

LAKE COUNTY OFFICE OF EDUCATION

AUDIT REPORT

JUNE 30, 2016

San Diego

Los Angeles

San Francisco
Bay Area

christy  white
A PROFESSIONAL
ACCOUNTANCY CORPORATION *associates*

**LAKE COUNTY OFFICE OF EDUCATION
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FOR THE YEAR ENDED JUNE 30, 2016**

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FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

Governing Board
Lake County Office of Education
Lakeport, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Lake County Office of Education, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Lake County Office of Education's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

Christy White, CPA

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State Board of Accountancy*

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Lake County Office of Education, as of June 30, 2016, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the required supplementary information, such as management's discussion and analysis, budgetary comparison information, schedules of proportionate share of net pension liability, and schedules of County Office contributions for pensions be presented to supplement the basic financial statements. Such information, although not 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 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 Lake County Office of Education's basic financial statements. The supplementary information listed in the table of contents, including the schedule of expenditures of Federal awards, which is required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information listed in the table of contents 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. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 1, 2016 on our consideration of Lake County Office of Education'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 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 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 Lake County Office of Education's internal control over financial reporting and compliance.

Christy White Associates

San Diego, California
December 1, 2016

**LAKE COUNTY OFFICE OF EDUCATION
MANAGEMENT'S DISCUSSION AND ANALYSIS**

INTRODUCTION

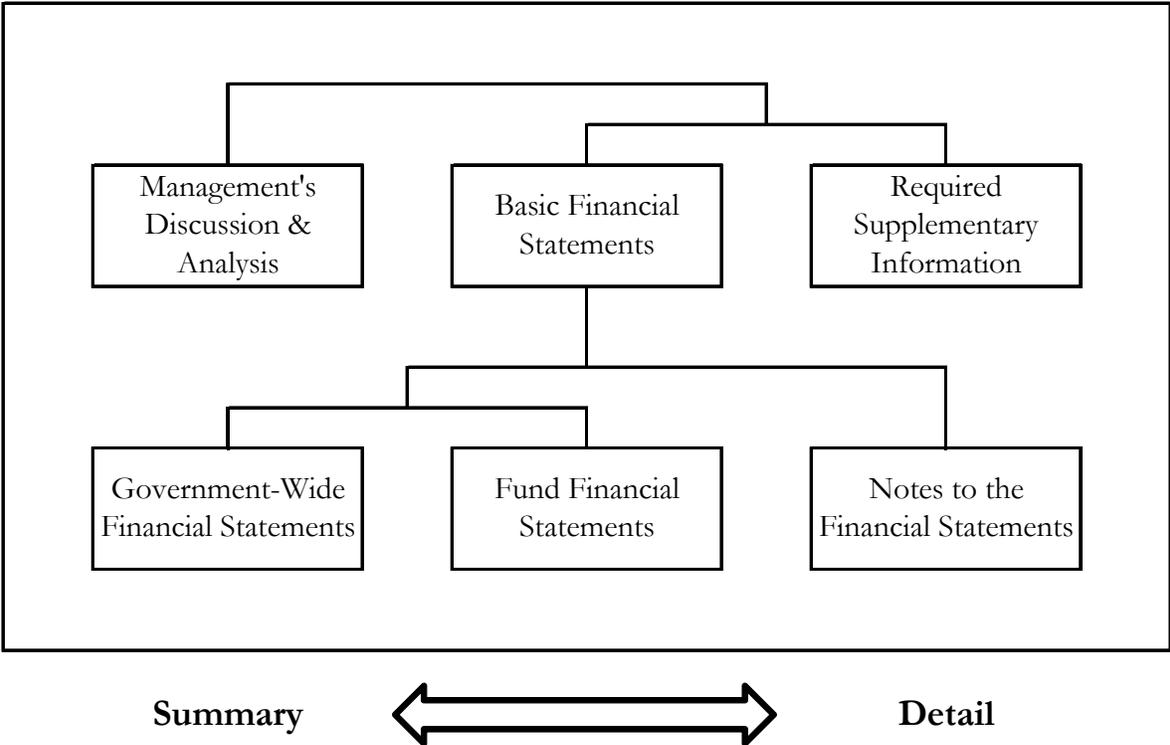
Our discussion and analysis of Lake County Office of Education's (County Office of Education) financial performance provides an overview of the County Office of Education's financial activities for the fiscal year ended June 30, 2016. It should be read in conjunction with the County Office of Education's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- ▶ Total net position was \$9,803,732 at June 30, 2016. This was an increase of \$1,549,183 from the prior year's net position.
- ▶ Overall revenues were \$18,623,937 which exceeded expenses of \$17,074,754.

OVERVIEW OF FINANCIAL STATEMENTS

Components of the Financials Section



**LAKE COUNTY OFFICE OF EDUCATION
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2016**

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 County Office of Education. The basic financial statements are comprised of two kinds of statements that present financial information from different perspectives:

- ▶ **Government-wide financial statements**, which comprise the first two statements, provide both short-term and long-term information about the entity's overall financial position.

- ▶ **Fund financial statements** focus on reporting the individual parts of County Office of Education operations in more detail. The fund financial statements comprise the remaining statements.
 - ▶ **Governmental Funds** provide a detailed *short-term* view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the County Office of Education's programs.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The basic financial statements are followed by a section of required and other supplementary information that further explain and support the financial statements.

Government-Wide Statements

The government-wide statements report information about the County Office of Education as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the government's assets 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 statements report the County Office of Education's net position and how it has changed. Net position is one way to measure the County Office of Education's financial health or position. Over time, increases or decreases in the County Office of Education's net position are an indicator of whether its financial health is improving or deteriorating, respectively.

The government-wide financial statements of the County Office of Education include governmental activities. All of the County Office of Education's basic services are included here, such as regular education, maintenance and general administration. Local control formula funding and federal and state grants finance most of these activities.

**LAKE COUNTY OFFICE OF EDUCATION
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2016**

FINANCIAL ANALYSIS OF THE ENTITY AS A WHOLE

Net Position

The County Office of Education's combined net position was \$9,803,732 at June 30, 2016, as reflected in the table below. Of this amount, (\$2,569,140) was unrestricted. Restricted net position is reported separately to show legal constraints from debt covenants and enabling legislation that limit the Governing Board's ability to use that net position for day-to-day operations.

	Governmental Activities		
	2016	2015	Net Change
ASSETS			
Current and other assets	\$ 11,255,367	\$ 8,853,962	\$ 2,401,405
Capital assets	8,176,911	8,141,191	35,720
Total Assets	19,432,278	16,995,153	2,437,125
DEFERRED OUTFLOWS OF RESOURCES	1,102,259	846,615	255,644
LIABILITIES			
Current liabilities	2,669,384	1,692,080	977,304
Long-term liabilities	6,850,305	6,058,222	792,083
Total Liabilities	9,519,689	7,750,302	1,769,387
DEFERRED INFLOWS OF RESOURCES	1,211,116	1,836,917	(625,801)
NET POSITION			
Net investment in capital assets	8,032,511	8,092,453	(59,942)
Restricted	4,340,361	3,486,828	853,533
Unrestricted	(2,569,140)	(3,324,732)	755,592
Total Net Position	\$ 9,803,732	\$ 8,254,549	\$ 1,549,183

**LAKE COUNTY OFFICE OF EDUCATION
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2016**

FINANCIAL ANALYSIS OF THE ENTITY AS A WHOLE (continued)

Changes in Net Position

The County Office's total revenues were \$18,623,937. The majority of revenues come from charges for services and operating grants, 71%. LCFF and property taxes accounted for 24% of revenues. Miscellaneous local sources accounted for the remaining 5%.

The total cost of all programs and services was \$17,074,754. The County Office's expenses are predominately related to educating and caring for students, which represent 32% of total expenses. Pupil services (including transportation and food) account for 13% of expenses. Administrative activities accounted for just 12% of total costs. Plant services, which represent the facilities maintenance and operations costs, account for 2% of all costs. The remaining 41% of expenses are related to ancillary services, community services, and other outgo.

	Governmental Activities		
	2016	2015	Net Change
REVENUES			
Program revenues			
Charges for services	\$ 2,020,106	\$ 1,748,242	\$ 271,864
Operating grants and contributions	11,276,061	10,510,956	765,105
General revenues			
Property taxes	2,065,409	1,928,927	136,482
Unrestricted federal and state aid	2,402,284	2,267,040	135,244
Other	860,077	933,374	(73,297)
Total Revenues	18,623,937	17,388,539	1,235,398
EXPENSES			
Instruction	3,039,001	3,171,365	(132,364)
Instruction-related services	2,474,564	2,484,703	(10,139)
Pupil services	2,282,772	2,160,931	121,841
General administration	2,015,137	2,042,750	(27,613)
Plant services	271,353	327,589	(56,236)
Ancillary and community services	234,415	191,714	42,701
Debt service	-	568	(568)
Other Outgo	6,454,861	6,101,150	353,711
Depreciation	222,429	222,429	-
Other	80,222	14,542	65,680
Total Expenses	17,074,754	16,717,741	357,013
Change in net position	1,549,183	670,798	878,385
Net Position - Beginning*	8,254,549	7,583,751	670,798
Net Position - Ending	\$ 9,803,732	\$ 8,254,549	\$ 1,549,183

* Beginning Net Position was restated for the 2015 year only

**LAKE COUNTY OFFICE OF EDUCATION
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2016**

FINANCIAL ANALYSIS OF THE ENTITY AS A WHOLE (continued)

Changes in Net Position (continued)

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

	Net Cost of Services	
	2016	2015
Instruction	\$ 150,682	\$ 479,911
Instruction-related services	791,326	865,155
Pupil services	156,370	383,147
General administration	1,544,027	1,635,635
Plant services	177,040	191,473
Ancillary and community services	44,834	61,726
Debt service	-	568
Transfers to other agencies	611,657	603,957
Depreciation	222,429	222,429
Other	80,222	14,542
Total Expenses	\$ 3,778,587	\$ 4,458,543

FINANCIAL ANALYSIS OF THE COUNTY OFFICE OF EDUCATION'S MAJOR FUNDS

The financial performance of the County Office of Education as a whole is reflected in its governmental funds as well. As the County Office of Education completed this year, its governmental funds reported a combined fund balance of \$8,658,183, which is more than last year's ending fund balance of \$7,161,882. The County Office of Education's County School Service Fund had \$1,232,981 more in operating revenues than expenditures for the year ended June 30, 2016. The Special Education Pass-Through Fund has \$71,299 less in operating revenues than expenditures for the year ended June 30, 2016. The Child Development Fund has \$116,424 more in operating revenues than expenditures for the year ended June 30, 2016.

CURRENT YEAR BUDGET 2015-16

During the fiscal year, budget revisions and appropriation transfers are presented to the Board for their approval included with the Adopted Budget, First Interim, and Second Interim financial reports. The Unaudited Actuals reflect the County Office of Education's financial projections and current budget based on State and local financial information.

**LAKE COUNTY OFFICE OF EDUCATION
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2016**

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of 2015-16 the County Office of Education had invested \$8,176,911 in capital assets, net of accumulated depreciation.

	Governmental Activities		
	2016	2015	Net Change
CAPITAL ASSETS			
Land	\$ 409,396	\$ 409,396	\$ -
Construction in progress	10,288	-	10,288
Land improvements	327,791	327,791	-
Buildings & improvements	8,419,049	8,419,049	-
Furniture & equipment	1,866,199	1,618,338	247,861
Accumulated depreciation	(2,855,812)	(2,633,383)	(222,429)
Total Capital Assets	\$ 8,176,911	\$ 8,141,191	\$ 35,720

Long-Term Debt

At year-end, the County Office of Education had \$6,850,305 in long-term debt, an increase of \$816,452 from last year – as shown in the table below. (More detailed information about the County Office of Education's long-term liabilities is presented in footnotes to the financial statements.)

	Governmental Activities		
	2016	2015	Net Change
LONG-TERM LIABILITIES			
Capital leases	\$ 144,400	\$ 48,738	\$ 95,662
Compensated absences	93,226	107,830	(14,604)
Net pension liability	6,684,879	5,901,654	783,225
Less: current portion of long-term debt	(72,200)	(24,369)	(47,831)
Total Long-term Liabilities	\$ 6,850,305	\$ 6,033,853	\$ 816,452

**LAKE COUNTY OFFICE OF EDUCATION
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2016**

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

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

Landmark legislation passed in Year 2013 reformed California school County Office finance by creating the Local Control Funding Formula (LCFF). The County Office continues to analyze the impact of the LCFF on funding for our program offerings and services. The LCFF is designed to provide a flexible funding mechanism that links student achievement to state funding levels. The LCFF provides a per pupil base grant amount, by grade span, that is augmented by supplemental funding for targeted student groups in low income brackets, those that are English language learners and foster youth. The State anticipates all school County Offices to reach the statewide targeted base funding levels by 2020-21 but the annual amount funded to meet the target is uncertain.

Factors related to LCFF that the County Office is monitoring include: (1) estimates of funding in the next budget year and beyond; (2) the Local Control and Accountability Plan (LCAP) that aims to link student accountability measurements to funding allocations; (3) ensuring the integrity of reporting student data through the California Longitudinal Pupil Achievement Data System (CALPADs); and, (4) meeting annual compliance and audit requirements.

The State's economy is expected to grow faster than the national economy with unemployment dropping. Personal income is expected to grow 3.6%; according to the UCLA Anderson Economic Forecast, April 2016. The ability of the State to fund the LCFF and other programs is largely dependent on the strength of the State's economy and while positive remains uncertain.

The County Office participates in state employee pensions plans, PERS and STRS, and both are underfunded. The County Office's proportionate share of the liability is reported in the Statement of Net Position as of June 30, 2016. The amount of the liability is material to the financial position of the County Office. To address the underfunding issues, the pension plans continue to raise employer rates in future years and the increased costs are significant.

Enrollment can fluctuate due to factors such as population growth, competition from private, parochial, inter-County Office transfers in or out, economic conditions and housing values. Losses in enrollment will cause a school County Office to lose operating revenues without necessarily permitting the County Office to make adjustments in fixed operating costs.

All of these factors were considered in preparing the County Office's budget for the 2016-17 fiscal year.

CONTACTING THE COUNTY OFFICE OF EDUCATION'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, students, and investors and creditors with a general overview of the County Office of Education's finances and to show the County Office of Education's accountability for the money it receives. If you have questions about this report or need any additional financial information, contact Michelle Buell, Senior Director of Fiscal Services, Lake County Office of Education, 1152 South Main Street, Lakeport, CA 95453.

LAKE COUNTY OFFICE OF EDUCATION
STATEMENT OF NET POSITION
JUNE 30, 2016

	Governmental Activities
ASSETS	
Cash and investments	\$ 7,972,805
Accounts receivable	3,282,562
Capital assets, not depreciated	419,684
Capital assets, net of accumulated depreciation	7,757,227
Total Assets	19,432,278
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows related to pensions	1,102,259
Total Deferred Outflows of Resources	1,102,259
LIABILITIES	
Accrued liabilities	1,882,099
Unearned revenue	715,085
Long-term liabilities, current portion	72,200
Long-term liabilities, non-current portion	6,850,305
Total Liabilities	9,519,689
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows related to pensions	1,211,116
Total Deferred Inflows of Resources	1,211,116
NET POSITION	
Net investment in capital assets	8,032,511
Restricted:	
Capital projects	420,621
Educational programs	3,919,740
Unrestricted	(2,569,140)
Total Net Position	\$ 9,803,732

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

LAKE COUNTY OFFICE OF EDUCATION
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016

Function/Programs	Expenses	Program Revenues		Net (Expenses)
		Charges for Services	Operating Grants and Contributions	Revenues and Changes in Net Position
				Governmental Activities
GOVERNMENTAL ACTIVITIES				
Instruction	\$ 3,039,001	\$ 409,320	\$ 2,478,999	\$ (150,682)
Instruction-related services				
Instructional supervision and administration	2,246,145	240,161	1,438,521	(567,463)
Instructional library, media, and technology	180,516	-	-	(180,516)
School site administration	47,903	-	4,556	(43,347)
Pupil services				
Home-to-school transportation	10,188	-	-	(10,188)
Food services	274,839	34	268,581	(6,224)
All other pupil services	1,997,745	832,399	1,025,388	(139,958)
General administration				
Centralized data processing	270,968	-	-	(270,968)
All other general administration	1,744,169	107,494	363,616	(1,273,059)
Plant services	271,353	11,041	83,272	(177,040)
Ancillary services	26,087	-	5,223	(20,864)
Community services	208,328	90,788	93,570	(23,970)
Enterprise activities	80,222	-	-	(80,222)
Other Outgo	6,454,861	328,869	5,514,335	(611,657)
Depreciation (unallocated)	222,429	-	-	(222,429)
Total Governmental Activities	\$ 17,074,754	\$ 2,020,106	\$ 11,276,061	(3,778,587)
General revenues				
Taxes and subventions				
				2,015,648
				49,761
				2,402,284
				37,437
				822,640
				5,327,770
CHANGE IN NET POSITION				
				1,549,183
Net Position - Beginning				
				8,254,549
Net Position - Ending				
				\$ 9,803,732

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

LAKE COUNTY OFFICE OF EDUCATION
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2016

	County School Service Fund	Special Education Pass-Through Fund	Child Development Fund	Non-Major Governmental Funds	Total Governmental Funds
ASSETS					
Cash and investments	\$ 6,500,782	\$ 572,977	\$ 245,958	\$ 653,088	\$ 7,972,805
Accounts receivable	2,288,866	652,217	341,479	-	3,282,562
Due from other funds	77,491	41,606	3,174	300,000	422,271
Total Assets	\$ 8,867,139	\$ 1,266,800	\$ 590,611	\$ 953,088	\$ 11,677,638
LIABILITIES					
Accrued liabilities	\$ 707,853	\$ 1,160,746	\$ 13,500	\$ -	\$ 1,882,099
Due to other funds	344,780	76,161	1,330	-	422,271
Unearned revenue	507,596	-	207,489	-	715,085
Total Liabilities	1,560,229	1,236,907	222,319	-	3,019,455
FUND BALANCES					
Nonspendable	2,500	-	-	-	2,500
Restricted	3,327,551	29,893	368,292	614,625	4,340,361
Committed	-	-	-	338,463	338,463
Assigned	1,093,343	-	-	-	1,093,343
Unassigned	2,883,516	-	-	-	2,883,516
Total Fund Balances	7,306,910	29,893	368,292	953,088	8,658,183
Total Liabilities and Fund Balances	\$ 8,867,139	\$ 1,266,800	\$ 590,611	\$ 953,088	\$ 11,677,638

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

**LAKE COUNTY OFFICE OF EDUCATION
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT
OF NET POSITION
JUNE 30, 2016**

Total Fund Balance - Governmental Funds \$ 8,658,183

Amounts reported for assets and liabilities for governmental activities in the statement of net position are different from amounts reported in governmental funds because:

Capital assets:

In governmental funds, only current assets are reported. In the statement of net position, all assets are reported, including capital assets and accumulated depreciation:

Capital assets	\$ 11,032,723	
Accumulated depreciation	(2,855,812)	8,176,911

Long-term liabilities:

In governmental funds, only current liabilities are reported. In the statement of net position, all liabilities, including long-term liabilities, are reported. Long-term liabilities relating to governmental activities consist of:

Capital leases	\$ 144,400	
Compensated absences	93,226	
Net pension liability	6,684,879	(6,922,505)

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 pensions	\$ 1,102,259	
Deferred inflows of resources related to pensions	(1,211,116)	(108,857)

Total Net Position - Governmental Activities \$ 9,803,732

**LAKE COUNTY OFFICE OF EDUCATION
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2016**

	County School Service Fund	Special Education Pass-Through Fund	Child Development Fund	Non-Major Governmental Funds	Total Governmental Funds
REVENUES					
LCFF sources	\$ 3,645,092	\$ 195,628	\$ -	\$ -	\$ 3,840,720
Federal sources	1,759,033	1,833,736	350,957	193,333	4,137,059
Other state sources	2,602,833	3,539,709	1,434,456	-	7,576,998
Other local sources	2,934,091	4,776	150,069	2,735	3,091,671
Total Revenues	10,941,049	5,573,849	1,935,482	196,068	18,646,448
EXPENDITURES					
Current					
Instruction	1,955,370	-	1,114,520	-	3,069,890
Instruction-related services					
Instructional supervision and administration	2,190,097	-	86,321	-	2,276,418
Instructional library, media, and technology	188,828	-	-	-	188,828
School site administration	48,652	-	-	-	48,652
Pupil services					
Home-to-school transportation	231,317	-	-	-	231,317
Food services	1,900	-	274,412	-	276,312
All other pupil services	2,008,873	-	17,324	-	2,026,197
General administration					
Centralized data processing	273,426	-	-	-	273,426
All other general administration	1,656,090	-	124,875	-	1,780,965
Plant services	251,795	-	18,249	21,887	291,931
Facilities acquisition and maintenance	2,350	-	-	7,938	10,288
Ancillary services	26,553	-	-	-	26,553
Community services	26,089	-	183,357	-	209,446
Enterprise activities	80,725	-	-	-	80,725
Transfers to other agencies	640,536	5,645,148	-	169,177	6,454,861
Debt service					
Principal	125,467	-	-	-	125,467
Total Expenditures	9,708,068	5,645,148	1,819,058	199,002	17,371,276
Excess (Deficiency) of Revenues					
Over Expenditures	1,232,981	(71,299)	116,424	(2,934)	1,275,172
Other Financing Sources (Uses)					
Transfers in	20,596	-	10,590	300,000	331,186
Other sources	221,129	-	-	-	221,129
Transfers out	(310,590)	-	-	(20,596)	(331,186)
Net Financing Sources (Uses)	(68,865)	-	10,590	279,404	221,129
NET CHANGE IN FUND BALANCE	1,164,116	(71,299)	127,014	276,470	1,496,301
Fund Balance - Beginning	6,142,794	101,192	241,278	676,618	7,161,882
Fund Balance - Ending	\$ 7,306,910	\$ 29,893	\$ 368,292	\$ 953,088	\$ 8,658,183

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

**LAKE COUNTY OFFICE OF EDUCATION
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016**

Net Change in Fund Balances - Governmental Funds \$ 1,496,301

Amounts reported for governmental activities in the statement of activities are different from amounts reported in governmental funds because:

Capital outlay:

In governmental funds, the costs of capital assets are reported as expenditures in the period when the assets are acquired. In the statement of activities, costs of capital assets are allocated over their estimated useful lives as depreciation expense. The difference between capital outlay expenditures and depreciation expense for the period is:

Expenditures for capital outlay:	\$ 258,149	
Depreciation expense:	<u>(222,429)</u>	35,720

Debt service:

In governmental funds, repayments of long-term debt are reported as expenditures. In the government-wide statements, repayments of long-term debt are reported as reductions of liabilities. Expenditures for repayment of the principal portion of long-term debt were:

125,467

Debt proceeds:

In governmental funds, proceeds from debt are recognized as Other Financing Sources. In the government-wide statements, proceeds from debt are reported as increases to liabilities. Amounts recognized in governmental funds as proceeds from debt, net of issue premium or discount, were:

(221,129)

Compensated absences:

In governmental funds, compensated absences are measured by the amounts paid during the period. In the statement of activities, compensated absences are measured by the amount earned. The difference between compensated absences paid and compensated absences earned, was:

14,604

Pensions:

In governmental funds, pension costs are recognized when employer contributions are made, in the government-wide statement of activities, pension costs are recognized on the accrual basis. This year, the difference between accrual-basis pension costs and employer contributions was:

98,220

Change in Net Position of Governmental Activities \$ 1,549,183

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. **Financial Reporting Entity**

The Lake County Office of Education (the “County Office of Education”) accounts for its financial transactions in accordance with the policies and procedures of the Department of Education’s *California School Accounting Manual*. The accounting policies of the County Office of Education conform to generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants (AICPA).

The County Office of Education operates under a locally elected Board form of government and provides educational services to grades K-12 as mandated by the state. A reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure the financial statements are not misleading. The primary government of the County Office of Education consists of all funds, departments and agencies that are not legally separate from the County Office of Education. For the County Office of Education, this includes general operations and student-related activities.

B. **Component Units**

Component units are legally separate organizations for which the County Office of Education is financially accountable. Component units may also include organizations that are fiscally dependent on the County Office of Education in that the County Office of Education approves their budget, the issuance of their debt or the levying of their taxes. In addition, component units are other legally separate organizations for which the County Office of Education is not financially accountable but the nature and significance of the organization’s relationship with the County Office of Education is such that exclusion would cause the County Office of Education’s financial statements to be misleading or incomplete. The County Office of Education has no such component units.

C. **Basis of Presentation**

Government-Wide Statements. The statement of net position and the statement of activities display information about the primary government (the County Office of Education). These statements include the financial activities of the overall government. Eliminations have been made to minimize the double-counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenue, and other non-exchange transactions.

The statement of activities presents a comparison between direct expenses and program revenue for each function of the County Office of Education’s governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Indirect expense allocations that have been made in the funds have been reserved for the statement of activities. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting of operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program or business segment is self-financing or draws from the general revenues of the County Office of Education.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

C. Basis of Presentation (*continued*)

Fund Financial Statements. The fund financial statements provide information about the County Office of Education's funds. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as non-major funds.

Governmental funds are used to account for activities that are governmental in nature. Governmental activities are typically tax-supported and include education of pupils, operation of child development programs, construction and maintenance of school facilities, and repayment of long-term debt.

Major Governmental Funds

County School Service Fund: The County School Service Fund is the main operating fund of the County Office of Education. It is used to account for all activities except those that are required to be accounted for in another fund. In keeping with the minimum number of funds principle, all of the County Office of Education's activities are reported in the County School Service Fund unless there is a compelling reason to account for an activity in another fund. A County Office of Education may have only one County School Service Fund.

Special Education Pass-Through Fund: This fund is used by the Administrative Unit (AU) of a multi-Local Education Agency (LEA) Special Education Local Plan Area (SELPA) to account for Special Education revenue passed through to other member LEA's.

Child Development Fund: This fund is used to account separately for federal, state, and local revenues to operate child development programs. All moneys received by the County Office of Education for, or from the operation of, child development services covered under the Child Care and Development Services Act (*Education Code Section 8200 et seq.*) shall be deposited into this fund. The moneys may be used only for expenditures for the operation of child development programs. The costs incurred in the maintenance and operation of child development services shall be paid from this fund, with accounting to reflect specific funding sources (*Education Code Section 8328*).

Non-Major Governmental Funds

Special Revenue Funds: Special revenue funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditures for specified purposes other than debt service or capital projects. The County Office of Education maintains the following special revenue funds:

Deferred Maintenance Fund: This fund is used to account separately for state apportionments and the County Office of Education's contributions for deferred maintenance purposes (*Education Code Sections 17582–17587*). In addition, whenever the state funds provided pursuant to *Education Code Sections 17584 and 17585* (apportionments from the State Allocation Board) are insufficient to fully match the local funds deposited in this fund, the County Office of Education may transfer the excess local funds deposited in this fund to any other expenditure classifications in other funds of the County Office of Education (*Education Code Sections 17582 and 17583*).

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

C. Basis of Presentation (*continued*)

Non-Major Governmental Funds (*continued*)

Special Revenue Funds (*continued*):

Forest Reserve Fund: This fund exists to account separately for federal forest reserve funds received by offices of county superintendents for distribution to school County Offices of Education and community college County Offices of Education (*Education Code Section 2300; Government Code Section 29484*).

Capital Project Funds: Capital project funds are established to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds and trust funds).

County School Facilities Fund: This fund is established pursuant to *Education Code Section 17070.43* to receive apportionments from the 1998 State School Facilities Fund (Proposition 1A), the 2002 State School Facilities Fund (Proposition 47), or the 2004 State School Facilities Fund (Proposition 55) authorized by the State Allocation Board for new school facility construction, modernization projects, and facility hardship grants, as provided in the Leroy F. Greene School Facilities Act of 1998 (*Education Code Section 17070 et seq.*).

D. Basis of Accounting – Measurement Focus

Government-Wide Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus. The government-wide financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place.

Net Position equals assets and deferred outflows of resources minus liabilities and deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. The net position should be reported as restricted when constraints placed on its use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The net position restricted for other activities results from special revenue funds and the restrictions on their use.

Governmental Funds

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Governmental funds use the modified accrual basis of accounting.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Basis of Accounting – Measurement Focus (continued)

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. On a 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 to be used to pay liabilities of the current fiscal year. Generally, "available" means collectible within the current period or within 60 days after year-end. However, to achieve comparability of reporting among California LEAs and so as not to distort normal revenue patterns, with specific respect to reimbursements grants and corrections to State-aid apportionments, the California Department of Education has defined available for LEAs as collectible within one year.

Non-exchange transactions, in which the County Office of Education receives value without directly giving equal value in return, include 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 the 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 the resources are to be used or the fiscal year when use is first permitted; matching requirements, in which the County Office of Education must provide local resources to be used for a specific purpose; and expenditure requirements, in which the resources are provided to the County Office of Education on a reimbursement basis. Under the modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Unearned Revenue

Unearned revenue arises when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period or when resources are received by the County Office of Education prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the County Office of Education has a legal claim to the resources, the liability for unearned revenue is removed from the balance sheet and revenue is recognized.

Certain grants received that have not met eligibility requirements are recorded as unearned revenue. On the governmental fund financial statements, receivables that will not be collected within the available period are also recorded as unearned revenue.

Expenses/Expenditures

On the accrual basis of accounting, expenses are recognized at the time a liability is incurred. On the modified accrual basis of accounting, expenditures are generally recognized in the accounting period in which the related fund liability is incurred, as under the accrual basis of accounting. However, under the modified accrual basis of accounting, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds. When both restricted and unrestricted resources are available for use, it is the County Office of Education's policy to use restricted resources first, then unrestricted resources as they are needed.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, Fund Balance and Net Position

Cash and Cash Equivalents

The Country Office’s cash and cash equivalents consist of cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Investments

Investments with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost. Fair values of investments in county and State investment pools are determined by the program sponsor.

Capital Assets

The accounting and reporting treatment applied to the capital assets associated with a fund is determined by its measurement focus. Capital assets are reported in the governmental activities column of the government-wide statement of net position, but are not reported in the fund financial statements.

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their acquisition value as of the date received. The County Office of Education maintains a capitalization threshold of \$5,000. The County Office of Education does not own any infrastructure as defined in GASB Statement No. 34. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset’s life are not capitalized. All reported capital assets, except for land and construction in progress, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Life</u>
Buildings	15 years
Site Improvements	15-50 years
Equipment	5-25 years

Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "Due from other funds/Due to other funds." These amounts are eliminated in the governmental activities columns of the statement of net position.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

E. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, Fund Balance and Net Position (*continued*)

Compensated Absences

Accumulated unpaid employee vacation benefits are accrued as a liability as the benefits are earned. The entire compensated absence liability is reported on the government-wide financial statements. For governmental funds, the current portion of unpaid compensated absences is recognized upon the occurrence of relevant events such as employee resignations and retirements that occur prior to year-end that have not yet been paid with expendable available financial resource. These amounts are recorded in the fund from which the employees who have accumulated leave are paid.

Accumulated sick leave benefits are not recognized as liabilities of the County Office of Education. The County Office of Education's policy is to record sick leave as an operating expense in the period taken because 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.

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.

Premiums and Discounts

In the government-wide financial statements, long-term obligations are reported as liabilities in the statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight line method.

Deferred Outflows/Deferred Inflows of Resources

In addition to assets, the County Office of Education 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 that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the County Office of Education 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 that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the defined benefit pension plans (the Plans) of the California State Teachers' Retirement System (CalSTRS) and the California Public Employees' Retirement System (CalPERS) and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by the Plans. 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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

E. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, Fund Balance and Net Position (*continued*)

Fund Balance

Fund balance is divided into five classifications based primarily on the extent to which the County Office of Education is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

Nonspendable - The nonspendable fund balance classification reflects amounts that are not in spendable form. Examples include inventory, prepaid items, the long-term portion of loans receivable, and nonfinancial assets held for resale. This classification also reflects amounts that are in spendable form but that are legally or contractually required to remain intact, such as the principal of a permanent endowment.

Restricted - 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.

Committed - The committed fund balance classification reflects amounts subject to internal constraints self-imposed by formal action of the Governing Board. The constraints giving rise to committed fund balance must be imposed no later than the end of the reporting period. The actual amounts may be determined subsequent to that date but prior to the issuance of the financial statements. In contrast to restricted fund balance, committed fund balance may be redirected by the government to other purposes as long as the original constraints are removed or modified in the same manner in which they were imposed, that is, by the same formal action of the Governing Board.

Assigned - The assigned fund balance classification reflects amounts that the government *intends* to be used for specific purposes. Assignments may be established either by the Governing Board or by a designee of the governing body, and are subject to neither the restricted nor committed levels of constraint. In contrast to the constraints giving rise to committed fund balance, constraints giving rise to assigned fund balance are not required to be imposed, modified, or removed by formal action of the Governing Board. The action does not require the same level of formality and may be delegated to another body or official. Additionally, the assignment need not be made before the end of the reporting period, but rather may be made any time prior to the issuance of the financial statements.

Unassigned - In the County School Service 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. However, deficits in any fund, including the County School Service Fund that cannot be eliminated by reducing or eliminating amounts assigned to other purposes are reported as negative unassigned fund balance.

The County Office of Education applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

F. Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented in the financial statements. Interfund transfers are eliminated in the governmental activities columns of the statement of activities.

G. Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

H. Budgetary Data

The budgetary process is prescribed by provisions of the California Education Code and requires the governing board to hold a public hearing and adopt an operating budget no later than July 1 of each year. The County Office of Education governing board satisfied these requirements. The adopted budget is subject to amendment throughout the year to give consideration to unanticipated revenue and expenditures primarily resulting from events unknown at the time of budget adoption with the legal restriction that expenditures cannot exceed appropriations by major object account.

The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts after all budget amendments have been accounted for. For purposes of the budget, on-behalf payments have not been included as revenue and expenditures as required under generally accepted accounting principles.

I. Property Tax

Secured property taxes attach as an enforceable lien on property as of January 1. Taxes are payable in two installments on November 1 and February 1 and become delinquent on December 10 and April 10, respectively. Unsecured property taxes are payable in one installment on or before August 31. The County Auditor-Controller bills and collects the taxes on behalf of the County Office of Education. Local property tax revenues are recorded when received.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

J. New Accounting Pronouncements

GASB Statement No. 72 – In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application*. This standard addresses accounting and financial reporting issues related to fair value measurements. The Statement is effective for periods beginning after June 15, 2015. The County Office has implemented GASB Statement No. 72 for the year ended June 30, 2016.

GASB Statement No. 73 – In June 2015, GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. This standard establishes requirements for defined benefit pensions that are not within the scope of GASB Statement 68 and amends certain provisions of GASB Statements 67 and 68. A portion of this Statement is effective for periods beginning after June 15, 2015. The County Office has implemented GASB Statement No. 73 for the year ended June 30, 2016

GASB Statement No. 75 – In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This standard's primary objective is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions. The Statement is effective for periods beginning after June 15, 2017. The County Office has not yet determined the impact on the financial statements.

GASB Statement No. 80 – In January 2016, GASB issued Statement No. 80, *Blending Requirements for Certain Component Units – an Amendment of GASB Statement No. 14*. This standard's primary objective is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. The Statement is effective for periods beginning after June 15, 2016. The County Office has not yet determined the impact on the financial statements.

LAKE COUNTY OFFICE OF EDUCATION
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2016

NOTE 2 – CASH AND INVESTMENTS

A. Summary of Cash and Investments

	Total Governmental Activities
Investment in county treasury	\$ 7,970,705
Cash on hand and in banks	100
Cash in revolving fund	2,000
Total cash and investments	\$ 7,972,805

B. Policies and Practices

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

Investment in County Treasury – The County Office of Education maintains substantially all of its cash in the County Treasury in accordance with *Education Code Section 41001*. The Lake County Treasurer’s pooled investments are managed by the County Treasurer who reports on a monthly basis to the board of supervisors. In addition, the function of the County Treasury Oversight Committee is to review and monitor the County’s investment policy. The committee membership includes the Treasurer and Tax Collector, the Auditor-Controller, Chief Administrative Officer, Superintendent of Schools Representative, and a public member. The fair value of the County Office of Education’s investment in the pool is based upon the County Office of Education’s pro-rata share of the fair value provided by the County Treasurer for the entire portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by the County Treasurer, which is recorded on the amortized cost basis.

LAKE COUNTY OFFICE OF EDUCATION
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2016

NOTE 2 – CASH AND INVESTMENTS (continued)

C. General Authorizations

Except for investments by trustees of debt proceeds, the authority to invest County Office of Education funds deposited with the county treasury is delegated to the County Treasurer and Tax Collector. Additional information about the investment policy of the County Treasurer and Tax Collector may be obtained from its website. The table below identifies the investment types permitted by California Government Code.

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

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 value to changes in market interest rates. The County Office of Education manages its exposure to interest rate risk by investing in the County Treasury. The County Office of Education maintains a pooled investment with the County Treasury with a fair value of approximately \$7,968,186 and an amortized book value of \$7,970,705.

E. Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The investments in the County Treasury are not required to be rated. As of June 30, 2016, the pooled investments in the County Treasury were not rated.

LAKE COUNTY OFFICE OF EDUCATION
 NOTES TO FINANCIAL STATEMENTS, *continued*
 JUNE 30, 2016

NOTE 2 – CASH AND INVESTMENTS (*continued*)

F. Custodial Credit Risk – Deposits

This is the risk that in the event of a bank failure, the County Office of Education's deposits may not be returned to it. The County Office of Education does not have a policy for custodial credit risk for deposits. However, the California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law. The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2016, the County Office of Education's bank balance was not exposed to custodial credit risk.

G. Fair Value

The County Office categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy 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 - Quoted prices (unadjusted) in active markets for identical assets.

Level 2 - Observable inputs other than Level 1 prices such as quoted prices for similar assets in active markets, quoted prices for identical or similar assets in markets that are not active, or other inputs that are observable, either directly or indirectly.

Level 3 - Unobservable inputs should be developed using the best information available under the circumstances, which might include the County Office's own data. The County Office should adjust that data if reasonable available information indicates that other market participants would use different data or certain circumstances specific to the County Office are not available to other market participants.

Uncategorized - Investments in the Lake County Treasury Investment Pool are not measured using the input levels above because the County Office's transactions are based on a stable net asset value per share. All contributions and redemptions are transacted at \$1.00 net asset value per share.

The County Office's fair value measurements at June 30, 2016 were as follows:

	<u>Uncategorized</u>
Investment in county treasury	7,968,186
Total fair market value of investments	\$ 7,968,186

LAKE COUNTY OFFICE OF EDUCATION
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2016

NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2016 consisted of the following:

	County School Service Fund	Special Education Pass-Through Fund	Child Development Fund	Total Governmental Activities
Federal Government				
Categorical aid	\$ 473,048	\$ 652,217	\$ 62,893	\$ 1,188,158
State Government				
Apportionment	52,798	-	-	52,798
Categorical aid	1,025,567	-	200,129	1,225,696
Lottery	2,154	-	-	2,154
Local Government				
Other local sources	735,299	-	78,457	813,756
Total	\$ 2,288,866	\$ 652,217	\$ 341,479	\$ 3,282,562

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2016 was as follows:

	Balance July 01, 2015	Additions	Deletions	Balance June 30, 2016
Governmental Activities				
Capital assets not being depreciated				
Land	\$ 409,396	\$ -	\$ -	\$ 409,396
Construction in progress	-	10,288	-	10,288
Total Capital Assets not Being Depreciated	409,396	10,288	-	419,684
Capital assets being depreciated				
Land improvements	327,791	-	-	327,791
Buildings & improvements	8,419,049	-	-	8,419,049
Furniture & equipment	1,618,338	247,861	-	1,866,199
Total Capital Assets Being Depreciated	10,365,178	247,861	-	10,613,039
Less Accumulated Depreciation				
Land improvements	103,624	19,018	-	122,642
Buildings & improvements	1,476,264	81,152	-	1,557,416
Furniture & equipment	1,053,495	122,259	-	1,175,754
Total Accumulated Depreciation	2,633,383	222,429	-	2,855,812
Governmental Activities				
Capital Assets, net	\$ 8,141,191	\$ 35,720	\$ -	\$ 8,176,911

LAKE COUNTY OFFICE OF EDUCATION
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2016

NOTE 5 – INTERFUND TRANSACTIONS

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

Individual interfund receivable and payable balances at June 30, 2016 were as follows:

Due To Other Funds	Due From Other Funds				Total
	County School Service Fund	Special Education Pass-Through Fund	Child Development Fund	Non-Major Governmental Funds	
County School Service Fund	\$ -	\$ 41,606	\$ 3,174	\$ 300,000	\$ 344,780
Special Education Pass-Through Fund	76,161	-	-	-	76,161
Child Development Fund	1,330	-	-	-	1,330
Total Due From Other Funds	\$ 77,491	\$ 41,606	\$ 3,174	\$ 300,000	\$ 422,271

Due from County School Service Fund to Special Education Pass-Through of taxes to districts not yet distributed.	\$ 41,606
Due from County School Service Fund to Child Development Fund contributions to programs for H&W increase as well as contributions due to program encroachment.	3,174
Due from County School Service Fund to Non-Major Deferred Maintenance Fund for routine restricted maintenance resource 8150 for upcoming projects.	300,000
Due from Special Education Pass-through to County School Service Fund adjustments of Spec Ed apportionment to districts	76,161
Due from Child Development Fund to County School Service Fund 4th quarter pooled costs	1,330
Total	\$ 422,271

B. Operating Transfers

Interfund Transfers for the year ended June 30, 2016 consisted of the following:

Interfund Transfers Out	Interfund Transfers In				Total
	County School Service Fund	Child Development Fund	Non-Major Governmental Funds		
County School Service Fund	\$ -	\$ 10,590	\$ 300,000	\$ -	\$ 310,590
Non-Major Governmental Funds	20,596	-	-	-	20,596
Total Interfund Transfers	\$ 20,596	\$ 10,590	\$ 300,000	\$ -	\$ 331,186

Transfer from County School Service Fund to Child Development Fund for supplemented programs for an increase in health and welfare costs due to a cap increase.	\$ 10,590
Transfer from County School Service Fund to Non-Major Deferred Maintenance Fund for routine restricted maintenance resource 8150 for upcoming projects.	300,000
Transfer from Non-Major Forest Reserve Fund to County School Service Fund to reduce the agency's cost for the Information Technology Infrastructure.	20,596
Total	\$ 331,186

LAKE COUNTY OFFICE OF EDUCATION
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2016

NOTE 6 – ACCRUED LIABILITIES

Accrued liabilities at June 30, 2016 consisted of the following:

	County School Service Fund	Special Education Pass-Through Fund	Child Development Fund	Total Governmental Activities
Payroll	\$ 18,562	\$ -	\$ -	\$ 18,562
Vendors payable	689,291	-	13,500	702,791
Districts payable	-	1,160,746	-	1,160,746
Total	\$ 707,853	\$ 1,160,746	\$ 13,500	\$ 1,882,099

NOTE 7 – UNEARNED REVENUE

Unearned revenue at June 30, 2016, consisted of the following:

	County School Service Fund	Child Development Fund	Total Governmental Activities
Federal sources	\$ 62,281	\$ -	\$ 62,281
State categorical sources	445,315	207,489	652,804
Total	\$ 507,596	\$ 207,489	\$ 715,085

LAKE COUNTY OFFICE OF EDUCATION
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2016

NOTE 8 – LONG-TERM DEBT

A schedule of changes in long-term debt for the year ended June 30, 2016 consisted of the following:

	Balance			Balance		Balance Due
	July 01, 2015	Additions	Deductions	June 30, 2016	In One Year	
Governmental Activities						
Capital leases	\$ 48,738	\$ 221,129	\$ 125,467	\$ 144,400	\$	72,200
Compensated absences	107,830	-	14,604	93,226		-
Net pension liability	5,901,654	783,225	-	6,684,879		-
Total	\$ 6,058,222	\$ 1,004,354	\$ 140,071	\$ 6,922,505	\$	72,200

- Payments for capital lease obligations are made in the County School Service Fund.
- Payments for compensated absences are typically liquidated in the County School Service Fund and the Non-Major Governmental Funds.

A. Compensated Absences

Total unpaid employee compensated absences as of June 30, 2016 amounted to \$93,226. This amount is included as part of long-term liabilities in the government-wide financial statements.

B. Capital Lease

	Year Ended June 30,	Lease Payment
	2017	\$ 76,729
	2018	76,729
Total minimum lease payments		153,458
Less amount representing interest		(9,058)
Present value of minimum lease payments		<u>\$ 144,400</u>

C. Net Pension Liability

The County Office’s beginning net pension liability was \$5,901,654 and increased by \$783,225 during the year ended June 30, 2016. The ending net pension liability at June 30, 2016 was \$6,684,879. See Note 11 for additional information regarding the net pension liability.

LAKE COUNTY OFFICE OF EDUCATION
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2016

NOTE 9 – FUND BALANCES

Fund balances were composed of the following elements at June 30, 2016:

	County School Service Fund	Special Education Pass-Through Fund	Child Development Fund	Non-Major Governmental Funds	Total Governmental Funds
Non-spendable					
Revolving cash	\$ 2,000	\$ -	\$ -	\$ -	\$ 2,000
All others	500	-	-	-	500
Total non-spendable	2,500	-	-	-	2,500
Restricted					
Educational programs	3,327,551	29,893	368,292	194,004	3,919,740
Capital projects	-	-	-	420,621	420,621
Total restricted	3,327,551	29,893	368,292	614,625	4,340,361
Committed					
Deferred maintenance fund	-	-	-	338,463	338,463
Total committed	-	-	-	338,463	338,463
Assigned					
Employee fund	563	-	-	-	563
Co-curricular activities	15,833	-	-	-	15,833
Adult career education	125,513	-	-	-	125,513
Adult education scholarships	769	-	-	-	769
Leibowitz donation	25,000	-	-	-	25,000
Professional development	4,789	-	-	-	4,789
LCAP technical support	267,957	-	-	-	267,957
Taylor observatory	36,664	-	-	-	36,664
Special education transportation	200,538	-	-	-	200,538
Medi-cal admin activities	21,316	-	-	-	21,316
Supplemental & concentration	78,989	-	-	-	78,989
Lottery	249,284	-	-	-	249,284
Special reserve for post employment	66,128	-	-	-	66,128
Total assigned	1,093,343	-	-	-	1,093,343
Unassigned					
Reserve for economic uncertainties	582,484	-	-	-	582,484
Remaining unassigned	2,301,032	-	-	-	2,301,032
Total unassigned	2,883,516	-	-	-	2,883,516
Total	\$ 7,306,910	\$ 29,893	\$ 368,292	\$ 953,088	\$ 8,658,183

The County Office is committed to maintaining a prudent level of financial resources to protect against the need to reduce service levels because of temporary revenue shortfalls or unpredicted expenditures. The County Office’s Minimum Fund Balance Policy requires a Reserve for Economic Uncertainties, consisting of unassigned amounts, equal to 4 percent of County School Service Fund expenditures and other financing uses.

LAKE COUNTY OFFICE OF EDUCATION
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2016

NOTE 10 – POSTEMPLOYMENT HEALTH CARE PLAN AND OTHER POST EMPLOYMENT BENEFITS (OPEB)

The County offers retiree health benefits to eligible management and confidential employees who have at least 20 years of service and are between the ages of 55 and 65 prior to September 2014. The County pays monthly health care premiums for each eligible participant at an amount not to exceed \$862.15 per month. The County has projected the total maximum benefit liability at \$116,627 for the three retirees currently participating. In fiscal year 2015-16, the amount paid by the County on behalf of the retirees amounted to \$45,057. Statement #45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pension*, permits the County to use the Alternative Measurement Method when computing the OPEB liability. Using a discount rate of 5%, the County has estimated the current OPEB liability at \$0.

NOTE 11 – PENSION PLANS

Qualified employees are covered under multiple-employer contributory retirement plans maintained by agencies of the State of California. Certificated employees are members of the California State Teachers' Retirement System (CalSTRS), and classified employees are members of the California Public Employees' Retirement System (CalPERS). The County Office reported its proportionate share of the net pension liabilities, pension expense, deferred outflow of resources, and deferred inflow of resources for each of the above plans as follows:

	Net pension liability	Deferred outflows related to pensions	Deferred inflows related to pensions	Pension expense
STRS Pension	\$ 2,030,832	\$ 145,423	\$ 409,112	\$ 122,332
PERS Pension	4,654,047	956,836	802,004	384,644
Total	\$ 6,684,879	\$ 1,102,259	\$ 1,211,116	\$ 506,976

California State Teachers' Retirement System (CalSTRS)

Plan Description

The County Office contributes to the California State Teachers' Retirement System (CalSTRS); a cost-sharing multiple employer public employee retirement system defined benefit pension plan administered by CalSTRS. The plan provides retirement and disability benefits and survivor benefits to beneficiaries. Benefit provisions are established by state statutes, as legislatively amended, within the State Teachers' Retirement Law. CalSTRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalSTRS annual financial report may be obtained from CalSTRS, 7919 Folsom Blvd., Sacramento, CA 95826.

Benefits provided

The CalSTRS defined benefit plan has two benefit formulas:

CalSTRS 2% at 60: Members first hired on or before December 31, 2012, to perform service that could be creditable to CalSTRS

CalSTRS 2% at 62: Members first hired on or after January 1, 2013, to perform service that could be creditable to CalSTRS

LAKE COUNTY OFFICE OF EDUCATION
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2016

NOTE 11 – PENSION PLANS (continued)

California State Teachers’ Retirement System (CalSTRS) (continued)

Benefits provided (continued)

CalSTRS 2% at 60

CalSTRS 2% at 60 members are eligible for normal retirement at age 60, with a minimum of five years of credited service. The normal retirement benefit is equal to 2.0 percent of final compensation for each year of credited service. Early retirement options are available at age 55 with five years of credited service or as early as age 50 with 30 years of credited service. The age factor for retirements after age 60 increases with each quarter year of age to 2.4 percent at age 63 or older. Members who have 30 years or more of credited service receive an additional increase of up to 0.2 percent to the age factor, known as the career factor. The maximum benefit with the career factor is 2.4 percent of final compensation.

CalSTRS 2% at 62

CalSTRS 2% at 62 members are eligible for normal retirement at age 62, with a minimum of five years of credited service. The normal retirement benefit is equal to 2.0 percent of final compensation for each year of credited service. An early retirement option is available at age 55. The age factor for retirement after age 62 increases with each quarter year of age to 2.4 percent at age 65 or older.

Contributions

Active plan CalSTRS 2% at 60 and 2% at 62 members are required to contribute 9.20% and 8.56% of their salary for fiscal year 2016, respectively, and the County Office is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by CalSTRS Teachers’ Retirement Board. The required employer contribution rate for fiscal year 2016 was 10.73% of annual payroll. The contribution requirements of the plan members are established by state statute. Contributions to the plan from the County Office were \$145,423 for the year ended June 30, 2016.

On-Behalf Payments

The County Office was the recipient of on-behalf payments made by the State of California to CalSTRS for K-12 education. These payments consist of state general fund contributions of approximately \$105,689 to CalSTRS (7.126% of 2013-14 creditable compensation subject to CalSTRS).

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

At June 30, 2016, the County Office reported a liability for its proportionate share of the net pension liability that reflected a reduction for State pension support provided to the County Office. The amount recognized by the County Office as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the County Office were as follows:

County Office's proportionate share of the net pension liability	\$ 2,030,832
State's proportionate share of the net pension liability associated with the County Office	1,074,084
Total	<u>\$ 3,104,916</u>

LAKE COUNTY OFFICE OF EDUCATION
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2016

NOTE 11 – PENSION PLANS (continued)

California State Teachers’ Retirement System (CalSTRS) (continued)

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

The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by applying update procedures to an actuarial valuation as of June 30, 2014, and rolling forward the total pension liability to June 30, 2015. The County Office’s proportion of the net pension liability was based on a projection of the County Office’s long-term share of contributions to the pension plan relative to the projected contributions of all participating school County Offices, actuarially determined. At June 30, 2015, the County Office’s proportion was 0.003 percent, which did not change from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the County Office recognized pension expense of \$122,332. In addition, the County Office recognized pension expense and revenue of \$83,178 for support provided by the State. At June 30, 2016, the County Office 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>
Differences between projected and actual earnings on plan investments	\$ -	\$ 165,546
Differences between expected and actual experience	-	33,936
Changes in proportion and differences between County Office contributions and proportionate share of contributions	-	209,630
County Office contributions subsequent to the measurement date	145,423	-
	<u>\$ 145,423</u>	<u>\$ 409,112</u>

The \$145,423 reported as deferred outflows of resources related to pensions resulting from County Office contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended June 30,</u>	<u>Deferred Inflows of Resources</u>
2017	\$ 81,981
2018	81,981
2019	81,981
2020	81,981
2021	40,594
2022	40,594
	<u>\$ 409,112</u>

LAKE COUNTY OFFICE OF EDUCATION
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2016

NOTE 11 – PENSION PLANS (continued)

California State Teachers’ Retirement System (CalSTRS) (continued)

Actuarial assumptions

The total pension liability was determined by applying update procedures to an actuarial valuation as of June 30, 2014, and rolling forward the total pension liability to June 30, 2015 using the following actuarial assumptions, applied to all periods included in the measurement:

Consumer Price Inflation	3.00%
Investment Yield*	7.60%
Wage Inflation	3.75%

* Net of investment expenses, but gross of administrative expenses.

CalSTRS uses custom mortality tables to best fit the patterns of mortality among its members. These custom tables are based on RP2000 series tables adjusted to fit CalSTRS experience.

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period July 1, 2006–June 30, 2010.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. The best-estimate ranges were developed using capital market assumptions from CalSTRS general investment consultant (Pension Consulting Alliance - PCA) as an input to the process. Based on the model from CalSTRS consulting actuary’s (Milliman) investment practice, a best estimate range was determined by assuming the portfolio is re-balanced annually and that annual returns are lognormally distributed and independent from year to year to develop expected percentiles for the long-term distribution of annualized returns. The assumed asset allocation by PCA is based on board policy for target asset allocation in effect on February 2, 2012, the date the current experience study was approved by the board. Best estimates of 10-year geometric real rates of return and the assumed asset allocation for each major asset class used as input to develop the actuarial investment rate of return are summarized in the following table:

<u>Asset Class</u>	<u>Assumed Asset Allocation</u>	<u>Long-Term* Expected Real Rate of Return</u>
Global Equity	47%	4.50%
Private Equity	12%	6.20%
Real Estate	15%	4.35%
Inflation Sensitive	5%	3.20%
Fixed Income	20%	0.20%
Cash/Liquidity	1%	0.00%
	<u>100%</u>	

* 10-year geometric average

LAKE COUNTY OFFICE OF EDUCATION
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2016

NOTE 11 – PENSION PLANS (continued)

California State Teachers’ Retirement System (CalSTRS) (continued)

Discount rate

The discount rate used to measure the total pension liability was 7.60 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at statutory contribution rates in accordance with the rate increases per AB 1469. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.60 percent) and assuming that contributions, benefit payments, and administrative expense occur midyear. Based on those assumptions, the Plan’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.

Sensitivity of the County Office’s proportionate share of the net pension liability to changes in the discount rate

The following presents the County Office’s proportionate share of the net pension liability calculated using the discount rate of 7.60 percent, as well as what the County Office’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.60 percent) or 1-percentage-point higher (8.60 percent) than the current rate:

	1% Decrease (6.60%)	Current Discount Rate (7.60%)	1% Increase (8.60%)
County Office's proportionate share of the net pension liability	\$ 3,066,398	\$ 2,030,832	\$ 1,170,193

Pension plan fiduciary net position

Detailed information about the pension plan’s fiduciary net position is available in the separately issued CalSTRS financial report.

NOTE 11 – PENSION PLANS (continued)

California Public Employees’ Retirement System (CalPERS)

Plan Description

The County Office contributes to the School Employer Pool under the California Public Employees' Retirement System (CalPERS); a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by state statutes, as legislatively amended, within the Public Employees' Retirement Laws. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, CA 95811.

Benefits provided

The benefits for the defined benefit plan are based on members’ years of service, age, final compensation, and benefit formula. Benefits are provided for disability, death, and survivors of eligible members or beneficiaries. Members become fully vested in their retirement benefits earned to date after five years of credited service.

Contributions

Active plan members who entered into the plan prior to January 1, 2013, are required to contribute 7.0% of their salary. The California Public Employees’ Pension Reform Act (PEPRA) specifies that new members entering into the plan on or after January 1, 2013, shall pay the higher of fifty percent of normal costs or 6.0% of their salary. Additionally, for new members entering the plan on or after January 1, 2013, the employer is prohibited from paying any of the employee contribution to CalPERS unless the employer payment of the member’s contribution is specified in an employment agreement or collective bargaining agreement that expires after January 1, 2013.

The County Office is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2016 was 11.847% of annual payroll. Contributions to the plan from the County Office were \$459,773 for the year ended June 30, 2016.

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

At June 30, 2016, the County Office reported a liability of \$4,654,047 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by applying update procedures to an actuarial valuation as of June 30, 2014, and rolling forward the total pension liability to June 30, 2015. The County Office’s proportion of the net pension liability was based on a projection of the County Office’s long-term share of contributions to the pension plan relative to the projected contributions of all participating school County Offices, actuarially determined. At June 30, 2015, the County Office’s proportion was 0.032 percent, which was a decrease of 0.003 percent from its proportion measured as of June 30, 2014.

LAKE COUNTY OFFICE OF EDUCATION
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2016

NOTE 11 – PENSION PLANS (continued)

California Public Employees’ Retirement System (CalPERS) (continued)

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

For the year ended June 30, 2016, the County Office recognized pension expense of \$384,644. At June 30, 2016, the County Office 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>
Differences between projected and actual earnings on plan investments	\$ -	\$ 159,359
Differences between expected and actual experience	265,986	-
Changes in assumptions	-	285,958
Changes in proportion and differences between County Office contributions and proportionate share of contributions	231,077	356,687
County Office contributions subsequent to the measurement date	459,773	-
	<u>\$ 956,836</u>	<u>\$ 802,004</u>

The \$459,733 reported as deferred outflows of resources related to pensions resulting from County Office contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended June 30,</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
2017	\$ 168,745	\$ 261,441
2018	168,745	261,441
2019	159,573	239,281
2020	-	39,841
	<u>\$ 497,063</u>	<u>\$ 802,004</u>

LAKE COUNTY OFFICE OF EDUCATION
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2016

NOTE 11 – PENSION PLANS (continued)

California Public Employees’ Retirement System (CalPERS) (continued)

Actuarial assumptions

The total pension liability was determined by applying update procedures to an actuarial valuation as of June 30, 2014, and rolling forward the total pension liability to June 30, 2015 using the following actuarial assumptions, applied to all periods included in the measurement:

Consumer Price Inflation	2.75%
Investment Yield*	7.65%
Wage Inflation	Varies by Entry Age and Service

* Net of investment expenses, but gross of administrative expenses.

CalPERS uses custom mortality tables to best fit the patterns of mortality among its members. These custom tables are derived using CalPERS’ membership data for all funds. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB.

The actuarial assumptions used in the June 30, 2014, valuation were based on the results of an actuarial experience study for the period from 1997 to 2011.

The long-term expected rate of return on pension plan investments was determined using a building block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. In determining the long-term expected rate of return, both short-term and long-term market return expectations as well as the expected pension fund cash flows were taken into account. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the funds’ asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

LAKE COUNTY OFFICE OF EDUCATION
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2016

NOTE 11 – PENSION PLANS (continued)

California Public Employees’ Retirement System (CalPERS) (continued)

Actuarial assumptions (continued)

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

<u>Asset Class</u>	<u>Assumed Asset Allocation</u>	<u>Real Return Years 1-10*</u>	<u>Real Return Years 11+**</u>
Global Equity	51%	5.25%	5.71%
Global Fixed Income	19%	0.99%	2.43%
Inflation Sensitive	6%	0.45%	3.36%
Private Equity	10%	6.83%	6.95%
Real Estate	10%	4.50%	5.13%
Infrastructure and Forestland	2%	4.50%	5.09%
Liquidity	2%	-0.55%	-1.05%
	100%		

* An expected inflation of 2.5% used for this period

** An expected inflation of 3.0% used for this period

Discount rate

The discount rate used to measure the total pension liability was 7.65 percent. A projection of the expected benefit payments and contributions was performed to determine if assets would run out. The test revealed the assets would not run out. Therefore the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability for the Schools Pool. The results of the crossover testing for the Schools Pool are presented in a detailed report that can be obtained at CalPERS’ website.

Sensitivity of the County Office’s proportionate share of the net pension liability to changes in the discount rate

The following presents the County Office’s proportionate share of the net pension liability calculated using the discount rate of 7.65 percent, as well as what the County Office’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.65 percent) or 1-percentage-point higher (8.65 percent) than the current rate:

	<u>1% Decrease (6.65%)</u>	<u>Current Discount Rate (7.65%)</u>	<u>1% Increase (8.65%)</u>
County Office's proportionate share of the net pension liability	\$ 7,574,849	\$ 4,654,047	\$ 2,225,205

Pension plan fiduciary net position

Detailed information about the pension plan’s fiduciary net position is available in the separately issued CalPERS financial report.

NOTE 12 – COMMITMENTS AND CONTINGENCIES

A. Grants

The County Office of Education received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the County School Service Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the County Office of Education at June 30, 2016.

B. Litigation

The County Office of Education is involved in various litigation arising from the normal course of business. In the opinion of management and legal counsel, the disposition of all litigation pending is not expected to have a material adverse effect on the overall financial position of the County Office of Education at June 30, 2016.

C. Construction Commitments

The County Office of Education did not have any outstanding construction commitments at June 30, 2016.

NOTE 13 – PARTICIPATION IN JOINT POWERS AUTHORITIES

The County Office of Education is a member of two joint powers authorities (JPAs). The first is the Self-Insured Schools of California (SISC) to provide employee health benefits, and the other is the School Insurance Group Northern Alliance (SIGNAL) to provide worker's compensation coverage and property and liability insurance. The relationship is such that the JPAs are not component units of the County Office of Education for financial reporting purposes.

These entities have budgeting and financial reporting requirements independent of member units and their financial statements are not presented in these financial statements; however, fund transactions between the entities and the County Office of Education are included in these financial statements. Audited financial statements are available from the respective entities.

**REQUIRED SUPPLEMENTARY
INFORMATION**

**LAKE COUNTY OFFICE OF EDUCATION
COUNTY SCHOOL SERVICE FUND – BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2016**

	Budgeted Amounts		Actual* (Budgetary Basis)	Variances - Final to Actual
	Original	Final		
REVENUES				
LCFF sources	\$ 3,780,175	\$ 3,610,450	\$ 3,645,092	\$ 34,642
Federal sources	1,876,556	2,291,826	1,759,033	(532,793)
Other state sources	2,316,270	2,974,362	2,602,833	(371,529)
Other local sources	2,774,813	2,708,021	2,933,637	225,616
Total Revenues	10,747,814	11,584,659	10,940,595	(644,064)
EXPENDITURES				
Certificated salaries	1,676,473	1,512,520	1,362,862	149,658
Classified salaries	3,676,720	3,655,689	3,457,961	197,728
Employee benefits	1,748,528	1,704,340	1,687,674	16,666
Books and supplies	572,631	562,494	227,629	334,865
Services and other operating expenditures	2,673,337	3,046,698	2,131,089	915,609
Capital outlay	223,184	230,089	248,463	(18,374)
Other outgo				
Excluding transfers of indirect costs	442,189	632,289	717,265	(84,976)
Transfers of indirect costs	(128,953)	(146,739)	(124,875)	(21,864)
Total Expenditures	10,884,109	11,197,380	9,708,068	1,489,312
Excess (Deficiency) of Revenues				
Over Expenditures	(136,295)	387,279	1,232,527	845,248
Other Financing Sources (Uses)				
Transfers in	45,057	64,057	65,653	1,596
Other sources	221,784	221,129	221,129	-
Transfers out	-	-	(310,590)	(310,590)
Net Financing Sources (Uses)	266,841	285,186	(23,808)	(308,994)
NET CHANGE IN FUND BALANCE				
Fund Balance - Beginning	6,032,063	6,032,063	6,032,063	-
Fund Balance - Ending	\$ 6,162,609	\$ 6,704,528	\$ 7,240,782	\$ 536,254

* The actual amounts reported on this schedule do not agree with the amounts reported on the Statement of Revenues, Expenditures, and Changes in Fund Balance for the following reasons:

- Actual amounts reported in this schedule are for the County School Service Fund only, and do not agree with the amounts reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances because the amounts on that schedule include the financial activity of the Special Reserve Fund for Postemployment Benefits for the current and prior years, in accordance with the fund type definitions promulgated by GASB Statement No. 54.

**LAKE COUNTY OFFICE OF EDUCATION
SPECIAL EDUCATION PASS-THROUGH FUND – BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2016**

	Budgeted Amounts		Actual (Budgetary Basis)	Variances - Final to Actual
	Original	Final		
REVENUES				
LCFF sources	\$ (183,205)	\$ (183,205)	\$ (195,628)	\$ (12,423)
Federal sources	1,767,165	3,627,136	1,833,736	(1,793,400)
Other state sources	3,650,590	3,590,003	3,539,709	(50,294)
Other local sources	-	-	4,776	4,776
Total Revenues	5,417,755	7,217,139	5,378,221	(1,838,918)
EXPENDITURES				
Other outgo				
Excluding transfers of indirect costs	5,573,524	7,493,469	5,645,148	1,848,321
Total Expenditures	5,573,524	7,493,469	5,645,148	1,848,321
NET CHANGE IN FUND BALANCE	(155,769)	(276,330)	(266,927)	9,403
Fund Balance - Beginning	101,192	101,192	101,192	-
Fund Balance - Ending	\$ (54,577)	\$ (175,138)	\$ (165,735)	\$ 9,403

See accompanying note to required supplementary information.

LAKE COUNTY OFFICE OF EDUCATION
CHILD DEVELOPMENT FUND – BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2016

	Budgeted Amounts		Actual (Budgetary Basis)	Variances - Final to Actual
	Original	Final		
REVENUES				
Federal sources	\$ 331,078	\$ 331,078	\$ 350,957	\$ 19,879
Other state sources	1,336,092	1,500,370	1,434,456	(65,914)
Other local sources	136,550	238,539	150,069	(88,470)
Total Revenues	1,803,720	2,069,987	1,935,482	(134,505)
EXPENDITURES				
Certificated salaries	44,311	44,311	43,982	329
Classified salaries	1,040,181	1,131,664	988,209	143,455
Employee benefits	344,304	377,452	344,194	33,258
Books and supplies	200,035	209,623	223,399	(13,776)
Services and other operating expenditures	161,726	275,988	94,399	181,589
Other outgo				
Transfers of indirect costs	128,953	146,739	124,875	21,864
Total Expenditures	1,919,510	2,185,777	1,819,058	366,719
Excess (Deficiency) of Revenues				
Over Expenditures	(115,790)	(115,790)	116,424	232,214
Other Financing Sources (Uses):				
Transfers in	-	-	10,590	10,590
Net Financing Sources (Uses)	-	-	10,590	10,590
NET CHANGE IN FUND BALANCE	(115,790)	(115,790)	127,014	242,804
Fund Balance - Beginning	241,278	241,278	241,278	-
Fund Balance - Ending	\$ 125,488	\$ 125,488	\$ 368,292	\$ 242,804

See accompanying note to required supplementary information.

**LAKE COUNTY OFFICE OF EDUCATION
SCHEDULE OF THE COUNTY OFFICE'S PROPORTIONATE SHARE OF THE NET PENSION
LIABILITY - CALSTRS
FOR THE YEAR ENDED JUNE 30, 2016**

	<u>June 30, 2016</u>	<u>June 30, 2015</u>
County Office's proportion of the net pension liability	0.003%	0.003%
County Office's proportionate share of the net pension liability	\$ 2,030,832	\$ 1,961,294
States's proportionate share of the net pension liability associated with the County Office	1,074,084	1,184,314
Total	<u>\$ 3,104,916</u>	<u>\$ 3,145,608</u>
County Office's covered-employee payroll	\$ 2,340,289	\$ 1,419,305
County Office's proportionate share of the net pension liability as a percentage of its covered-employee payroll	86.8%	138.2%
Plan fiduciary net position as a percentage of the total pension liability.	76.5%	76.5%

See accompanying note to required supplementary information.

**LAKE COUNTY OFFICE OF EDUCATION
SCHEDULE OF THE COUNTY OFFICE'S PROPORTIONATE SHARE OF THE NET PENSION
LIABILITY - CALPERS
FOR THE YEAR ENDED JUNE 30, 2016**

	<u>June 30, 2016</u>	<u>June 30, 2015</u>
County Office's proportion of the net pension liability	0.032%	0.035%
County Office's proportionate share of the net pension liability	\$ 4,654,047	\$ 3,940,360
County Office's covered-employee payroll	\$ 3,880,907	\$ 3,499,098
County Office's proportionate share of the net pension liability as a percentage of its covered-employee payroll	119.9%	112.6%
Plan fiduciary net position as a percentage of the total pension liability.	83.4%	83.4%

See accompanying note to required supplementary information.

**LAKE COUNTY OFFICE OF EDUCATION
SCHEDULE OF COUNTY OFFICE CONTRIBUTIONS - CALSTRS
FOR THE YEAR ENDED JUNE 30, 2016**

	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Contractually required contribution	\$ 145,423	\$ 126,647
Contributions in relation to the contractually required contribution*	(145,423)	(126,647)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
County Office's covered-employee payroll	\$ 2,340,289	\$ 1,419,305
Contributions as a percentage of covered-employee payroll	6.21%	8.92%

*Amounts do not include on behalf contributions

**LAKE COUNTY OFFICE OF EDUCATION
SCHEDULE OF COUNTY OFFICE CONTRIBUTIONS - CALPERS
FOR THE YEAR ENDED JUNE 30, 2016**

	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Contractually required contribution	\$ 459,773	\$ 411,866
Contributions in relation to the contractually required contribution	(459,773)	(411,866)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
County Office's covered-employee payroll	\$ 3,880,907	\$ 3,499,098
Contributions as a percentage of covered-employee payroll	11.85%	11.77%

See accompanying note to required supplementary information.

**LAKE COUNTY OFFICE OF EDUCATION
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2016**

NOTE 1 – PURPOSE OF SCHEDULE

Budgetary Comparison Schedule

This schedule is required by GASB Statement No. 34 as required supplementary information (RSI) for the County School Service Fund and for each major special revenue fund that has a legally adopted annual budget. The budgetary comparison schedule presents both (a) the original and (b) the final appropriated budgets for the reporting period as well as (c) actual inflows, outflows, and balances, stated on the County Office of Education’s budgetary basis. A separate column to report the variance between the final budget and actual amounts is also presented, although not required.

Schedule of the County Office’s Proportionate Share of the Net Pension Liability

This 10-year schedule is required by GASB Statement No. 68 for each cost-sharing pension plan. Until a full 10-year trend is compiled, the schedule will only show those years under which GASB Statement No. 68 was applicable. The schedule presents the County Office’s proportion (percentage) of the collective net pension liability, the County Office’s proportionate share (amount) of the collective net pension liability, the County Office’s covered-employee payroll, the County Office’s proportionate share (amount) of the collective net pension liability as a percentage of the employer’s covered-employee payroll, and the pension plan’s fiduciary net position as a percentage of the total pension liability.

Schedule of County Office Contributions

This 10-year schedule is required by GASB Statement No. 68 for each cost-sharing pension plan. Until a full 10-year trend is compiled, the schedule will only show those years under which GASB Statement No. 68 was applicable. The schedule presents the County Office’s statutorily or contractually required employer contribution, the amount of contributions recognized by the pension plan in relation to the statutorily or contractually required employer contribution, the difference between the statutorily or contractually required employer contribution and the amount of contributions recognized by the pension plan in relation to the statutorily or contractually required employer contribution, the County Office’s covered-employee payroll, and the amount of contributions recognized by the pension plan in relation to the statutorily or contractually required employer contribution as a percentage of the County Office’s covered-employee payroll.

NOTE 2 – EXCESS OF EXPENDITURES OVER APPROPRIATIONS

For the year ended June 30, 2016, the County Office of Education incurred an excess of expenditures over appropriations in individual major funds presented in the Budgetary Comparison Schedule by major object code as follows:

	Expenditures and Other Uses		
	Budget	Actual	Excess
County School Service Fund			
Capital outlay	\$ 230,089	\$ 248,463	\$ 18,374
Other outgo			
Excluding transfers of indirect costs	\$ 632,289	\$ 717,265	\$ 84,976
Transfers of indirect costs	\$ (146,739)	\$ (124,875)	\$ 21,864
Child Development Fund			
Books and supplies	\$ 209,623	\$ 223,399	\$ 13,776

**SUPPLEMENTARY
INFORMATION**

**LAKE COUNTY OFFICE OF EDUCATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2016**

Federal Grantor/Pass-Through Grantor/Program or Cluster	CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures	Expenditures to Subrecipients
U. S. DEPARTMENT OF EDUCATION:				
<i>Passed through California Department of Education:</i>				
Title I, Part A				
Title I, Part A, Basic School Support	84.010	14416	\$ 552,321	\$ -
Title I, Part A, Basic Grants Low-Income and Neglected	84.010	14329	28,006	-
Title I, Part D, Local Delinquent Programs	84.010	14357	32,831	-
Subtotal Title I, Part A			613,158	-
Title II, Part A, Teacher Quality	84.367	14341	801	-
Title III, Technical Assistance	84.365	14967	9,561	-
Title IV, Part B, 21st Century Community Learning Centers Program	84.287	14349	7,897	-
Special Education Cluster				
IDEA Basic Local Assistance Entitlement, Part B, Sec 611	84.027	13379	1,716,158	1,711,849
IDEA Mental Health Allocation Plan, Part B, Sec 611	84.027	14468	153,194	-
Part B, Preschool Grants	84.173	13430	59,335	59,335
IDEA Preschool Local Entitlement, Part B, Sec 611	84.027A	13682	62,552	62,552
Preschool Staff Development	84.173A	13431	-	-
Subtotal Special Education Cluster			1,991,239	1,833,736
IDEA Early Intervention Grants	84.181	23761	55,290	-
School Climate	84.184G	*	317,384	-
Total U. S. Department of Education			2,995,330	1,833,736
U. S. DEPARTMENT OF AGRICULTURE:				
<i>Passed through California Department of Education:</i>				
Child Nutrition Child Care Food Program (CCFP)	10.558	13389	293,514	-
Forest Reserve Funds	10.665	10044	193,333	-
Total U. S. Department of Agriculture			486,847	-
U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:				
<i>Passed through California Department of Education:</i>				
CCDF				
Local Planning Councils	93.575	13946	23,702	-
Quality Improvement Activities	93.575	13979	33,741	-
Subtotal CCDF			57,443	-
<i>Passed through California Department of Health Services:</i>				
Medi-Cal Billing Option	93.778	10013	65,056	-
Medi-Cal Administrative Activities (MAA)	93.778	10060	122,963	-
<i>Passed through the County of Lake :</i>				
County Medical	93.778	*	285,967	-
Total U. S. Department of Health & Human Services			531,429	-
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE				
<i>Passed through California Department of Education</i>				
AmeriCorps	94.006	*	123,453	-
Total Federal Expenditures			\$ 4,137,059	\$ 1,833,736

* - Pass-Through Entity Identifying Number not available or not applicable

**LAKE COUNTY OFFICE OF EDUCATION
 SCHEDULE OF AVERAGE DAILY ATTENDANCE (ADA)
 FOR THE YEAR ENDED JUNE 30, 2016**

	Second Period Report	Annual Report
ELEMENTARY		
Juvenile halls, homes, and camps	0.36	0.28
Community schools, type C	0.68	0.81
Total Elementary	1.04	1.09
SECONDARY		
Juvenile halls, homes, and camps	3.21	2.47
Community schools, type C	6.68	6.71
Total Secondary	9.89	9.18
TOTAL COUNTY OFFICE	10.93	10.27

**LAKE COUNTY OFFICE OF EDUCATION
SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2016**

	2017 (Budget)	2016	2015	2014
County School Service Fund - Budgetary Basis**				
Revenues And Other Financing Sources	\$ 11,365,596	\$ 11,227,377	\$ 10,187,427	\$ 9,711,835
Expenditures And Other Financing Uses	11,629,132	10,018,658	9,332,725	9,509,638
Net change in Fund Balance	\$ (263,536)	\$ 1,208,719	\$ 854,702	\$ 202,197
Ending Fund Balance	\$ 6,977,246	\$ 7,240,782	\$ 6,032,063	\$ 5,177,361
Available Reserves*	\$ 3,293,672	\$ 2,883,516	\$ 2,380,128	\$ 1,662,092
Available Reserves As A Percentage Of Outgo	28.32%	28.78%	25.50%	17.48%
Long-term Debt	\$ 6,850,305	\$ 6,922,505	\$ 6,058,222	\$ 103,661
Average Daily Attendance At P-2	11	11	22	25

The County School Service Fund balance has increased by \$2,063,421 over the past two years. The fiscal year 2016-17 budget projects a decrease of \$263,536. For a County Office this size, the State recommends available reserves of at least 4% of County School Service Fund expenditures, transfers out, and other uses (total outgo).

The County Office has incurred operating surpluses in each of the past three years and anticipates incurring an operating deficit during the 2016-17 fiscal year. Total long term obligations have increased by \$6,818,844 over the past two years.

Average daily attendance has decreased by 14 ADA over the past two years. No change in ADA is anticipated during the 2016-17 fiscal year.

*Available reserves consist of all unassigned fund balance within the County School Service Fund.

**The actual amounts reported in this schedule are for the County School Service Fund only, and do not agree with the amounts reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances because the amounts on that schedule include the financial activity of the Special Reserve Fund for Postemployment Benefits, in accordance with the fund type definitions promulgated by GASB Statement No. 54.

**LAKE COUNTY OFFICE OF EDUCATION
RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT WITH AUDITED
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016**

	County School Service Fund	Special Reserve Fund for Postemployment Benefits
June 30, 2016, annual financial and budget report fund balance	\$ 7,240,782	\$ 66,128
Adjustments and reclassifications:		
Increase (decrease) in total fund balances:		
Fund balance transfer (GASB 54)	66,128	(66,128)
Net adjustments and reclassifications	66,128	(66,128)
June 30, 2016, audited financial statement fund balance	\$ 7,306,910	\$ -

LAKE COUNTY OFFICE OF EDUCATION
 COMBINING BALANCE SHEET
 JUNE 30, 2016

	Deferred Maintenance Fund	Forest Reserve Fund	County School Facilities Fund	Non-Major Governmental Funds
ASSETS				
Cash and investments	\$ 38,463	\$ 194,004	\$ 420,621	\$ 653,088
Due from other funds	300,000	-	-	300,000
Total Assets	\$ 338,463	\$ 194,004	\$ 420,621	\$ 953,088
LIABILITIES				
Total Liabilities	-	-	-	-
FUND BALANCES				
Restricted	-	194,004	420,621	614,625
Committed	338,463	-	-	338,463
Total Fund Balances	338,463	194,004	420,621	953,088
Total Liabilities and Fund Balance	\$ 338,463	\$ 194,004	\$ 420,621	\$ 953,088

See accompanying note to supplementary information.

LAKE COUNTY OFFICE OF EDUCATION
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
 BALANCES
 FOR THE YEAR ENDED JUNE 30, 2016

	Deferred Maintenance Fund	Forest Reserve Fund	County School Facilities Fund	Non-Major Governmental Funds
REVENUES				
Federal sources	\$ -	\$ 193,333	\$ -	\$ 193,333
Other local sources	255	672	1,808	2,735
Total Revenues	255	194,005	1,808	196,068
EXPENDITURES				
Plant services	21,887	-	-	21,887
Facilities acquisition and maintenance	7,938	-	-	7,938
Transfers to other agencies	-	169,177	-	169,177
Total Expenditures	29,825	169,177	-	199,002
Excess (Deficiency) of Revenues				
Over Expenditures	(29,570)	24,828	1,808	(2,934)
Other Financing Sources (Uses)				
Transfers in	300,000	-	-	300,000
Transfers out	-	(20,596)	-	(20,596)
Net Financing Sources (Uses)	300,000	(20,596)	-	279,404
NET CHANGE IN FUND BALANCE	270,430	4,232	1,808	276,470
Fund Balance - Beginning	68,033	189,772	418,813	676,618
Fund Balance - Ending	\$ 338,463	\$ 194,004	\$ 420,621	\$ 953,088

See accompanying note to supplementary information.

**LAKE COUNTY OFFICE OF EDUCATION
 LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE
 JUNE 30, 2016**

The Lake County Office of Education (County Office of Education) was established on May 1, 1880. The County Office of Education coordinates the educational programs among schools within Lake County. The County Office of Education also provides professional and financial assistance to schools and has general responsibility to support and control all schools in the County.

The activities of the Lake County Office of Education are governed by five trustees comprising the Lake County Board of Education. Each trustee is elected by residents of an area approximating the County supervisor’s area.

GOVERNING BOARD

Member	Office	Term Expires
Mrs. Madelene Lyon	President	2017
Dr. David Browning	Vice-President	2017
Dr. Mark Cooper	Member	2019
Mrs. Patricia M. Hicks	Member	2017
Mrs. Melissa Kinsel	Member	2019

COUNTY OFFICE OF EDUCATION ADMINISTRATORS

Mr. Brock Falkenberg
Superintendent

Ms. Michelle Buell
Senior Director of Fiscal Services

NOTE 1 – PURPOSE OF SCHEDULES

Schedule of Expenditures of Federal Awards

The accompanying Schedule of Expenditures of Federal Awards includes the Federal grant activity of the County Office and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

The County Office has not elected to use the 10 percent de minimis indirect cost rate.

The County Office of Education pass through certain Federal assistance received to other governments (subrecipients). The subrecipient agencies have certain compliance responsibilities related to administering these Federal Programs. Under Federal Uniform Guidance, the County Office of Education is responsible for monitoring subrecipients to help assure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provision of contracts or grant agreements, and that performance goals are achieved.

Schedule of Average Daily Attendance (ADA)

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

Schedule of Financial Trends and Analysis

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

Reconciliation of Annual Financial and Budget Report with Audited Financial Statements

This schedule provides the information necessary to reconcile the fund balance of all funds reported on the Annual Financial and Budget Report Unaudited Actuals to the audited financial statements.

Combining Statements – Non-Major Funds

These statements provide information on the County Office of Education's non-major funds.

Local Education Agency (LEA) Organization Structure

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

**OTHER INDEPENDENT
AUDITORS' REPORTS**

Christy White, CPA

Michael Ash, CPA

Heather Rubio

**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**

Independent Auditors' Report

Governing Board
Lake County Office of Education
Lakeport, 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 Lake County Office of Education, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Lake County Office of Education's basic financial statements, and have issued our report thereon dated December 1, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Lake County Office of Education's internal control over financial reporting (internal control) to determine the 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 Lake County Office of Education's internal control. Accordingly, we do not express an opinion on the effectiveness of Lake County Office of Education'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.

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State Board of Accountancy*

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Lake County Office of Education's financial statements are free of 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 determination of financial statement amounts. 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.



San Diego, California
December 1, 2016

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; AND REPORT
ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM
GUIDANCE**

Independent Auditors' Report

Christy White, CPA

Michael Ash, CPA

Heather Rubio

Governing Board
Lake County Office of Education
Lakeport, California

Report on Compliance for Each Major Federal Program

We have audited Lake County Office of Education's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Lake County Office of Education's major federal programs for the year ended June 30, 2016. Lake County Office of Education's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Lake County Office of Education's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Lake County Office of Education's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Lake County Office of Education's compliance.

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Opinion on Each Major Federal Program

In our opinion, Lake County Office of Education complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

Report on Internal Control Over Compliance

Management of Lake County Office of Education is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Lake County Office of Education's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Lake County Office of Education's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

Christy White Associates

San Diego, California
December 1, 2016

REPORT ON STATE COMPLIANCE

Independent Auditors' Report

Christy White, CPA

Michael Ash, CPA

Heather Rubio

Governing Board
Lake County Office of Education
Lakeport, California

Report on State Compliance

We have audited Lake County Office of Education's compliance with the types of compliance requirements described in the *2015-16 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, issued by the California Education Audit Appeals Panel that could have a direct and material effect on each of Lake County Office of Education's state programs for the fiscal year ended June 30, 2016, as identified below.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its state programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Lake County Office of Education's state programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *2015-16 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the state programs noted below occurred. An audit includes examining, on a test basis, evidence about Lake County Office of Education's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance with the requirements referred to above. However, our audit does not provide a legal determination of Lake County Office of Education's compliance with those requirements.

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Opinion on State Compliance

In our opinion, Lake County Office of Education complied, in all material respects, with the types of compliance requirements referred to above that are applicable to the state programs noted in the table below for the year ended June 30, 2016.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are described in the accompanying schedule of findings and questioned costs as items #2016-1 and #2016-2. Our opinion on state compliance is not modified with respect to these matters.

Lake County Office of Education’s response to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs and corrective action plan. Lake County Office of Education’s response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Procedures Performed

In connection with the audit referred to above, we selected and tested transactions and records to determine Lake County Office of Education's compliance with the state laws and regulations applicable to the following items:

PROGRAM NAME	PROCEDURES PERFORMED
Attendance	Yes
Teacher Certification and Misassignments	Yes
Kindergarten Continuance	Not Applicable
Independent Study	No, See Below
Continuation Education	Not Applicable
Instructional Time	Not Applicable
Instructional Materials	Yes
Ratios of Administrative Employees to Teachers	Not Applicable
Classroom Teacher Salaries	Not Applicable
Early Retirement Incentive	Not Applicable
Gann Limit Calculation	Yes
School Accountability Report Card	Yes
Juvenile Court Schools	Yes
Middle or Early College High Schools	Not Applicable
K-3 Grade Span Adjustment	Not Applicable
Transportation Maintenance of Effort	Yes
Educator Effectiveness	Yes
California Clean Energy Jobs Act	Yes

(Continued on the next page)

Procedures Performed (continued)

PROGRAM NAME	PROCEDURES PERFORMED
After School Education and Safety Program	Yes
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	Not Applicable
Immunizations	Yes
Attendance; for charter schools	Not Applicable
Mode of Instruction; for charter schools	Not Applicable
Nonclassroom-Based Instruction/Independent Study; for charter schools	Not Applicable
Determination of Funding for Nonclassroom-Based Instruction; for charter schools	Not Applicable
Annual Instructional Minutes – Classroom Based; for charter schools	Not Applicable
Charter School Facility Grant Program	Not Applicable

We did not perform applicable state compliance procedures related to independent study because program ADA was immaterial for 2015-16.

Christy White Associates

San Diego, California
December 1, 2016

**SCHEDULE OF FINDINGS
AND QUESTIONED COSTS**

**LAKE COUNTY OFFICE OF EDUCATION
SUMMARY OF AUDITORS' RESULTS
FOR THE YEAR ENDED JUNE 30, 2016**

FINANCIAL STATEMENTS

Type of auditors' report issued:	<u>Unmodified</u>
Internal control over financial reporting:	
Material weakness(es) identified?	<u>No</u>
Significant deficiency(ies) identified?	<u>None Reported</u>
Non-compliance material to financial statements noted?	<u>No</u>

FEDERAL AWARDS

Internal control over major program:	
Material weakness(es) identified?	<u>No</u>
Significant deficiency(ies) identified?	<u>None Reported</u>
Type of auditors' report issued:	<u>Unmodified</u>
Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance 2 CFR 200.516(a)?	<u>Yes</u>
Identification of major programs:	

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.027, 84.173, 84.027A, 84.173A	Special Education Cluster

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 750,000</u>
Auditee qualified as low-risk auditee?	<u>Yes</u>

STATE AWARDS

Internal control over state programs:	
Material weaknesses identified?	<u>No</u>
Significant deficiency(ies) identified?	<u>Yes</u>
Type of auditors' report issued on compliance for state programs:	<u>Unmodified</u>

LAKE COUNTY OFFICE OF EDUCATION
FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2016

Five Digit Code

20000

30000

60000

AB 3627 Finding Type

Inventory of Equipment

Internal Control

Miscellaneous

There were no financial statement findings for the year ended June 30, 2016.

LAKE COUNTY OFFICE OF EDUCATION
FEDERAL AWARD FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2016

FIVE DIGIT CODE

50000

AB 3627 FINDING TYPE

Federal Compliance

There were no federal award findings or questioned costs for the year ended June 30, 2016.

**LAKE COUNTY OFFICE OF EDUCATION
STATE AWARD FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2016**

<u>FIVE DIGIT CODE</u>	<u>AB 3627 FINDING TYPE</u>
10000	Attendance
40000	State Compliance
42000	Charter School Facilities Programs
60000	Miscellaneous
61000	Classroom Teacher Salaries
62000	Local Control Accountability Plan
70000	Instructional Materials
71000	Teacher Misassignments
72000	School Accountability Report Card

FINDING #2016-01: SCHOOL ACCOUNTABILITY REPORT CARD (72000)

Criteria: School Accountability Report Cards (SARCs), prepared on annual basis for each school site within the County Office and posted in February, should contain information regarding school facilities conditions, as indicated in the most recently prepared facility inspection tool (FIT) form developed by the Office of Public School Construction and approved by the State Allocation Board, or local evaluation instruments that meet the same criteria, as per Education Code Sections 33126(b)(8) and 17002(d). All schools are required to prepare a SARC during their first year and last year of operation under *EC* Section 35256(c).

Condition: During testing of a representative sample of SARCs we found the County Office did not prepare or publish a SARC for the Renaissance School

Cause: The Renaissance school closed in the 2015-16 fiscal year.

Questioned Costs: There is no State funding related to SARC.

Perspective: One (1) out of five (5) sites selected for SARC state compliance testing.

Effect: The County Office is not in compliance with Education Code.

Recommendation: We recommend that the County Office implement a process to review that SARC's are prepared for all sites.

County Office of Education Response: The County of Lake relocated students of the juvenile hall out of county and the program closed. It was not recognized that a SARC was because the program was no longer active.

LAKE COUNTY OFFICE OF EDUCATION
STATE AWARD FINDINGS AND QUESTIONED COSTS, *continued*
FOR THE YEAR ENDED JUNE 30, 2016

FINDING #2016-02: AFTER SCHOOL EDUCATION AND SAFETY (40000)

Criteria: The general requirements under Education Code Section 8483.9 regarding expenditures charged to the After School Education and Safety (ASES) Program specify that expenditures of state funds for indirect costs were the lesser of the LEA's indirect cost rate as approved by the CDE for the year audited, or 5 percent of the state funding received and that the LEA contributed cash or in-kind local funds, equal to not less than one-third of the total state grant, from the school district, other governmental agencies, community organizations, or the private sector. Facilities or space usage may not fulfill more than 25 percent of the required local contribution.

Condition: Through observation of grant award documentation, auditor verified the state grant award to be \$567,000 for the fiscal year 2015-16. The minimum requirement of cash or in kind local contributions for the County Office is \$187,100; the County Office provided support for \$123,680, resulting in a shortage of \$16,651. The County Office is only allowed an indirect cost rate of 5%, which translates to \$28,350 of allowable costs. It appears that \$30,317 was charged as indirect to the program, resulting in an overage of \$1,967.

Effect: The County Office is not in compliance with the general requirements established for the allocation of expenditures for activities related to administrative and direct services to pupils charged to the ASES program.

Questioned Cost: The shortage amount of the in kind contribution is \$16,651; the overage in indirect costs charged is \$1,967.

Cause: The County Office did not properly monitor the amounts needed for the in kind contributions or the amount allowable for indirect costs.

Recommendation: The County Office should track the amounts allowable at the end of the year to ensure they are in compliance.

County Office of Education Response: LCOE accepts the finding. The fiscal department will review indirect charges and match documentation quarterly with the ASES director.

LAKE COUNTY OFFICE OF EDUCATION
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2016

There were no prior audit findings or questioned costs for the year ended June 30, 2015.