

LAKE COUNTY OFFICE OF EDUCATION

AUDIT REPORT

JUNE 30, 2015

San Diego

Los Angeles

San Francisco
Bay Area

christy  white
A PROFESSIONAL
ACCOUNTANCY CORPORATION *associates*

**LAKE COUNTY OFFICE OF EDUCATION
OF LAKE COUNTY**

LAKEPORT, CALIFORNIA

JUNE 30, 2015

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. Patricia M. Hicks	President	2017
Mr. George Ryder	Vice-President	2015
Dr. Mark Cooper	Member	2015
Mrs. Madelene Lyon	Member	2017
Dr. David Browning	Member	2017

COUNTY OFFICE OF EDUCATION ADMINISTRATORS

Mr. Wally Holbrook
Superintendent

Mr. John Drummond
School Attorney

Ms. Michelle Buell
Senior Director of Fiscal Services

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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, 2015, 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

Michael Ash, CPA

Heather Rubio

SAN DIEGO
LOS ANGELES
SAN FRANCISCO/BAY AREA

Corporate Office:
348 Olive Street
San Diego, CA 92103

toll-free: 877.220.7229
tel: 619.270.8222
fax: 619.260.9085
www.christywhite.com

*Licensed by the California
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, 2015, 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.

Emphasis of a Matter

As described in Note 1 to the financial statements, in 2015 Lake County Office of Education adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions*. Our opinion is not modified with respect to this matter.

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 the U.S. Office of Management and Budget Circular A-133, *Audits of State, Local Governments, and Non-Profit Organizations*, 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 15, 2015 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 15, 2015

LAKE COUNTY OFFICE OF EDUCATION MANAGEMENT'S DISCUSSION AND ANALYSIS

INTRODUCTION

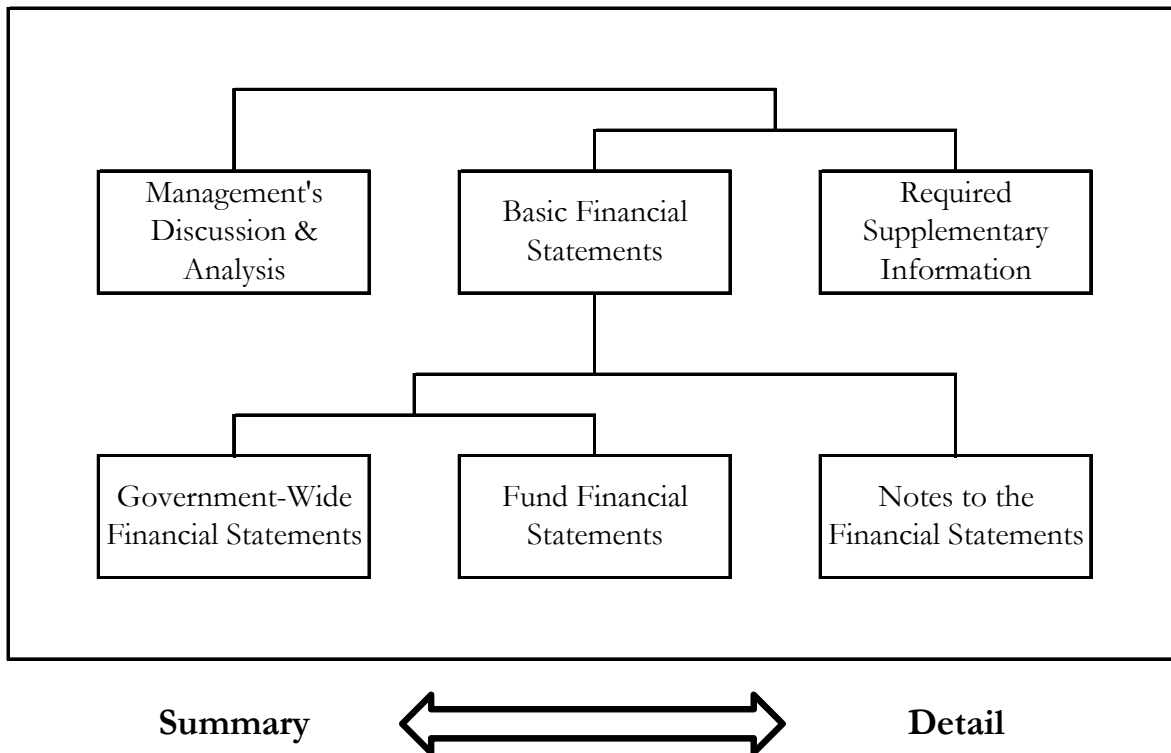
Our discussion and analysis of Lake County Office of Education's (County Office of Education) financial performance provides an overview of the County Office of Education's financial activities for the fiscal year ended June 30, 2015. It should be read in conjunction with the County Office of Education's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- ▶ Total net position was \$8,254,549 at June 30, 2015. This was an increase of \$670,798 from the prior year's restated net position.
- ▶ Overall revenues were \$17,388,539 which exceeded expenses of \$16,717,741.

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, 2015**

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. LCFF 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, 2015**

FINANCIAL ANALYSIS OF THE ENTITY AS A WHOLE

Net Position

The County Office of Education's combined net position was \$8,254,549 at June 30, 2015, as reflected in the table below. Of this amount, (\$3,324,732) 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		
	2015	2014	Net Change
ASSETS			
Current and other assets	\$ 8,853,962	\$ 8,400,737	\$ 453,225
Capital assets	8,141,191	8,201,729	(60,538)
Total Assets	16,995,153	16,602,466	392,687
DEFERRED OUTFLOWS OF RESOURCES	846,615	-	846,615
LIABILITIES			
Current liabilities	1,692,080	2,081,139	(389,059)
Long-term liabilities	6,058,222	103,661	5,954,561
Total Liabilities	7,750,302	2,184,800	5,565,502
DEFERRED INFLOWS OF RESOURCES	1,836,917	-	1,836,917
NET POSITION			
Net investment in capital assets	8,092,453	8,201,729	(109,276)
Restricted	3,486,828	3,455,316	31,512
Unrestricted	(3,324,732)	2,760,621	(6,085,353)
Total Net Position	\$ 8,254,549	\$ 14,417,666	\$ (6,163,117)

**LAKE COUNTY OFFICE OF EDUCATION
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2015**

FINANCIAL ANALYSIS OF THE ENTITY AS A WHOLE (continued)

Changes in Net Position

The County Office's total revenues were \$17,388,539. The majority of revenues come from charges for services and operating grants, 70%. LCFF and property taxes accounted for 24% of revenues. Federal aid for specific programs accounted for another 29% of total revenues. Miscellaneous local sources accounted for the remaining 6%.

The total cost of all programs and services was \$16,717,741. The County Office's expenses are predominately related to educating and caring for students, which represent 34% 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 39% of expenses are related to ancillary services, community services, and other outgo.

	Governmental Activities		
	2015	2014	Net Change
REVENUES			
Program revenues			
Charges for services	\$ 1,748,242	\$ 1,438,307	\$ 309,935
Operating grants and contributions	10,510,956	10,079,413	431,543
Capital grants and contributions	-	2,813	(2,813)
General revenues			
Property taxes	1,928,927	1,699,104	229,823
Unrestricted federal and state aid	2,267,040	2,556,761	(289,721)
Other	933,374	1,006,347	(72,973)
Total Revenues	17,388,539	16,782,745	605,794
EXPENSES			
Instruction	3,171,365	3,373,240	(201,875)
Instruction-related services	2,484,703	2,177,934	306,769
Pupil services	2,160,931	2,804,852	(643,921)
General administration	2,042,750	2,028,229	14,521
Plant services	327,589	759,322	(431,733)
Ancillary and community services	191,714	199,565	(7,851)
Debt service	568	1,123	(555)
Other Outgo	6,101,150	5,670,941	430,209
Depreciation	222,429	-	222,429
Other	14,542	3,162	11,380
Total Expenses	16,717,741	17,018,368	(300,627)
Change in net position	670,798	(235,623)	906,421
Net Position - Beginning, as Restated	7,583,751	14,653,289	(7,069,538)
Net Position - Ending	\$ 8,254,549	\$ 14,417,666	\$ (6,163,117)

* Restatement to Beginning Net Position relates to the 2015 year

**LAKE COUNTY OFFICE OF EDUCATION
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2015**

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	
	2015	2014
Instruction	\$ 479,911	\$ 895,579
Instruction-related services	865,155	893,315
Pupil services	383,147	943,339
General administration	1,635,635	1,628,716
Plant services	191,473	685,431
Ancillary and community services	61,726	77,779
Debt service	568	1,123
Transfers to other agencies	603,957	369,391
Depreciation	222,429	-
Other	14,542	3,162
Total Expenses	\$ 4,458,543	\$ 5,497,835

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 \$7,161,882, which is more than last year's ending fund balance of \$6,319,598. The County Office of Education's County School Service Fund had \$713,471 more in operating revenues than expenditures for the year ended June 30, 2015. The Special Education Pass-Through Fund has \$74,768 more in operating revenues than expenditures for the year ended June 30, 2015.

CURRENT YEAR BUDGET 2014-15

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, 2015**

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of 2014-15 the County Office of Education had invested \$8,141,191 in capital assets, net of accumulated depreciation.

	Governmental Activities		
	2015	2014	Net Change
CAPITAL ASSETS			
Land	\$ 409,396	\$ 409,396	\$ -
Land improvements	327,791	326,920	871
Buildings & improvements	8,419,049	8,374,856	44,193
Furniture & equipment	1,618,338	1,501,511	116,827
Accumulated depreciation	(2,633,383)	(2,410,954)	(222,429)
Total Capital Assets	\$ 8,141,191	\$ 8,201,729	\$ (60,538)

Long-Term Debt

At year-end, the County Office of Education had \$6,058,222 in long-term debt, an increase of \$5,954,561 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		
	2015	2014	Net Change
LONG-TERM LIABILITIES			
Capital leases	\$ 48,738	\$ -	\$ 48,738
Compensated absences	107,830	103,661	4,169
Net pension liability	5,901,654	-	5,901,654
Less: current portion of long-term debt	-	-	-
Total Long-term Liabilities	\$ 6,058,222	\$ 103,661	\$ 5,954,561

**LAKE COUNTY OFFICE OF EDUCATION
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2015**

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

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 at a modest rate of about 2%-3% annually over the next two years with little chance of recession, according to the UCLA Anderson Economic Forecast for September 2015. The ability of the State to fund the LCFF and other programs is largely dependent on the strength of the State's economy and remains uncertain.

GASB 68, *Accounting and Financial Reporting for Pensions*, is effective in the 2014-15 fiscal year. The new standard requires the reporting of annual pension cost using an actuarially determined method and a net pension liability is expected to result. The County Office participates in state employee pension 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, 2015. The amount of the liability is material to the financial position of the County Office. To address the underfunding issues, the pension plans intend to raise employer rates in future years, and the increased costs could be significant.

All of these factors were considered in preparing the County Office's budget for the 2015-16 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, 2015

	Governmental Activities
ASSETS	
Cash and cash equivalents	\$ 6,629,640
Accounts receivable	2,224,322
Capital assets, not depreciated	409,396
Capital assets, net of accumulated depreciation	7,731,795
Total Assets	16,995,153
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows related to pensions	846,615
Total Deferred Outflows of Resources	846,615
LIABILITIES	
Accrued liabilities	1,241,000
Unearned revenue	451,080
Long-term liabilities, non-current portion	6,058,222
Total Liabilities	7,750,302
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows related to pensions	1,836,917
Total Deferred Inflows of Resources	1,836,917
NET POSITION	
Net investment in capital assets	8,092,453
Restricted:	
Capital projects	417,605
Educational programs	3,069,223
Unrestricted	(3,324,732)
Total Net Position	\$ 8,254,549

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, 2015

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	\$ 3,171,365	\$ 540,404	\$ 2,151,050	\$ (479,911)
Instruction-related services				
Instructional supervision and administration	2,130,959	197,720	1,421,475	(511,764)
Instructional library, media, and technology	152,589	-	-	(152,589)
School site administration	201,155	-	353	(200,802)
Pupil services				
Home-to-school transportation	72,966	-	-	(72,966)
Food services	232,346	-	245,742	13,396
All other pupil services	1,855,619	563,076	968,966	(323,577)
General administration				
Centralized data processing	242,206	-	-	(242,206)
All other general administration	1,800,544	70,848	336,267	(1,393,429)
Plant services	327,589	14,320	121,796	(191,473)
Ancillary services	17,286	-	-	(17,286)
Community services	174,428	60,598	69,390	(44,440)
Enterprise activities	14,542	-	-	(14,542)
Interest on long-term debt	568	-	-	(568)
Other Outgo	6,101,150	301,276	5,195,917	(603,957)
Depreciation (unallocated)	222,429	-	-	(222,429)
Total Governmental Activities	\$ 16,717,741	\$ 1,748,242	\$ 10,510,956	(4,458,543)
General revenues				
Taxes and subventions				
Property taxes, levied for general purposes				
				1,888,055
Property taxes, levied for other specific purposes				
				40,872
Federal and state aid not restricted for specific purposes				
				2,267,040
Interest and investment earnings				
				25,495
Miscellaneous				
				907,879
Subtotal, General Revenue				
				5,129,341
CHANGE IN NET POSITION				
				670,798
Net Position - Beginning, as Restated				
				7,583,751
Net Position - Ending				
				\$ 8,254,549

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

LAKE COUNTY OFFICE OF EDUCATION
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2015

	County School Service Fund	Special Education Pass-Through Fund	Non-Major Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 5,684,670	\$ 203,805	\$ 741,165	\$ 6,629,640
Accounts receivable	1,384,291	566,543	273,488	2,224,322
Due from other funds	28,356	-	400	28,756
Total Assets	\$ 7,097,317	\$ 770,348	\$ 1,015,053	\$ 8,882,718
LIABILITIES				
Accrued liabilities	\$ 526,962	\$ 638,030	\$ 76,008	\$ 1,241,000
Due to other funds	400	27,049	1,307	28,756
Unearned revenue	427,161	4,077	19,842	451,080
Total Liabilities	954,523	669,156	97,157	1,720,836
FUND BALANCES				
Nonspendable	2,000	-	-	2,000
Restricted	2,743,696	93,124	650,008	3,486,828
Committed	-	-	68,033	68,033
Assigned	1,016,970	8,068	199,855	1,224,893
Unassigned	2,380,128	-	-	2,380,128
Total Fund Balances	6,142,794	101,192	917,896	7,161,882
Total Liabilities and Fund Balances	\$ 7,097,317	\$ 770,348	\$ 1,015,053	\$ 8,882,718

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, 2015**

Total Fund Balance - Governmental Funds \$ 7,161,882

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	\$ 10,774,574	
Accumulated depreciation	<u>(2,633,383)</u>	8,141,191

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	\$ 48,738	
Compensated absences	107,830	
Net pension liability	<u>5,901,654</u>	(6,058,222)

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	\$ 846,615	
Deferred inflows of resources related to pensions	<u>(1,836,917)</u>	(990,302)

Total Net Position - Governmental Activities \$ 8,254,549

**LAKE COUNTY OFFICE OF EDUCATION
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2015**

	County School Service Fund	Special Education Pass-Through Fund	Non-Major Governmental Funds	Total Governmental Funds
REVENUES				
LCFF sources	\$ 3,680,476	\$ 183,188	\$ -	\$ 3,863,664
Federal sources	1,453,244	1,700,235	524,641	3,678,120
Other state sources	2,025,303	3,751,985	1,203,385	6,980,673
Other local sources	2,630,263	1,639	138,001	2,769,903
Total Revenues	9,789,286	5,637,047	1,866,027	17,292,360
EXPENDITURES				
Current				
Instruction	2,102,562	-	1,031,152	3,133,714
Instruction-related services				
Instructional supervision and administration	1,984,385	-	94,075	2,078,460
Instructional library, media, and technology	152,302	-	-	152,302
School site administration	192,794	-	-	192,794
Pupil services				
Home-to-school transportation	146,797	-	-	146,797
Food services	2,314	-	238,140	240,454
All other pupil services	1,821,105	-	10,079	1,831,184
General administration				
Centralized data processing	268,236	-	-	268,236
All other general administration	1,660,120	-	116,251	1,776,371
Plant services				
Facilities acquisition and maintenance	310,888	-	16,156	327,044
Ancillary services	2,490	-	41,202	43,692
Ancillary services	17,286	-	-	17,286
Community services	17,695	-	156,525	174,220
Enterprise activities	14,542	-	-	14,542
Transfers to other agencies	356,541	5,562,279	182,330	6,101,150
Debt service				
Principal	25,190	-	-	25,190
Interest and other	568	-	-	568
Total Expenditures	9,075,815	5,562,279	1,885,910	16,524,004
Excess (Deficiency) of Revenues				
Over Expenditures	713,471	74,768	(19,883)	768,356
Other Financing Sources (Uses)				
Transfers in	21,341	-	-	21,341
Other sources	73,928	-	-	73,928
Transfers out	-	-	(21,341)	(21,341)
Net Financing Sources (Uses)	95,269	-	(21,341)	73,928
NET CHANGE IN FUND BALANCE	808,740	74,768	(41,224)	842,284
Fund Balance - Beginning	5,334,054	26,424	959,120	6,319,598
Fund Balance - Ending	\$ 6,142,794	\$ 101,192	\$ 917,896	\$ 7,161,882

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, 2015**

Net Change in Fund Balances - Governmental Funds \$ 842,284

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:	\$ 161,891	
Depreciation expense:	<u>(222,429)</u>	(60,538)

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:

25,190

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:

(73,928)

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:

(4,169)

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:

(58,041)

Change in Net Position of Governmental Activities

\$ 670,798

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

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.

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

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.

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.

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

C. Basis of Presentation (*continued*)

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.

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:

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*).

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*).

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*).

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

C. Basis of Presentation (*continued*)

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.

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

D. Basis of Accounting – Measurement Focus (*continued*)

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.

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

Cash and Cash Equivalents

The County Office of Education’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. Cash held in the county treasury is recorded at cost, which approximates fair value.

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.

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*)

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 fair market values 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.

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.

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)

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.

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.

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*)

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.

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.

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

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. 68 – In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. The Statement is effective for periods beginning after June 15, 2014. The County Office of Education has implemented GASB Statement No. 68 for the year ended June 30, 2015.

GASB Statement No. 71 – In November 2013, GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. This standard seeks to clarify certain implementation issues related to amounts that are deferred and amortized at the time GASB 68 is first adopted. It applies to situations in which the measurement date of an actuarial valuation differs from the government's fiscal year. The Statement is effective for periods beginning after June 15, 2014. The County Office has implemented GASB Statement No. 71 for the year ended June 30, 2015.

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 not yet determined the impact on the financial statements.

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. The Statement is effective for periods beginning after June 15, 2016. The County Office has not yet determined the impact on the financial statements.

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.

LAKE COUNTY OFFICE OF EDUCATION
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2015

NOTE 2 – CASH AND INVESTMENTS

A. Summary of Cash and Investments

	Total Governmental Activities
Cash in county	\$ 6,627,140
Cash on hand and in banks	500
Cash in revolving fund	2,000
Total cash and cash equivalents	\$ 6,629,640

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, 2015

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 \$6,441,856 and an amortized book value of \$6,627,140.

LAKE COUNTY OFFICE OF EDUCATION
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2015

NOTE 2 – CASH AND INVESTMENTS (continued)

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, 2015, the pooled investments in the County Treasury were not rated.

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, 2015, the County Office of Education's bank balance was not exposed to custodial credit risk.

NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2015 consisted of the following:

	County School Service Fund	Special Education Pass-Through Fund	Non-Major Governmental Funds	Total Governmental Activities
Federal Government				
Categorical aid	\$ 421,429	\$ 566,543	\$ 53,939	\$ 1,041,911
State Government				
Categorical aid	485,703	-	151,005	636,708
Lottery	35,999	-	-	35,999
Local Government				
Other local sources	441,160	-	68,544	509,704
Total	\$ 1,384,291	\$ 566,543	\$ 273,488	\$ 2,224,322

LAKE COUNTY OFFICE OF EDUCATION
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2015

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2015 was as follows:

	Balance July 01, 2014	Additions	Deletions	Balance June 30, 2015
Governmental Activities				
Capital assets not being depreciated				
Land	\$ 409,396	\$ -	\$ -	\$ 409,396
Construction in progress	-	-	-	-
Total Capital Assets not Being Depreciated	409,396	-	-	409,396
Capital assets being depreciated				
Land improvements	326,920	871	-	327,791
Buildings & improvements	8,374,856	44,193	-	8,419,049
Furniture & equipment	1,501,511	116,827	-	1,618,338
Total Capital Assets Being Depreciated	10,203,287	161,891	-	10,365,178
Less Accumulated Depreciation				
Land improvements	84,606	19,018	-	103,624
Buildings & improvements	1,395,112	81,152	-	1,476,264
Furniture & equipment	931,236	122,259	-	1,053,495
Total Accumulated Depreciation	2,410,954	222,429	-	2,633,383
Governmental Activities				
Capital Assets, net	\$ 8,201,729	\$ (60,538)	\$ -	\$ 8,141,191

NOTE 5 – INTERFUND TRANSACTIONS

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

Individual interfund receivable and payable balances at June 30, 2015 were as follows:

Due To Other Funds	Due From Other Funds		
	County School Service Fund	Non-Major Governmental Funds	Total
County School Service Fund	\$ -	\$ 400	\$ 400
Special Education Pass-Through Fund	27,049	-	27,049
Child Development Fund	1,307	-	1,307
Total Due From Other Funds	\$ 28,356	\$ 400	\$ 28,756

Child Development Fund due to the County School Service Fund for cost transfers and indirect costs.	\$ 1,307
County School Service Fund due to the Child Development Fund for contributions and indirect costs.	400
Special Education Pass-Through Fund due to the County School Service Fund for pass through revenues due to the fund.	27,049
Total	\$ 28,756

LAKE COUNTY OFFICE OF EDUCATION
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2015

NOTE 5 – INTERFUND TRANSACTIONS (continued)

B. Operating Transfers

Interfund Transfers for the year ended June 30, 2015 consisted of the following:

- The County School Service Fund transferred \$29 to the Child Development Fund to close resource 9023.
- County School Service Fund transferred \$21,312 to the Forest Reserve Fund for the share of Forest Reserve Funding.

NOTE 6 – ACCRUED LIABILITIES

Accrued liabilities at June 30, 2015 consisted of the following:

	County School Service Fund	Special Education Pass-Through Fund	Non-Major Governmental Funds	Total Governmental Activities
Payroll	\$ 24,116	\$ -	\$ 8,801	\$ 32,917
Vendors payable	502,846	638,030	67,207	1,208,083
Total	\$ 526,962	\$ 638,030	\$ 76,008	\$ 1,241,000

NOTE 7 – UNEARNED REVENUE

Unearned revenue at June 30, 2015, consisted of the following:

	County School Service Fund	Special Education Pass-Through Fund	Non-Major Governmental Funds	Total Governmental Activities
Federal sources	\$ 60,448	\$ 4,077	\$ -	\$ 64,525
State categorical sources	364,101	-	19,842	383,943
Local sources	2,612	-	-	2,612
Total	\$ 427,161	\$ 4,077	\$ 19,842	\$ 451,080

LAKE COUNTY OFFICE OF EDUCATION
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2015

NOTE 8 – LONG-TERM DEBT

A schedule of changes in long-term debt for the year ended June 30, 2015 consisted of the following:

	Restated Balance July 01, 2014	Additions	Deductions	Balance June 30, 2015	Balance Due In One Year
Governmental Activities					
Capital leases	\$ -	\$ 73,928	\$ 25,190	\$ 48,738	\$ -
Compensated absences	103,661	4,169	-	107,830	-
Net pension liability	7,341,658	-	1,440,004	5,901,654	-
Total	\$ 7,445,319	\$ 78,097	\$ 1,465,194	\$ 6,058,222	\$ -

Payments for capital lease obligations are made in the County School Service Fund.

Payments for compensated absences are typically liquidated in the General Fund and the Non-Major Governmental Funds.

A. Compensated Absences

Total unpaid employee compensated absences as of June 30, 2015 amounted to \$107,830. 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
2016	\$ 25,191
2017	25,191
Total minimum lease payments	50,382
Less amount representing interest	1,644
Present value of minimum lease payments	\$ 48,738

C. Net Pension Liability

The County Office follows GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*. The County Office’s restated beginning net pension liability was \$7,341,658, and decreased by \$1,440,004 during the year ended June 30, 2015. The ending net pension liability at June 30, 2015 was \$5,901,654. See Note 11 for additional information regarding the net pension liability.

LAKE COUNTY OFFICE OF EDUCATION
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2015

NOTE 9 – FUND BALANCES

Fund balances were composed of the following elements at June 30, 2015:

	County School Service Fund	Special Education Pass-Through Fund	Non-Major Governmental Funds	Total Governmental Funds
Non-spendable				
Revolving cash	\$ 2,000	\$ -	\$ -	\$ 2,000
Total non-spendable	2,000	-	-	2,000
Restricted				
Educational programs	2,743,696	93,124	232,403	3,069,223
Capital projects	-	-	417,605	417,605
Total restricted	2,743,696	93,124	650,008	3,486,828
Committed				
Stabilization	-	-	68,033	68,033
Total committed	-	-	68,033	68,033
Assigned				
Other assignments	1,016,970	8,068	199,855	1,224,893
Total assigned	1,016,970	8,068	199,855	1,224,893
Unassigned				
Reserve for economic uncertainties	559,964	-	-	559,964
Remaining unassigned	1,820,164	-	-	1,820,164
Total unassigned	2,380,128	-	-	2,380,128
Total	\$ 6,142,794	\$ 101,192	\$ 917,896	\$ 7,161,882

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.

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 \$142,806 for the four retirees currently participating. In fiscal year 2014-15, the amount paid by the County on behalf of the retirees amounted to \$71,826. 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 recognized \$596,555 for their proportionate share of pension expense for the year ended June 30, 2015.

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

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.

LAKE COUNTY OFFICE OF EDUCATION
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2015

NOTE 11 – PENSION PLANS (continued)

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

Contributions

Active plan members are required to contribute 8.15% of their salary for fiscal year 2015 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 2015 was 8.88% of annual payroll. The contribution requirements of the plan members are established by state statute. Contributions to the plan from the County Office were \$126,647 for the year ended June 30, 2015.

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 \$6,059 to CalSTRS (5.679% of 2012-13 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, 2015, 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	\$ 1,961,294
States's proportionate share of the net pension liability associated with the County Office	1,184,314
Total	<u>\$ 3,145,608</u>

The net pension liability was measured as of June 30, 2014, 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, 2013, and rolling forward the total pension liability to June 30, 2014. 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, 2014, the County Office’s proportion was 0.003 percent, which did not change from its proportion measured as of June 30, 2013.

LAKE COUNTY OFFICE OF EDUCATION
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2015

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)

For the year ended June 30, 2015, the County Office recognized pension expense of \$169,311. At June 30, 2015, 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	\$ -	\$ 482,965
County Office contributions subsequent to the measurement date	126,647	-
	<u>\$ 126,647</u>	<u>\$ 482,965</u>

\$126,647 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, 2016. 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>
2016	\$ 120,741
2017	120,741
2018	120,741
2019	120,742
	<u>\$ 482,965</u>

LAKE COUNTY OFFICE OF EDUCATION
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2015

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, 2013, and rolling forward the total pension liability to June 30, 2014 using the following actuarial assumptions, applied to all periods included in the measurement:

Consumer Price Inflation	3.00%
Investment Yield (Net of Expenses)	7.50%
Wage Inflation	3.75%
Interest on Member Accounts	4.50%

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, 2013 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, 2015

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	\$ 3,057,145	\$ 1,961,294	\$ 1,047,554

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 2015 was 11.771% of annual payroll. Contributions to the plan from the County Office were \$41,866 for the year ended June 30, 2015.

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

At June 30, 2015, the County Office reported a liability of \$416,903 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, 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, 2013, and rolling forward the total pension liability to June 30, 2014. 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, 2014, the County Office’s proportion was 0.035 percent, which was an increase of 0.003 percent from its proportion measured as of June 30, 2013.

LAKE COUNTY OFFICE OF EDUCATION
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2015

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, 2015, the County Office recognized pension expense of \$427,244. At June 30, 2015, 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	\$ -	\$ 1,353,952
Changes in proportion and differences between County Office contributions and proportionate share of contributions	308,102	
County Office contributions subsequent to the measurement date	411,866	-
	<u>\$ 719,968</u>	<u>\$ 1,353,952</u>

\$411,866 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, 2016. 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>
2016	\$ 77,026	\$ 338,488
2017	77,026	338,488
2018	77,026	338,488
2019	77,024	338,488
	<u>\$ 308,102</u>	<u>\$ 1,353,952</u>

Actuarial assumptions

The total pension liability was determined by applying update procedures to an actuarial valuation as of June 30, 2013, and rolling forward the total pension liability to June 30, 2014 using the following actuarial assumptions, applied to all periods included in the measurement:

Consumer Price Inflation	2.75%
Investment Yield (Net of Expenses)	7.50%
Wage Inflation	Varies by Entry Age and Service

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.

LAKE COUNTY OFFICE OF EDUCATION
 NOTES TO FINANCIAL STATEMENTS, *continued*
 JUNE 30, 2015

NOTE 11 – PENSION PLANS (*continued*)

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

Actuarial assumptions (*continued*)

The actuarial assumptions used in the June 30, 2013 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.

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.

Asset Class	Assumed Asset Allocation	Real Return Years 1-10*	Real Return Years 11+**
Global Equity	47%	5.25%	5.71%
Global Fixed Income	19%	0.99%	2.43%
Inflation Sensitive	6%	0.45%	3.36%
Private Equity	12%	6.83%	6.95%
Real Estate	11%	4.50%	5.13%
Infrastructure and Forestland	3%	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

NOTE 11 – PENSION PLANS (continued)

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

Discount rate

The discount rate used to measure the total pension liability was 7.50 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.

According to Paragraph 30 of Statement 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.50 percent investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65 percent. Using this lower discount rate has resulted in a slightly higher total pension liability and net 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 7.50 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 (6.50 percent) or 1-percentage-point higher (8.50 percent) than the current rate:

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
County Office's proportionate share of the net pension liability	\$ 6,912,292	\$ 3,940,360	\$ 1,457,012

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, 2015.

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, 2015.

C. Construction Commitments

The County Office of Education did not have any outstanding construction commitments at June 30, 2015.

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.

LAKE COUNTY OFFICE OF EDUCATION
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2015

NOTE 14 – DEFERRED OUTFLOWS/INFLOWS OF RESOURCES (continued)

Pension Plans

Pursuant to GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27.*, the County Office recognized deferred outflows and inflows of resources related to pensions in the County Office-wide financial statements. The County Office’s deferred outflows and inflows of resources related to pensions were as follows at June 30, 2015:

	Deferred outflows related to pensions	Deferred inflows related to pensions
STRS Pension	\$ 126,647	\$ 482,965
PERS Pension	719,968	1,353,952
Total	\$ 846,615	\$ 1,836,917

NOTE 15 – RESTATEMENT OF NET POSITION

The beginning net position of Governmental Activities has been restated in order to record the County Office’s proportionate share of net pension liability and deferred outflows of resources related to pensions in accordance with GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27.* The effect on beginning net position is presented as follows:

	Governmental Activities
Net Position - Beginning, as Previously Reported	\$ 14,417,666
Restatement	(6,833,915)
Net Position - Beginning, as Restated	\$ 7,583,751

**REQUIRED SUPPLEMENTARY
INFORMATION**

**LAKE COUNTY OFFICE OF EDUCATION
COUNTY SCHOOL SERVICE FUND – BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2015**

	Budgeted Amounts		Actual* (Budgetary Basis)	Variances - Final to Actual
	Original	Final		
REVENUES				
LCFF sources	\$ 3,799,058	\$ 3,377,619	\$ 3,680,476	\$ 302,857
Federal sources	1,414,808	1,253,872	1,453,244	199,372
Other state sources	2,021,977	2,298,863	2,025,303	(273,560)
Other local sources	2,389,206	2,384,567	2,629,721	245,154
Total Revenues	9,625,049	9,314,921	9,788,744	473,823
EXPENDITURES				
Certificated salaries	1,472,221	1,670,534	1,499,194	171,340
Classified salaries	3,149,900	3,161,288	3,151,870	9,418
Employee benefits	1,497,000	1,579,619	1,515,656	63,963
Books and supplies	383,873	295,605	291,831	3,774
Services and other operating expenditures	2,773,764	2,967,724	2,472,707	495,017
Capital outlay	158,242	231,586	110,998	120,588
Other outgo				
Excluding transfers of indirect costs	165,993	152,896	406,720	(253,824)
Transfers of indirect costs	(105,778)	(112,639)	(116,251)	3,612
Total Expenditures	9,495,215	9,946,613	9,332,725	613,888
Excess (Deficiency) of Revenues Over Expenditures	129,834	(631,692)	456,019	1,087,711
Other Financing Sources (Uses)				
Transfers in	86,785	30,780	67,845	37,065
Other sources	-	-	73,928	73,928
Transfers out	(14,421)	-	-	-
Net Financing Sources (Uses)	72,364	30,780	141,773	110,993
NET CHANGE IN FUND BALANCE	202,198	(600,912)	597,792	1,198,704
Fund Balance - Beginning	4,975,164	5,177,362	5,434,271	256,909
Fund Balance - Ending	\$ 5,177,362	\$ 4,576,450	\$ 6,032,063	\$ 1,455,613

* 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, 2015**

	Budgeted Amounts		Actual (Budgetary Basis)	Variances - Final to Actual
	Original	Final		
REVENUES				
Federal sources	\$ 1,696,534	\$ 1,696,534	\$ 1,700,235	\$ 3,701
Other state sources	3,745,128	3,959,116	3,935,173	(23,943)
Other local sources	-	-	1,639	1,639
Total Revenues	5,441,662	5,655,650	5,637,047	(18,603)
EXPENDITURES				
Other outgo				
Excluding transfers of indirect costs	5,325,862	5,495,466	5,562,279	(66,813)
Total Expenditures	5,325,862	5,495,466	5,562,279	(66,813)
NET CHANGE IN FUND BALANCE	115,800	160,184	74,768	(85,416)
Fund Balance - Beginning	26,424	26,424	26,424	26,424
Fund Balance - Ending	\$ 142,224	\$ 186,608	\$ 101,192	\$ (58,992)

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, 2015**

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

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

	<u>June 30, 2015</u>
Contractually required contribution	\$ 132,706
Contributions in relation to the contractually required contribution*	(132,706)
Contribution deficiency (excess)	<u>\$ -</u>
County Office's covered-employee payroll	\$ 1,419,305
Contributions as a percentage of covered-employee payroll	9.35%

*Amounts do not include on behalf contributions

LAKE COUNTY OFFICE OF EDUCATION
 SCHEDULE OF COUNTY OFFICE CONTRIBUTIONS - CALPERS
 FOR THE YEAR ENDED JUNE 30, 2015

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

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, 2015, 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
General Fund			
Other outgo			
Excluding transfers of indirect costs	\$ 152,896	\$ 406,720	\$ 253,824
Transfers of indirect costs	\$ (112,639)	\$ (116,251)	\$ (3,612)
Special Education Pass-Through Fund			
Excluding transfers of indirect costs	\$ 5,495,466	\$ 5,562,279	\$ 66,813

**SUPPLEMENTARY
INFORMATION**

**LAKE COUNTY OFFICE OF EDUCATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2015**

Federal Grantor/Pass-Through Grantor/Program or Cluster	CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U. S. DEPARTMENT OF EDUCATION:			
<i>Passed through California Department of Education:</i>			
Title I, Part A Cluster			
Title I, Part A, Basic School Support	84.010	14416	\$ 436,711
Title I, Part A, Basic Grants Low -Income and Neglected	84.010	14329	36,231
Title I, Part D, Local Delinquent Programs	84.010	14357	39,637
Subtotal Title I, Part A Cluster			<u>512,579</u>
Title II, Part A, Teacher Quality	84.367A	14341	2,595
Title III, Technical Assistance	84.365	14967	15,438
Title IV, Part B, 21st Century Community Learning Centers Program	84.287	14349	5,267
Special Education Cluster			
IDEA Basic Local Assistance Entitlement, Part B, Sec 611	84.027	13379	1,665,097
IDEA Mental Health Allocation Plan, Part B, Sec 611	84.027	14468	88,750
Part B, Preschool Grants	84.173	13430	43,758
IDEA Preschool Local Entitlement, Part B, Sec 611	84.027A	13682	49,300
Preschool Staff Development	84.173A	13431	1,000
Subtotal Special Education Cluster			<u>1,847,905</u>
IDEA Early Intervention Grants	84.181	23761	43,071
Title X, McKinney-Vento Homeless Assistance	84.196	14332	68,843
Total U. S. Department of Education			<u>2,495,698</u>
U. S. DEPARTMENT OF AGRICULTURE:			
<i>Passed through California Department of Education:</i>			
Child Nutrition Child Care Food Program (CCFP)	10.558	13389	262,147
Forest Reserve Funds	10.665	10044	188,981
Total U. S. Department of Agriculture			<u>451,128</u>
U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:			
<i>Passed through California Department of Education:</i>			
CCDF Cluster			
Local Planning Councils	93.575	13946	50,852
Quality Improvement Activities	93.575	13979	22,659
Subtotal CCDF Cluster			<u>73,511</u>
<i>Passed through California Department of Health Services:</i>			
Medi-Cal Billing Option	93.778	10013	48,799
Total U. S. Department of Health & Human Services			<u>195,821</u>
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE			
<i>Passed through California Department of Education</i>			
AmeriCorps	94.006	*	483,963
Total Federal Expenditures			<u>\$ 3,626,610</u>

* - 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, 2015**

	Second Period Report	Annual Report
ELEMENTARY		
Juvenile halls, homes, and camps	1.00	1.42
Total Elementary	1.00	1.42
SECONDARY		
Juvenile halls, homes, and camps	11.56	11.37
Community schools, type C	9.37	8.79
Total Secondary	20.93	20.16
TOTAL COUNTY OFFICE	21.93	21.58

See accompanying note to supplementary information.

**LAKE COUNTY OFFICE OF EDUCATION
SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2015**

	2016 (Budget)	2015	2014	2013
General Fund - Budgetary Basis**				
Revenues And Other Financing Sources	\$ 10,747,814	\$ 10,187,427	\$ 9,711,835	\$ 9,785,935
Expenditures And Other Financing Uses	10,884,109	9,332,725	9,509,638	9,499,307
Net change in Fund Balance	\$ (136,295)	\$ 854,702	\$ 202,197	\$ 286,628
Ending Fund Balance	\$ 5,895,768	\$ 6,032,063	\$ 5,177,361	\$ 4,975,164
Available Reserves*	\$ 2,452,178	\$ 2,380,128	\$ 1,662,092	\$ 1,316,394
Available Reserves As A Percentage Of Outgo	22.53%	25.50%	17.48%	13.86%
Long-term Debt	\$ 6,058,222	\$ 6,058,222	\$ 103,661	\$ 100,084
Average Daily Attendance At P-2	22	22	25	38

The County School Service Fund balance has increased by \$1,056,899 over the past two years. The fiscal year 2015-16 budget projects a decrease of \$136,295. For a County Office of Education this size, the State recommends available reserves of at least 3% of County School Service Fund expenditures, transfers out, and other uses (total outgo).

The County Office of Education has incurred an operating surplus in each of the past three years but anticipates incurring an operating deficit during the 2015-16 fiscal year. Total long term obligations have increased by \$5,958,138 over the past two years.

Average daily attendance has decreased by 16 ADA over the past two years. No change in ADA is anticipated during the 2015-16 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, 2015**

	County School Service Fund	Special Reserve for Post- Employment Benefits Fund
June 30, 2015, annual financial and budget report fund balance	\$ 6,032,063	\$ 110,731
Adjustments and reclassifications:		
Increase (decrease) in total fund balances:		
Fund balance transfer (GASB 54)	110,731	(110,731)
Net adjustments and reclassifications	110,731	(110,731)
June 30, 2015, audited financial statement fund balance	\$ 6,142,794	\$ -

LAKE COUNTY OFFICE OF EDUCATION
 COMBINING BALANCE SHEET
 JUNE 30, 2015

	Child Development Fund	Deferred Maintenance Fund	Forest Reserve Fund	County School Facilities Fund	Non-Major Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 46,889	\$ 68,033	\$ 189,772	\$ 436,471	\$ 741,165
Accounts receivable	273,488	-	-	-	273,488
Due from other funds	400	-	-	-	400
Total Assets	\$ 320,777	\$ 68,033	\$ 189,772	\$ 436,471	\$ 1,015,053
LIABILITIES					
Accrued liabilities	\$ 58,350	\$ -	\$ -	\$ 17,658	\$ 76,008
Due to other funds	1,307	-	-	-	1,307
Unearned revenue	19,842	-	-	-	19,842
Total Liabilities	79,499	-	-	17,658	97,157
FUND BALANCES					
Restricted	232,403	-	-	417,605	650,008
Committed	-	68,033	-	-	68,033
Assigned	8,875	-	189,772	1,208	199,855
Total Fund Balances	241,278	68,033	189,772	418,813	917,896
Total Liabilities and Fund Balance	\$ 320,777	\$ 68,033	\$ 189,772	\$ 436,471	\$ 1,015,053

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, 2015**

	Child Development Fund	Deferred Maintenance Fund	Forest Reserve Fund	County School Facilities Fund	Non-Major Governmental Funds
REVENUES					
Federal sources	\$ 335,660	\$ -	\$ 188,981	\$ -	524,641
Other state sources	1,221,043	-	-	(17,658)	1,203,385
Other local sources	135,211	361	791	1,638	138,001
Total Revenues	1,691,914	361	189,772	(16,020)	1,866,027
EXPENDITURES					
Current					
Instruction	1,031,152	-	-	-	1,031,152
Instruction-related services					
Instructional supervision and administration	94,075	-	-	-	94,075
Pupil services					
Food services	238,140	-	-	-	238,140
All other pupil services	10,079	-	-	-	10,079
General administration					
All other general administration	116,251	-	-	-	116,251
Plant services	15,926	230	-	-	16,156
Facilities acquisition and maintenance	-	32,541	-	8,661	41,202
Community services	156,525	-	-	-	156,525
Transfers to other agencies	-	-	182,330	-	182,330
Total Expenditures	1,662,148	32,771	182,330	8,661	1,885,910
Excess (Deficiency) of Revenues Over Expenditures	29,766	(32,410)	7,442	(24,681)	(19,883)
Other Financing Sources (Uses)					
Transfers out	(29)	-	(21,312)	-	(21,341)
Net Financing Sources (Uses)	(29)	-	(21,312)	-	(21,341)
NET CHANGE IN FUND BALANCE	29,737	(32,410)	(13,870)	(24,681)	(41,224)
Fund Balance - Beginning	211,541	100,443	203,642	443,494	959,120
Fund Balance - Ending	\$ 241,278	\$ 68,033	\$ 189,772	\$ 418,813	\$ 917,896

See accompanying note to supplementary information.

**LAKE COUNTY OFFICE OF EDUCATION
NOTES TO SUPPLEMENTARY INFORMATION
JUNE 30, 2015**

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 of Education and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of the United States Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

The following schedule provides reconciliation between revenues reported on the Statement of Revenue, Expenditures, and Changes in Fund Balance, and the related expenditures reported on the Schedule of Expenditures of Federal Awards. The reconciling amounts represent Federal funds that have been recorded as revenues in a prior year that have been expended by June 30, 2015 or Federal funds that have been recorded as revenues in the current year and were not expended by June 30, 2015.

	CFDA	
	Number	Amount
Total Federal Revenues reported in the Statement of Revenues, Expenditures, and Changes in Fund Balance		\$ 3,678,120
Medi-Cal Billing Option	93.778	<u>(51,510)</u>
Total Expenditures reported in the Schedule of Expenditures of Federal Awards		<u>\$ 3,626,610</u>

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 Circular A-133, 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.

The following schedule provides the amounts passed-through to subrecipients included in the Schedule of Expenditures of Federal Awards:

Special Education Cluster		
IDEA Basic Local Assistance Entitlement, Part B, Sec 611	84.027 13379	\$ 1,607,177
Part B, Preschool Grants	84.173 13430	43,758
IDEA Preschool Local Entitlement, Part B, Sec 611	84.027A 13682	49,300
Subtotal Special Education Cluster		<u>\$ 1,700,235</u>

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.

See accompanying note to supplementary information.

LAKE COUNTY OFFICE OF EDUCATION
NOTES TO SUPPLEMENTARY INFORMATION, continued
JUNE 30, 2015

NOTE 1 – PURPOSE OF SCHEDULES (continued)

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. (Located in the front of the audit report)

**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, 2015, 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 15, 2015.

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.

SAN DIEGO
LOS ANGELES
SAN FRANCISCO/BAY AREA

Corporate Office:
348 Olive Street
San Diego, CA 92103

toll-free: 877.220.7229
tel: 619.270.8222
fax: 619.260.9085
www.christywhite.com

*Licensed by the California
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.

Christy White Associates

San Diego, California
December 15, 2015

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; AND REPORT
ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB
CIRCULAR A-133**

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 Circular A-133 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, 2015. 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 the requirements of laws, regulations, contracts, and grants 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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.

SAN DIEGO
LOS ANGELES
SAN FRANCISCO/BAY AREA

Corporate Office:
348 Olive Street
San Diego, CA 92103

toll-free: 877.220.7229
tel: 619.270.8222
fax: 619.260.9085
www.christywhite.com

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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, 2015.

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 OMB Circular A-133, 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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Christy White Associates

San Diego, California
December 15, 2015

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 *2014-15 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, 2015, 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 *2014-15 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.

SAN DIEGO
LOS ANGELES
SAN FRANCISCO/BAY AREA

Corporate Office:
348 Olive Street
San Diego, CA 92103

toll-free: 877.220.7229
tel: 619.270.8222
fax: 619.260.9085
www.christywhite.com

*Licensed by the California
State Board of Accountancy*

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, 2015.

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
Continuation Education	Not Applicable
Instructional Time for school districts	Not Applicable
Instructional Materials, general requirements	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
Regional Occupation Centers or Programs Maintenance of Effort	Not Applicable
Adult Education Maintenance of Effort	Not Applicable
California Clean Energy Jobs Act	Yes

PROGRAM NAME	PROCEDURES PERFORMED
After School Education and Safety Program	Yes
Proper Expenditure of Education Protection Account Funds	Yes
Common Core Implementation Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control and Accountability Plan	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 2014-15.

Christy White Associates

San Diego, California
December 15, 2015

**SCHEDULE OF FINDINGS
AND QUESTIONED COSTS**

**LAKE COUNTY OFFICE OF EDUCATION
SUMMARY OF AUDITORS' RESULTS
FOR THE YEAR ENDED JUNE 30, 2015**

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 section .510(a) of OMB Circular A-133?	<u>No</u>
Identification of major programs:	

<u>CFDA Number(s)</u>	<u>Name of Federal Program of Cluster</u>
<u>84.010</u>	<u>Title I, Part A, Basic Grants Low-Income and Neglected</u>
<u>84.027, 84.173, 84.027A, 84.173A</u>	<u>Special Education Cluster</u>
<u>93.778</u>	<u>County Medi-Cal (8290 Portion)</u>

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 300,000</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>None Reported</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, 2015

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, 2015.

LAKE COUNTY OFFICE OF EDUCATION
FEDERAL AWARD FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2015

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, 2015.

LAKE COUNTY OFFICE OF EDUCATION
STATE AWARD FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2015

FIVE DIGIT CODE

10000
40000
42000
60000
61000
62000
70000
71000
72000

AB 3627 FINDING TYPE

Attendance
State Compliance
Charter School Facilities Programs
Miscellaneous
Classroom Teacher Salaries
Local Control Accountability Plan
Instructional Materials
Teacher Misassignments
School Accountability Report Card

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

LAKE COUNTY OFFICE OF EDUCATION
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2015

FINDING #2014-01: AFTER SCHOOL EDUCATION AND SAFETY PROGRAM (40000)

Criteria: Per Education 8483(a)(4), it is the intent of the Legislature that that pupils in elementary school participate in the full day of the program every day during which pupils participate to accomplish program goals.

Condition: Through testing of daily attendance records, it appears that in many instances parents are picking up students early from the program and are not adhering to the program's early release policy by not citing the reason for early pickup. Moreover, it appears that the early release policy is not being consistently followed.

Context: Auditors tested daily attendance records for the month of November 2013 for three of the eight ASES program sites overseen by the County Office of Education.

Questioned Costs: None. The ASES program funding is not affected as long as the pupil participation level is maintained at 85% of the projected attendance or greater. Since the finding noted a net over-reporting of approximately 200 student days of attendance, program attendance did not fall below 85% of the projected attendance; therefore, there are no questioned costs.

Cause: Insufficient review procedures when reconciling attendance records to the signed rosters.

Effect: The County Office of Education does not appear to be adhering to and enforcing the early release policies that have been implemented. Based on the sample of student attendance records selected for testing, it appears the revised total students served for the 2013-14 1st Half After School Base should be 29,066, rather than the original reported amount of 29,266.

LAKE COUNTY OFFICE OF EDUCATION
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS, *continued*
FOR THE YEAR ENDED JUNE 30, 2015

FINDING #2014-01: AFTER SCHOOL EDUCATION AND SAFETY PROGRAM (40000) (continued)

Recommendation: We recommend that the County Office of Education continue to provide oversight and training to staff responsible for reconciling attendance records regarding the importance of accurately reviewing attendance records for discrepancies when comparing against signed rosters and student early release policies. This will ensure that the records submitted to the State can be relied upon.

COE Response: Lake County Office of Education will have training for their Site Supervisors on January 6, 2015 to enforce the early release policy. The training will highlight Site Supervisors' responsibility in accurately reviewing all attendance sheets for their program to ensure our early release policy is being implemented correctly. Each program will address the early release policy with parents at their parent meeting in January.

The Lake County After School Specialist will send a memo to all Site Supervisors on 12/16/2014, explaining this finding and redefining their responsibilities in making sure the early release policy is followed.

In addition, the After School Specialist and the Program Director will review sign-in out sheets when visiting the programs. If the early release policies are not being followed, parents will receive a letter to explain the procedures when signing their child(ren) out of the program early and let them know that they must follow our policy by checking a reason when they pick up their child(ren) early from the program.

Status: Implemented