follows:

Fund	Due from	Due to
General Fund	\$ 37,590	\$ -
County School Facilities Fund	-	(37,590)
Total Interfund Receivables/Payables	<u>\$ 37,590</u>	<u>\$ (37,590)</u>

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

HAPPY VALLEY ELEMENTARY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2025

NOTE 6 - INTERFUND TRANSACTIONS - CONT'D

B. Interfund Transfers

Permanent reallocation of resources between funds of the reporting the District are classified as interfund transfers. As of June 30, 2025, interfund transfers are as follows:

<u>Fund</u>	<u>Transfer In</u>	<u>Transfers Out</u>
General Fund	\$ 63,852	\$ -
Foundation Permanent Fund	-	(63,852)
Total Interfund Transfers	<u>\$ 63,852</u>	<u>\$ (63,852)</u>

NOTE 7 - PENSIONS

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

For the fiscal year ended June 30, 2025, the District reported net pension liabilities, deferred outflows of resources, deferred inflows of resources, and pension expense (income) for each of the above plans as follows:

	Proportionate Share of Net Pension Liability	Proportionate Share of Deferred Outflows of Resources	Proportionate Share of Deferred Inflows of Resources	Proportionate Share of Pension Expense (Income)
CalSTRS	\$ 843,211	\$ 566,160	\$ (414,106)	\$ (188,733)
CalPERS	314,860	93,115	(54,958)	(5,295)
Total	<u>\$ 1,158,071</u>	<u>\$ 659,275</u>	<u>\$ (469,064)</u>	<u>\$ (194,028)</u>

The details of each plan are as follows:

California State Teachers' Retirement System (CalSTRS)

Plan Description

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

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2023, annual actuarial valuation report, Defined Benefit Program Actuarial Valuation. This report and CalSTRS audited financial information are publicly available reports that can be found on the CalSTRS website under Publications at: <http://www.calstrs.com/general-information/gasb-6768>.

HAPPY VALLEY ELEMENTARY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2025

NOTE 7 - PENSIONS - CONT'D

Benefits Provided

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

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

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

The STRP provisions and benefits in effect as of June 30, 2025, are summarized as follows:

	<u>STRP Defined Benefit Program</u>	
	<u>On or before December 31, 2012</u>	<u>On or after January 01, 2013</u>
Hire date		
Benefit formula	2% at 60	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	60	62
Monthly benefits as a percentage of eligible compensation	2.0%-2.4%	2.0%-2.4%
Required employee contribution rate	10.25%	10.205%
Required employer contribution rate	19.10%	19.10%
Required state contribution rate	10.828%	10.828%

Contributions

Required member, District, and State of California contributions rates are set by the California Legislature and Governor and detailed in the Teachers' Retirement Law. The contribution rates are expressed as a level percentage of payroll using the entry age normal actuarial method. In accordance with AB 1469, employer contributions into the CalSTRS will be increasing to a total of 19.1 percent of applicable member earnings, phased over a seven-year period.

For the year ended June 30, 2025, the contributions reported as deferred outflows of resources related to pensions recognized as part of pension expense for each Plan were as follows:

	<u>CalSTRS</u>	<u>CalPERS</u>
Contributions - employer	\$ 156,778	\$ 47,529
Contributions - state on behalf	78,096	-
Total	<u>\$ 234,874</u>	<u>\$ 47,529</u>

HAPPY VALLEY ELEMENTARY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2025

NOTE 7 - PENSIONS - CONT'D

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

On June 30, 2025, the District reported a liability for its proportionate share of the net pension liability that reflected a reduction in State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related state support, and the total portion of the net pension liability that was associated with the District were as follows:

Total net pension liability, including state share:

District's proportionate share of the net pension liability	\$ 843,211
State's proportionate share of the net pension liability associated with the District	<u>386,874</u>
Total	<u><u>\$ 1,230,085</u></u>

The net pension liability was measured as of June 30, 2024. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined.

The District's proportionate share for the measurement period June 30, 2024, and June 30, 2023, was as follow:

<u>Measurement Dates</u>	<u>Fiscal Year</u>	<u>CalSTRS</u>
June 30, 2023	2023-24	0.000013
June 30, 2024	2024-25	<u>0.000013</u>
Change - Increase (Decrease)		<u><u>-</u></u>

For the year ended June 30, 2025, the District recognized pension expense/(income) of \$(188,733). As of June 30, 2025, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Pension contributions subsequent to measurement date	\$ 234,874	\$ -
Difference in actual and proportionated contributions	232,217	(316,243)
Net difference between projected and actual earnings on plan investments	-	(3,402)
Difference between expected and actual experiences	95,378	(36,873)
Changes of assumptions	<u>3,691</u>	<u>(57,588)</u>
Total	<u><u>\$ 566,160</u></u>	<u><u>\$ (414,106)</u></u>

The deferred outflows of resources related to pensions resulting from the District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the subsequent fiscal year. The deferred outflows/(inflows) of resources related to the difference between projected and actual earnings on pension plan investments are amortized over a closed five-year period.

HAPPY VALLEY ELEMENTARY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2025

NOTE 7 - PENSIONS - CONT'D

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

The remaining amount will be recognized as pension expense as follows:

<u>Year Ended June 30,</u>	<u>Total Deferred Outflows (Inflows) of Resources</u>
2026	\$ (90,994)
2027	36,976
2028	(36,833)
2029	3,836
2030	8,361
Thereafter	(4,166)
Total	<u>\$ (82,820)</u>

Actuarial Assumptions

The total pension liability for the STRP was determined by applying updated procedures to the financial reporting actuarial valuation as of June 30, 2023, and rolling forward the total pension liability to June 30, 2024. In determining the total pension liability, the financial reporting actuarial valuation used the following methods and assumptions:

Valuation date	June 30, 2023
Measurement date	June 30, 2024
Experience study	July 1, 2007 through June 30, 2022
Actuarial cost method	Individual Entry Age
Investment rate of return*	7.10%
Consumer price inflation	2.75%
Wage growth	3.50%
Postretirement benefit increases	2% simple for DB (annually) maintain 85% purchasing power level for DB, not applicable for DBS/CBB

*Net of investment expenses but gross of administrative expenses.

Discount Rate

The discount rate used to measure the total pension liability was 7.10%, which was unchanged from the prior fiscal year. The projection of cash flows used to determine the discount rate assumes that contributions from plan members and employers are made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return of 7.10% and assuming that contributions, benefit payments, and administrative expenses occur midyear. Based on those assumptions, the STRP's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

HAPPY VALLEY ELEMENTARY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2025

NOTE 7 - PENSIONS - CONT'D

The long-term investment rate of return assumption 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' investment staff and investment consultants as inputs to the process.

The actuarial investment rate of return assumption was adopted by the board in January 2020 in conjunction with the most recent experience study. For each current and future valuation, CalSTRS' independent consulting actuary (Milliman) reviews the return assumption for reasonableness based on the most current capital market assumptions. Best estimates of expected 20-year geometrically linked real rates of return and the assumed asset allocation for each major asset class as of June 30, 2024, are summarized in the following table:

<u>Asset Class</u>	<u>Assumed Asset Allocation</u>	<u>Long-term Expected Real Rate of Return*</u>	<u>Long-term Expected Real Rate of Return**</u>
Public Equity	38%	8.00%	5.25%
Real Estate	15%	6.80%	4.05%
Private Equity	14%	9.50%	6.75%
Fixed Income	14%	5.20%	2.45%
Risk Mitigating Strategies	10%	5.00%	2.25%
Inflation Sensitive	7%	6.40%	3.65%
Cash/Liquidity	2%	2.80%	0.05%

*20 to 30-year geometric average. **Real rates of return are net of assumed 2.75% inflation.

Mortality

CalSTRS uses a generational mortality assumption, which involves the use of a base mortality table and projection scales to reflect expected annual reductions in mortality rates at each age, resulting in increases in life expectancies each year into the future. The base mortality tables are CalSTRS custom tables derived to best fit the patterns of mortality among our members. The projection scale was set equal to 110% of the ultimate improvement factor from the Mortality Improvement Scale (MP-2019) table issued by the Society of Actuaries.

Uses of assumptions and methods

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts (salaries, credited service, etc.) and assumptions about the probability of occurrence of events far into the future (mortality, disabilities, retirements, employment terminations, etc.). Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

HAPPY VALLEY ELEMENTARY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2025

NOTE 7 - PENSIONS - CONT'D

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.10%, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.10%) or 1-percentage-point higher (8.10%) than the current rate:

<u>Discount Rate</u>	<u>Net Pension Liability</u>
1% decrease (6.10%)	\$ 1,499,795
Current rate (7.10%)	\$ 843,211
1% increase (8.10%)	\$ 294,935

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 government-wide financial statements. For the year ended June 30, 2025, the District has recorded \$78,096 of State behalf payments as revenue.

California Public Employees Retirement System (CalPERS)

Plan Description

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

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2023, annual actuarial valuation report, Schools Pool Actuarial Valuation. This report and CalPERS audited financial information are publicly available reports that can be found on the CalPERS website under Forms and Publications at: <https://www.calpers.ca.gov/page/employers/actuarial-resources/gasb>.

Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of service credit, a benefit factor, and the member's final compensation. Members hired on or before December 31, 2012, with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. Members hired on or after January 1, 2013, with five years of total service are eligible to retire at age 52 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after five years of service. The Basic Death Benefit is paid to any member's beneficiary if the member dies while actively employed.

An employee's eligible survivor may receive the 1957 Survivor Benefit if the member dies while actively employed, is at least age 50 (or 52 for members hired on or after January 1, 2013), and has at least five years of credited service. The cost-of-living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

HAPPY VALLEY ELEMENTARY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2025

NOTE 7 - PENSIONS - CONT'D

The CalPERS provisions and benefits in effect as of June 30, 2025, are summarized as follows:

	<u>School Employer Pool (CalPERS)</u>	
	On or before December 31, 2012	On or after January 1, 2013
Hire date		
Benefit formula	2% at 55	2% at 62
Benefit vesting schedule	5 Years of Service	5 Years of Service
Benefit payments	Monthly for Life	Monthly for Life
Retirement age	55	62
Required employee contribution rate	7.00%	8.00%
Required employer contribution rate	27.05%	27.05%

Contributions

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

The contribution rates are expressed as a percentage of the annual payroll. The contribution rates for each plan for the year ended June 30, 2025, are presented above, and the total District contributions were \$47,529.

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

As of June 30, 2025, the District reported net pension liabilities for its proportionate share of the CalPERS net pension liability totaling \$314,860. The net pension liability was measured as of June 30, 2024. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts, actuarially determined.

The District's proportionate share for the measurement period June 30, 2024, and June 30, 2023, was as follow:

<u>Measurement Dates</u>	<u>Fiscal Year</u>	<u>CalPERS</u>
June 30, 2023	2023-24	0.00000878
June 30, 2024	2024-25	<u>0.00000881</u>
Change - Increase (Decrease)		<u><u>0.00000003</u></u>

HAPPY VALLEY ELEMENTARY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2025

NOTE 7 - PENSIONS - CONT'D

For the year ended June 30, 2025, the District recognized pension expense/(income) of \$(5,295). As of June 30, 2025, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Pension contributions subsequent to measurement date	\$ 47,529	\$ -
Difference in actual and proportionated contributions	-	(52,705)
Difference between projected and actual earnings on pension plan investments	12,230	-
Difference between expected and actual experiences	26,396	(2,253)
Changes of assumptions	<u>6,960</u>	<u>-</u>
Total	<u>\$ 93,115</u>	<u>\$ (54,958)</u>

The deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the subsequent fiscal year. The deferred outflows/(inflows) of resources related to the difference between projected and actual earnings on pension plan investments are amortized over a closed five-year period.

The deferred outflows/(inflows) of resources related to the change in proportion and differences between contributions made and District's proportionate share of contributions, differences between expected and actual experience in the measurement of the total pension liability, and changes of assumptions will be amortized over the Expected Average Remaining Service Life (EARSL) of all members that are provided benefits (active, inactive, and retirees) as of the beginning of the measurement period. The EARSL for the measurement period is 3.9 years.

The remaining amount will be recognized in pension expense as follows:

<u>Year Ended June 30,</u>	<u>Deferred Outflows (Inflows) of Resources</u>
2026	\$ 2,090
2027	15,681
2028	(10,097)
2029	<u>(17,046)</u>
Total	<u>\$ (9,372)</u>

HAPPY VALLEY ELEMENTARY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2025

NOTE 7 - PENSIONS - CONT'D

Actuarial Assumptions

The total pension liability for the June 30, 2024, measurement period was determined by an actuarial valuation as of June 30, 2023, with updated procedures used to roll forward the total pension liability to June 30, 2024.

The total pension liability was based on the following assumptions:

Valuation date	June 30, 2023
Measurement date	June 30, 2024
Investment rate of return	6.90%
Inflation	2.30%
Salary increases	Varies by Entry Age and Service
Mortality rate table*	Derived using CalPERS' Membership data for all Funds
Post-retirement benefit increase	2.0% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.30% thereafter

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

Long-Term Expected Rate of Return

In determining the long-term expected rate of return, CalPERS took into account long-term market return expectations as well as the expected pension fund cash flows. Projected returns for all asset classes are estimated and, combined with risk estimates, are used to project compound (geometric) returns over the long term. The discount rate used to discount liabilities was informed by the long-term projected portfolio return.

The expected real rates of return by asset class are as follows:

<u>Asset Class*</u>	<u>Assumed Asset Allocation</u>	<u>Real Return Years 1-10*, **</u>
Global equity-cap- weighted	30.00 %	4.54 %
Global equity non-cap- weighted	12.00 %	3.84 %
Private equity	13.00 %	7.28 %
Treasury	5.00 %	0.27 %
Mortgage - backed securities	5.00 %	0.50 %
Investment grade corporates	10.00 %	1.56 %
High yield	5.00 %	2.27 %
Emerging market debt	5.00 %	2.48 %
Private debt	5.00 %	3.57 %
Real assets	15.00 %	3.21 %
Leverage	(5.00)%	(0.59)%

*An expected inflation of 2.30% used for this period.

**Figures are based on the 2021-22 Asset Liability Management study.

HAPPY VALLEY ELEMENTARY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2025

NOTE 7 - PENSIONS - CONT'D

Discount Rate

The discount rate used to measure the total pension liability was 6.90 percent. The projection of cash flows used to determine the discount rate assumed that the contributions from plan members will be made at current member contribution rates and that contributions from employers would be made at statutorily required rates, actuarially determined. Based on these assumptions, the School Employer Pool fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine total pension liability.

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 6.90 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.90%) or 1-percentage-point higher (7.90%) than the current rate:

<u>Discount Rate</u>	<u>Net Pension Liability</u>
1% decrease (5.90%)	\$ 467,725
Current rate (6.90%)	\$ 314,860
1% increase (7.90%)	\$ 188,579

Social Security

As established by Federal law, all public sector employees who are not members of their employer's existing retirement system (CalSTRS or CalPERS) must be covered by Social Security or an alternative plan.

Pension Plan Fiduciary Net Position

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

NOTE 8 - GENERAL LONG-TERM DEBT - SCHEDULE OF CHANGES

A schedule of changes in long-term debt for the year ended June 30, 2025 is shown below:

	<u>Balance July 1, 2024</u>	<u>Deletion</u>	<u>Balance June 30, 2025</u>
Net pension liability	\$ 1,312,380	\$ (154,309)	\$ 1,158,071
Total	<u>\$ 1,312,380</u>	<u>\$ (154,309)</u>	<u>\$ 1,158,071</u>

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

HAPPY VALLEY ELEMENTARY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2025

NOTE 9 - FUND BALANCES

The following amounts were restricted, assigned, or unassigned as shown below:

	<u>General Fund</u>	<u>County School Facilities Fund</u>	<u>Foundation Permanent Fund</u>	<u>Nonmajor Funds</u>	<u>Total Governmental Funds</u>
Restricted	\$ 214,389	\$ 130,885	\$ 1,114,088	\$ 3	\$ 1,459,365
Assigned:					
Other assignments	325,444	-	43,361	-	368,805
Unassigned	<u>769,658</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>769,658</u>
Total Fund Balance	<u>\$ 1,309,491</u>	<u>\$ 130,885</u>	<u>\$ 1,157,449</u>	<u>\$ 3</u>	<u>\$ 2,597,828</u>

NOTE 10 - RESTRICTED NET POSITION

The District is a recipient of federal and state awards restricted categorical programs and, as a result, reported a restricted net position in the amount of \$1,459,365. The District is not aware of any planned changes to the underlying legislation enabling restrictions.

NOTE 11 - 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, 2025, 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 their workers' compensation premium based on their individual rate. Total savings are then calculated, and each participants' individual performance is compared to the overall savings. A participant will then either receive money from or be required to contribute to the "equity-pooling fund." This "equity-pooling fund" arrangement ensures 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.

HAPPY VALLEY ELEMENTARY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2025

NOTE 11 - JOINT POWERS AGREEMENTS - CONT'D

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 oversees 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 12 - STATE TEACHERS' RETIREMENT SYSTEM EARLY RETIREMENT INCENTIVE PROGRAM

The District did not enter into any early retirement incentive agreement during 2024-25, pursuant to *California Education Code*, Sections 22714 and 44929, whereby the service credit to eligible employees is increased by two years.

NOTE 13 - COMMITMENTS AND CONTINGENCIES

A. State and Federal Allowances, Awards, and Grants

The District received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District as of June 30, 2025.

B. Litigation

As of June 30, 2025, the District is not currently involved in any litigation.

C. Commitments

As of June 30, 2025, the District had no material commitments outstanding.

NOTE 14 - SUBSEQUENT EVENTS

The District's management has reviewed its financial statements and evaluated subsequent events for the period of time from its year ended June 30, 2025, through December 08, 2025, the date the financial statements were issued. Management is not aware of any subsequent events, other than those described above, that would require recognition or disclosure in the accompanying financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

HAPPY VALLEY ELEMENTARY SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2025

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amount</u>	<u>Final Budget</u>
				<u>Favorable</u>
				<u>(Unfavorable)</u>
Revenues				
Local control sources	\$ 1,374,238	\$ 1,367,108	\$ 1,394,820	\$ 27,712
Federal revenue	43,486	52,730	53,091	361
Other state revenue	232,111	201,300	202,232	932
Other local revenue	221,743	264,209	328,175	63,966
Total revenues	<u>1,871,578</u>	<u>1,885,347</u>	<u>1,978,318</u>	<u>92,971</u>
Expenditures				
Certificated salaries	863,698	868,238	872,599	(4,361)
Classified salaries	245,172	244,616	245,290	(674)
Employee benefits	455,505	467,975	462,436	5,539
Books and supplies	93,233	26,262	23,737	2,525
Services and other operating expenditures	558,605	619,148	551,350	67,798
Capital outlay	65,572	65,572	-	65,572
Transfer between agencies	55,000	32,990	28,260	4,730
Total expenditures	<u>2,336,785</u>	<u>2,324,801</u>	<u>2,183,672</u>	<u>141,129</u>
Excess/(deficiency) of revenues over/(under) expenditures	<u>(465,207)</u>	<u>(439,454)</u>	<u>(205,354)</u>	<u>234,100</u>
Other Financing Sources/(Uses)				
Operating transfers in	93,463	63,852	63,852	-
Operating transfers out	(20,000)	-	-	-
Total other financing sources (uses)	<u>73,463</u>	<u>63,852</u>	<u>63,852</u>	<u>-</u>
Net change in fund balance	(391,744)	(375,602)	(141,502)	234,100
Fund balance, beginning of year	<u>1,450,993</u>	<u>1,450,993</u>	<u>1,450,993</u>	<u>-</u>
Fund balance, end of year	<u>\$ 1,059,249</u>	<u>\$ 1,075,391</u>	<u>\$ 1,309,491</u>	<u>\$ 234,100</u>

HAPPY VALLEY ELEMENTARY SCHOOL DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE
SHARE OF THE NET PENSION LIABILITY
FOR THE YEAR ENDED JUNE 30, 2025

	<u>2025</u>	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>
CalSTRS					
District's proportion of the net pension liability	0.0013%	0.0013%	0.0012%	0.0012%	0.0011%
District's proportionate share of the net pension liability	\$ 843,211	\$ 994,601	\$ 800,719	\$ 549,186	\$ 1,092,824
State's proportionate share of the net pension liability associated with the District	<u>386,874</u>	<u>476,550</u>	<u>400,997</u>	<u>276,329</u>	<u>563,351</u>
Total	<u>\$ 1,230,085</u>	<u>\$ 1,471,151</u>	<u>\$ 1,201,716</u>	<u>\$ 825,515</u>	<u>\$ 1,656,175</u>
District's covered - employee payroll	\$ 450,616	\$ 424,904	\$ 400,659	\$ 395,942	\$ 369,052
District's proportionate share of the net pension liability as a percentage of it's covered - employee payroll	187%	234%	200%	139%	296%
Plan fiduciary net position as a percentage of the total pension liability	84%	81%	81%	72%	72%
CalPERS					
District's proportion of the net pension liability	0.0009%	0.0009%	0.0008%	0.0009%	0.0008%
District's proportionate share of the net pension liability	\$ 314,860	\$ 317,779	\$ 292,133	\$ 184,637	\$ 254,872
District's covered - employee payroll	\$ 137,993	\$ 126,234	\$ 115,477	\$ 115,670	\$ 91,523
District's proportionate share of the net pension liability as a percentage of it's covered - employee payroll	228%	252%	253%	160%	278%
Plan fiduciary net position as a percentage of the total pension liability	72%	70%	70%	75%	70%

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

HAPPY VALLEY ELEMENTARY SCHOOL DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE
SHARE OF THE NET PENSION LIABILITY
FOR THE YEAR ENDED JUNE 30, 2025

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
CalSTRS					
District's proportion of the net pension liability	0.0013%	0.0016%	0.0014%	0.0014%	0.0015%
District's proportionate share of the net pension liability	\$ 1,195,591	\$ 1,511,125	\$ 1,324,802	\$ 1,133,883	\$ 1,009,860
State's proportionate share of the net pension liability associated with the District	<u>652,275</u>	<u>865,190</u>	<u>783,742</u>	<u>645,499</u>	<u>534,057</u>
Total	<u>\$ 1,847,866</u>	<u>\$ 2,376,315</u>	<u>\$ 2,108,544</u>	<u>\$ 1,779,382</u>	<u>\$ 1,543,917</u>
District's covered - employee payroll	\$ 849,837	\$ 541,532	\$ 499,308	\$ 469,180	\$ 462,633
District's proportionate share of the net pension liability as a percentage of it's covered - employee payroll	141%	279%	265%	242%	218%
Plan fiduciary net position as a percentage of the total pension liability	73%	71%	70%	70%	74%
CalPERS					
District's proportion of the net pension liability	0.0021%	0.0021%	0.0021%	0.0019%	0.0020%
District's proportionate share of the net pension liability	\$ 610,864	\$ 559,169	\$ 503,713	\$ 375,251	\$ 294,802
District's covered - employee payroll	\$ 286,087	\$ 162,214	\$ 160,675	\$ 115,885	\$ 106,725
District's proportionate share of the net pension liability as a percentage of it's covered - employee payroll	214%	345%	313%	324%	276%
Plan fiduciary net position as a percentage of the total pension liability	70%	71%	72%	74%	79%

See accompanying notes to required supplementary information

HAPPY VALLEY ELEMENTARY SCHOOL DISTRICT
SCHEDULE OF CONTRIBUTIONS - PENSION
FOR THE YEAR ENDED JUNE 30, 2025

	<u>2025</u>	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>
CalSTRS					
Contractually required contribution	\$ 157,518	\$ 149,968	\$ 127,647	\$ 123,792	\$ 110,412
Contributions in relations to the contractually required contribution	<u>156,778</u>	<u>157,314</u>	<u>114,989</u>	<u>102,153</u>	<u>105,918</u>
Contribution deficiency (excess)	<u>\$ 740</u>	<u>\$ (7,346)</u>	<u>\$ 12,658</u>	<u>\$ 21,639</u>	<u>\$ 4,494</u>
District's covered - employee payroll	\$ 450,616	\$ 424,904	\$ 400,659	\$ 395,942	\$ 369,052
Contributions as a percentage of covered - employee payroll*	35%	35%	32%	31%	30%
CalPERS					
Contractually required contribution	\$ 46,350	\$ 38,555	\$ 29,794	\$ 26,952	\$ 31,127
Contributions in relations to the contractually required contribution	<u>47,529</u>	<u>46,350</u>	<u>29,793</u>	<u>26,951</u>	<u>23,613</u>
Contribution deficiency (excess)	<u>\$ (1,179)</u>	<u>\$ (7,795)</u>	<u>\$ 1</u>	<u>\$ 1</u>	<u>\$ 7,514</u>
District's covered - employee payroll	\$ 137,993	\$ 126,234	\$ 115,477	\$ 115,670	\$ 91,523
Contributions as a percentage of covered - employee payroll*	34%	31%	26%	23%	34%

*Statements 67 and 68 required presentations 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.

HAPPY VALLEY ELEMENTARY SCHOOL DISTRICT
SCHEDULE OF CONTRIBUTIONS - PENSION
FOR THE YEAR ENDED JUNE 30, 2025

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
CalSTRS					
Contractually required contribution	\$ 115,840	\$ 126,295	\$ 95,275	\$ 76,614	\$ 59,919
Contributions in relations to the contractually required contribution	<u>260,050</u>	<u>119,137</u>	<u>97,365</u>	<u>78,353</u>	<u>59,217</u>
Contribution deficiency (excess)	<u><u>\$ (144,210)</u></u>	<u><u>\$ 7,158</u></u>	<u><u>\$ (2,090)</u></u>	<u><u>\$ (1,739)</u></u>	<u><u>\$ 702</u></u>
District's covered - employee payroll	\$ 849,837	\$ 541,532	\$ 499,308	\$ 469,180	\$ 462,633
Contributions as a percentage of covered - employee payroll*	14%	23%	19%	16%	13%
CalPERS					
Contractually required contribution	\$ 52,443	\$ 42,961	\$ 37,318	\$ 27,095	\$ 25,765
Contributions in relations to the contractually required contribution	<u>75,527</u>	<u>43,149</u>	<u>37,116</u>	<u>27,117</u>	<u>26,041</u>
Contribution deficiency (excess)	<u><u>\$ (23,084)</u></u>	<u><u>\$ (188)</u></u>	<u><u>\$ 202</u></u>	<u><u>\$ (22)</u></u>	<u><u>\$ (276)</u></u>
District's covered - employee payroll	\$ 286,087	\$ 162,214	\$ 160,675	\$ 115,885	\$ 106,725
Contributions as a percentage of covered - employee payroll*	18%	26%	23%	23%	24%

See accompanying notes to required supplementary information

**HAPPY VALLEY ELEMENTARY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2025**

NOTE 1 - PURPOSE OF SCHEDULES

A. Budgetary Comparison Schedules

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 the 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

This schedule presents information on the District's proportionate share of the net pension liability (NPL), the plans' fiduciary net position, and, when applicable, the State's proportionate share of the NPL associated with the District.

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

Changes of Assumptions:

2024-25

No changes noted.

2023-24

No changes noted.

2022-23

No changes noted.

2021-22

No changes noted.

2020-21

CalPERS assumption for discount rate decreased from 7.15% to 6.90%, and the inflation rate was reduced from 2.50% to 2.30%.

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. The assumption for the inflation rate was reduced from 2.75% to 2.50%.

2017-18

CalSTRS Board adopted new mortality assumptions and new mortality tables for the plan. The assumption for the inflation rate was reduced from 3.00% to 2.75%; assumption for discount rate decreased from 7.60% to 7.10%; and 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%.

HAPPY VALLEY ELEMENTARY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2025

NOTE 1 - PURPOSE OF SCHEDULES - CONT'D

C. Schedule of Contributions - Pension

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, 2025, expenditures exceeded appropriations by the following amounts:

<u>Appropriations Category</u>	<u>Excess Expenditures</u>
General Fund:	
Certified salaries	\$ (4,361)
Classified salaries	\$ (674)

Total expense exceeded the budget. Therefore, there are no unexpended appropriations in other categories.

SUPPLEMENTARY INFORMATION

HAPPY VALLEY ELEMENTARY SCHOOL DISTRICT
SCHEDULE OF AVERAGE DAILY ATTENDANCE
FOR THE YEAR ENDED JUNE 30, 2025

	<u>Second Period Report</u>		<u>Annual Report</u>	
	<u>Original</u>	<u>Revised</u>	<u>Original</u>	<u>Revised</u>
<u>Certification Numbers</u>	<u>77628228</u>		<u>7816B831</u>	
Grades TK / K-3:				
Regular Average Daily Attendance	58.18	N/A	58.29	N/A
Grades 4 - 6:				
Regular Average Daily Attendance	<u>43.18</u>	<u>N/A</u>	<u>43.23</u>	<u>N/A</u>
Total ADA	<u>101.36</u>	<u>N/A</u>	<u>101.52</u>	<u>N/A</u>

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, 2025

Grade Level	Required Minutes	2024-25 Actual Minutes	Number of Days Traditional Calendar	Number of Days Multitrack Calendar	Status
Kindergarten	36,000	43,890	180	Not Applicable	In Compliance
Grade 1	50,400	51,480	180	Not Applicable	In Compliance
Grade 2	50,400	51,480	180	Not Applicable	In Compliance
Grade 3	50,400	51,480	180	Not Applicable	In Compliance
Grade 4	54,000	55,620	180	Not Applicable	In Compliance
Grade 5	54,000	55,620	180	Not Applicable	In Compliance
Grade 6	54,000	55,620	180	Not Applicable	In Compliance

The District did not utilize a multitrack calendar during the 2024-25 year.

The District did not file J-13A during the year 2024-25.

HAPPY VALLEY ELEMENTARY SCHOOL DISTRICT
SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2025

<u>General Fund</u>	<u>Budget 2026*</u>	<u>2025</u>	<u>2024</u>	<u>2023</u>
Revenues and other financial sources	<u>\$ 1,943,651</u>	<u>\$ 1,978,318</u>	<u>\$ 2,038,201</u>	<u>\$ 1,989,047</u>
Total Revenues and other sources	<u>1,943,651</u>	<u>1,978,318</u>	<u>2,038,201</u>	<u>1,989,047</u>
Expenditures	<u>2,118,475</u>	<u>2,119,820</u>	<u>2,283,897</u>	<u>1,984,063</u>
Total outgo	<u>2,118,475</u>	<u>2,119,820</u>	<u>2,283,897</u>	<u>1,984,063</u>
Change in fund balance	<u>(174,824)</u>	<u>(141,502)</u>	<u>(245,696)</u>	<u>4,984</u>
Ending fund balance	<u>\$ 1,134,667</u>	<u>\$ 1,309,491</u>	<u>\$ 1,450,993</u>	<u>\$ 1,696,689</u>
Available reserves**	<u>\$ 1,134,670</u>	<u>\$ 656,726</u>	<u>\$ 968,494</u>	<u>\$ 1,202,280</u>
Restricted	<u>\$ 159,330</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Reserve for economic uncertainties	<u>\$ 105,924</u>	<u>\$ -</u>	<u>\$ 115,195</u>	<u>\$ 100,203</u>
Unassigned fund balance	<u>\$ 869,416</u>	<u>\$ 656,726</u>	<u>\$ 853,299</u>	<u>\$ 1,102,077</u>
Available reserves as a percentage of total outgo	<u>53.56%</u>	<u>30.98%</u>	<u>42.41%</u>	<u>60.60%</u>
Total long-term obligation	<u>\$ 1,158,071</u>	<u>\$ 1,158,071</u>	<u>\$ 1,312,380</u>	<u>\$ 1,092,852</u>
Average daily attendance at P-2	<u>105</u>	<u>101</u>	<u>115</u>	<u>109</u>

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 decreased by \$387,198 over the past two years. The District has not incurred an operating deficit in any of the past three years. The 2025-26 General Fund budget projects a decrease of \$174,824, (13%).

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 increased by \$65,219 over the past two years.

Average daily attendance has decreased by 8 ADA over the past two years. The ADA is anticipated to increase 4 during the fiscal year 2025-26.

* The 2025-26 budget is included for analytical purposes only and has not been subjected to audit.

** Available reserves consist 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 WITH AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2025**

	<u>General Fund</u>
June 30, 2025 Annual Financial and Budget Report (SACS) Fund Balance	\$ <u>1,309,491</u>
June 30, 2025 Audited Financial Statement Fund Balance	\$ <u><u>1,309,491</u></u>

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

HAPPY VALLEY ELEMENTARY SCHOOL DISTRICT
COMBINING BALANCE SHEET -
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2025

	<u>Capital Facilities Fund</u>	<u>Total Nonmajor Governmental Funds</u>
ASSETS		
Cash and cash equivalents	\$ <u>3</u>	\$ <u>3</u>
Total assets	<u>3</u>	<u>3</u>
LIABILITIES AND FUND BALANCES		
FUND BALANCES		
Restricted	<u>3</u>	<u>3</u>
Total fund balances	<u>3</u>	<u>3</u>
Total liabilities and fund balances	<u><u>\$ 3</u></u>	<u><u>\$ 3</u></u>

HAPPY VALLEY ELEMENTARY SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES -
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2025

	<u>Capital Facilities Fund</u>	<u>Total Nonmajor Governmental Funds</u>
REVENUES		
Other local revenue	\$ 1,604	\$ 1,604
Total revenues	<u>1,604</u>	<u>1,604</u>
EXPENDITURES		
Current:		
General administration:		
All other general administration	32	32
Plant services	<u>1,583</u>	<u>1,583</u>
Total expenditures	<u>1,615</u>	<u>1,615</u>
Net change in fund balances	(11)	(11)
Fund balances, beginning of year	<u>14</u>	<u>14</u>
Fund balances, end of year	<u><u>\$ 3</u></u>	<u><u>\$ 3</u></u>

HAPPY VALLEY ELEMENTARY SCHOOL DISTRICT
NOTES TO SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2025

NOTE 1 - PURPOSE OF SCHEDULES

A. Schedule of Average Daily Attendance (ADA)

Average daily attendance (ADA) is a measurement of the number of pupils attending classes in 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 school districts. This schedule provides information regarding the attendance of students at various grade levels and in different programs.

B. Schedule of Instructional Time

The 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* 46201 through 46207.

The District has received incentive funding for increasing instructional time as provided by the Incentives for Longer Instructional Day. The District neither met nor exceeded its targeted LCFF funding. Districts must maintain their instructional minutes at the 1986-87 requirements, as required by *Education Code Section* 46201.

C. 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.

D. Reconciliation of Annual Financial and Budget Report with Audited Financial Statements

This schedule represents a complete listing of all charter schools authorized by the District and indicates whether their financial activities and balances have been included in the District's annual audited financial statements for the year ended June 30, 2025. The District has not authorized any Charter Schools; therefore, this schedule has not been included for 2024-25.

E. Other Governmental Funds Financial Statements

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

OTHER INFORMATION

**HAPPY VALLEY ELEMENTARY SCHOOL DISTRICT
LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE
JUNE 30, 2025**

Happy Valley Elementary School District (the "District") was established on September 1, 1864, 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.

The Board of Education and the District Administrators as of June 30, 2025, were as follows:

BOARD OF TRUSTEES

<u>Name</u>	<u>Office</u>	<u>Term Expires</u>
Mr. Cliff Hodges	President	November 2026
Mr. Jacob Willet	Clerk	November 2026
Mr. David Stahl	Trustee	November 2028
Ms. Katie Freeman	Trustee	November 2028
Mr. Carly Trotter	Trustee	November 2026

ADMINISTRATION

<u>Name</u>	<u>Title</u>	<u>Tenure</u>
Ms. Michelle Stewart	Superintendent / Principal	4 Years

ADDRESS OF DISTRICT OFFICE

3125 Branciforte Drive
Santa Cruz, CA 95065

OTHER INDEPENDENT AUDITOR'S REPORTS

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the 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 (the "District"), as of and for the year ended June 30, 2025, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 08, 2025.

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 the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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*.

Purpose of This Report

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

Harshmal & Company LLP

San Diego, California
December 08, 2025

**INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE AND ON INTERNAL
CONTROL OVER COMPLIANCE**

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

Report on State Compliance

Opinion on State Compliance

We have audited Happy Valley Elementary School District's (the "District") compliance with the types of compliance requirements described in the *2024-25 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* prescribed in Title 5, California Code of Regulations, section 19810, that could have a direct and material effect on each of the District's state programs for the year ended June 30, 2025, as identified below.

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its state programs for the year ended June 30, 2025.

Basis for Opinion on State Compliance

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the audit requirements of *2024-25 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* prescribed in Title 5, California Code of Regulations, section 19810 (the K-12 Audit Guide). Our responsibilities under those standards and the K-12 Audit Guide 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 compliance for each state program. Our audit does not provide a legal determination of the District's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

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

Auditors' Responsibility for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the 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 generally accepted auditing standards, *Government Auditing Standards*, and K-12 Audit Guide 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 of the applicable state program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the K-12 Audit Guide, 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 School's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the K-12 Audit Guide, 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.
- Select and test transactions and records to determine the District's compliance with state laws and regulations applicable to the following items:

Program Description

Procedures Performed

Local Education Agencies other than Charter Schools:

Attendance	Yes
Teacher Certification and Misassignments	Yes
Independent Study	No, See Below
Continuation Education	No, See Below
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
Apprenticeship: Related and Supplemental Instruction	Not Applicable
Comprehensive School Safety Plan	Yes
District of Choice	Not Applicable
Home to School Transportation Reimbursement	Yes

Program Description

Procedures Performed

School Districts, County Offices of Education, and Charter Schools:

Proposition 28 Arts and Music in Schools	Yes
After/Before School Education and Safety Program	No, See Below
Proper Expenditure of Education Protection Account Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control and Accountability Plan	Yes
Independent Study-Course Based	No, See Below
Immunizations	No, See Below
Educator Effectiveness	Yes
Expanded Learning Opportunities Grant (ELOG)	Not Applicable
Career Technical Education Incentive Grant	Not Applicable
Expanded Learning Opportunities Program	Yes
Transitional Kindergarten	Not Applicable
Kindergarten Continuance	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.

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

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

We did not perform any procedures related to Immunizations because the District did not have any schools that did not submit immunization assessments or report combined conditional admission and overdue rates greater than 10% in kindergarten.

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

Other Matters

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the K-12 Audit Guide and which are described in the accompanying finding and responses as item 2025-001. Our opinion on each state program is not modified with respect to these matters. *Government Auditing Standards* requires the auditor to perform limited procedures on the District's response to the noncompliance findings identified in our audit described in the accompanying finding and responses. The District's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

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 a type of compliance requirement of a state program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying finding and responses as item 2025-001, to be significant deficiencies. Those significant deficiencies in internal control over compliance related to the following programs and compliance requirements:

<u>Finding #</u>	<u>State Compliance Reference Listing #</u>	<u>State Compliance Program</u>
2025-001	TT	Home to School Transportation Reimbursement

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.

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

Purpose of This Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the K-12 Audit Guide. Accordingly, this report is not suitable for any other purpose.

Harshmal & Company LLP

San Diego, California
December 08, 2025

**HAPPY VALLEY ELEMENTARY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2025**

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

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

Federal Awards

The District was not subject to Uniform Guidance Single Audit for the year ended June 30, 2025 because federal award expenditures did not exceed \$750,000.	N/A
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State Awards

Type of auditor's report issued on compliance for state programs:	Unmodified
Internal control over state programs:	
♦ Material weakness(es) identified?	No
♦ Significant deficiency(ies) identified?	Yes

**HAPPY VALLEY ELEMENTARY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2025**

SECTION II - FINANCIAL STATEMENT FINDINGS

There were no findings related to the financial statements for the fiscal year ended June 30, 2025.

**HAPPY VALLEY ELEMENTARY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2025**

SECTION III - STATE AWARD FINDINGS AND RESPONSES

2025-001 - Home-to-School Transportation Reimbursement

Criteria:

Education Code Section 39800.1(a) and the State Compliance Audit Guide require local educational agencies (LEAs) claiming Home-to-School Transportation reimbursement to adopt and maintain a transportation plan that documents routes, student eligibility, and compliance with program requirements.

Condition:

The District received \$4,503 in Home-to-School Transportation reimbursement for the fiscal year ended June 30, 2025. During our audit, the District was unable to provide the required transportation plan.

Cause:

The District had not developed or retained the required plan at the time of our audit.

Questioned Cost:

There are no applicable questioned costs associated with this finding.

Effect:

Without an approved transportation plan, the District is not in compliance with Education Code requirements. The \$4,503 received is considered a questioned cost subject to resolution by the California Department of Education (CDE).

Recommendation:

We recommend that the District develop, adopt, and maintain a Home-to-School Transportation plan in accordance with Education Code requirements. The District should also implement procedures to ensure required documentation is retained and available for audit.

Management's Response:

The District prioritizes transportation required specifically by an Individualized Education Program. A student moved into the District who was in an established placement at a Non-Public School with transportation already in place. The District was not aware at the time that a transportation plan was required for this transferred student. When the District received the Home-to-School Transportation reimbursement, a plan was put in place as soon as the board was able to approve it. The District will continue to adopt transportation plans annually in the event there are students with an IEP requiring transportation in the future.

**HAPPY VALLEY ELEMENTARY SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2025**

There were no findings reported in prior year.