

**SAN DIEGO COUNTY OFFICE OF EDUCATION
COUNTY OF SAN DIEGO
SAN DIEGO, CALIFORNIA**

AUDIT REPORT

JUNE 30, 2013

**Wilkinson Hadley King & Co. LLP
CPA's and Advisors
218 W. Douglas Ave.
El Cajon, California**

Introductory Section

San Diego County Office of Education
 Audit Report
 For The Year Ended June 30, 2013

TABLE OF CONTENTS

	<u>Page</u>	<u>Exhibit/Table</u>
FINANCIAL SECTION		
Independent Auditor's Report.....	1	
Management's Discussion and Analysis (Required Supplementary Information).....	4	
 <u>Basic Financial Statements</u>		
Government-wide Financial Statements:		
Statement of Net Position.....	13	Exhibit A-1
Statement of Activities.....	14	Exhibit A-2
Fund Financial Statements:		
Balance Sheet - Governmental Funds.....	15	Exhibit A-3
Reconciliation of the Governmental Funds		
Balance Sheet to the Statement of Net Position.....	16	Exhibit A-4
Statement of Revenues, Expenditures, and Changes in		
Fund Balances - Governmental Funds.....	17	Exhibit A-5
Reconciliation of the Statement of Revenues, Expenditures, and Changes in		
Fund Balances of Governmental Funds to the Statement of Activities.....	18	Exhibit A-6
Statement of Fiduciary Net Position - Fiduciary Funds.....	20	Exhibit A-7
Statement of Changes in Fiduciary Net Position - Fiduciary Funds.....	21	Exhibit A-8
Notes to the Financial Statements	22	
 <u>Required Supplementary Information:</u>		
Budgetary Comparison Schedules:		
General Fund.....	40	Exhibit B-1
Special Education Pass-Through Fund.....	41	Exhibit B-2
Schedule of Funding Progress - Healthcare Plan.....	42	
Notes to Required Supplementary Information.....	43	
 <u>Combining Statements as Supplementary Information:</u>		
Combining Balance Sheet - All Nonmajor Governmental Funds.....	44	Exhibit C-1
Combining Statement of Revenues, Expenditures and Changes in		
Fund Balances - All Nonmajor Governmental Funds.....	45	Exhibit C-2
 Special Revenue Funds:		
Combining Balance Sheet - Nonmajor Special Revenue Funds.....	46	Exhibit C-3
Combining Statement of Revenues, Expenditures and Changes		
in Fund Balances - Nonmajor Special Revenue Funds.....	47	Exhibit C-4
 Capital Projects Funds:		
Combining Balance Sheet - Nonmajor Capital Projects Funds.....	48	Exhibit C-5
Combining Statement of Revenues, Expenditures and Changes		
in Fund Balances - Nonmajor Capital Projects Funds.....	50	Exhibit C-6

San Diego County Office of Education
 Audit Report
 For The Year Ended June 30, 2013

TABLE OF CONTENTS

	<u>Page</u>	<u>Exhibit/Table</u>
Fiduciary Funds:		
Private-Purpose Trust Funds:		
Combining Statement of Fiduciary Net Position.....	52	Exhibit C-7
Combining Statement of Changes in Fiduciary Net Position.....	54	Exhibit C-8
Agency Funds:		
Combining Statement of Fiduciary Assets and Liabilities.....	56	Exhibit C-9
 OTHER SUPPLEMENTARY INFORMATION SECTION		
Local Education Agency Organization Structure.....	57	
Schedule of Average Daily Attendance.....	58	Table D-1
Schedule of Instructional Time.....	59	Table D-2
Schedule of Financial Trends and Analysis.....	60	Table D-3
Reconciliation of Annual Financial and Budget Report With Audited Financial Statements.....	61	Table D-4
Schedule of Charter Schools.....	62	Table D-5
Schedule of Expenditures of Federal Awards	63	Table D-6
Notes to the Schedule of Expenditures of Federal Awards.....	65	
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	66	
Report on Compliance for Each Major Program and on Internal Control over Compliance Required by OMB Circular A-133.....	68	
Independent Auditor's Report on State Compliance.....	70	
Schedule of Findings and Questioned Costs	72	
Summary Schedule of Prior Audit Findings.....	76	

Financial Section

Wilkinson Hadley King & Co. LLP

CPA's and Advisors
218 W. Douglas Ave.
El Cajon, California

Independent Auditor's Report

To the Board of Trustees
San Diego County Office of Education
San Diego, 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 San Diego County Office of Education ("the County Office") as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the County Office'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 of 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 County Office'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 County Office'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.

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 San Diego County Office of Education as of June 30, 2013, and the respective changes in financial position, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note A to the financial statements, in 2013, San Diego County Office of Education adopted new accounting guidance, Government Accounting Standards Board Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. 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 Management's Discussion and Analysis, budgetary comparison information and schedule of funding progress for OPEB benefits identified as Required Supplementary Information in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the Required Supplementary Information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the San Diego County Office of Education's basic financial statements. The combining financial statements are presented for purposes of additional analysis and are not required parts of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. The accompanying other supplementary information is presented for purposes of additional analysis as required by the State's audit guide, *Standards and Procedures for Audits of California K-12 Local Education Agencies 2012-13*, published by the Education Audit Appeals Panel, and is also not a required part of the basic financial statements.

The combining financial statements and other supplementary information and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate 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 combining financial statements and other supplementary information and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 16, 2013 on our consideration of San Diego 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 San Diego County Office of Education's internal control over financial reporting and compliance.

Wilkinson Hadley King & Co. LLP

El Cajon, California
December 16, 2013

San Diego County Office of Education
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2013
Unaudited

This discussion and analysis of the San Diego County Office of Education's financial performance provides an overall review of the County Office's financial activities for the fiscal year ended June 30, 2013. The intent of this discussion and analysis is to look at the County Office's financial performance as a whole. Readers should also review the notes to the basic financial statements and the financial statements to enhance their understanding of the County Office's financial performance.

USING THESE FINANCIAL STATEMENTS

This report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the San Diego County Office of Education as a complex financial entity. The statements then provide an increasingly detailed look at specific financial activities. The San Diego County Office of Education does not operate any business-type activities, so the information presented is solely for governmental activities.

The Statement of Net Position and Statement of Activities provide information about the activities of the whole County Office, presenting both an aggregate view of the County Office's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term and what remains for future spending. The fund financial statements also look at the County Office's most significant fund with all other non-major funds presented in total in one column. In the case of the San Diego County Office of Education, the general fund is by far the most significant fund.

FINANCIAL HIGHLIGHTS

Key financial highlights for 2012-2013 are as follows:

- Total assets are \$231,497,644.
- Total revenue is \$463,921,507, a decrease of \$9,919,780 under 2011-2012.
- Total program expenses are \$451,965,235, a decrease of \$21,783,885 under 2011-2012.
- Outstanding debt is \$9,057,578 in certificates of participation.

Reporting the County Office as a Whole

Statement of Net Position and Statement of Activities

While this document contains the large number of funds used by the County Office to provide programs and activities, the view of the County Office as a whole looks at all financial transactions and asks the question, "How did we do financially during 2012-2013?" The Statement of Net Position and the Statement of Activities answer this question. These statements include all assets and all liabilities using the accrual basis of

San Diego County Office of Education
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2013
Unaudited

accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid out.

These two statements report the County Office's net positions and changes in those positions. This change in net positions is important because it tells the reader that, for the County Office as a whole, the financial position of the County Office has improved or diminished. The causes of this change may be the result of many factors, some financial some not. Non-financial factors include the County Office's property tax base, current property tax laws in California restricting revenue growth, facility conditions, required educational programs and other factors.

In the Statement of Net Positions and the Statement of Activities, the County Office is presented in just one kind of activity, Governmental Activities. All of the County Office's programs and services are reported here including instructional, support services, and operation and maintenance of plant and facilities. The County Office does not operate any business-type activities, so none are presented here.

Reporting the County Office's Most Significant Fund

Fund Financial Statements

Major Funds: The analysis of the County Office's major funds is included in the audit report. Fund financial reports provide detailed information about the County Office's major funds. The County Office uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the County Office's most significant funds. The County Office's major governmental funds:

- General Fund including Fund 20 under GASB 54
- Special Education Pass Thru Fund

Governmental Funds: Most of the County Office's activities are reported in governmental funds which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual, which measures cash and all other financial assets that can readily be converted into cash. The governmental fund statements provide a detailed short-term view of the County Office's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is reconciled in the financial statements.

San Diego County Office of Education
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2013
Unaudited

THE COUNTY OFFICE AS A COMPLETE FINANCIAL ENTITY

Recall that the Statement of Net Position provides the perspective of the County Office as a whole. Table 1 provides a summary of the County Office's net position for 2010-2011, 2011-2012, and 2012-2013.

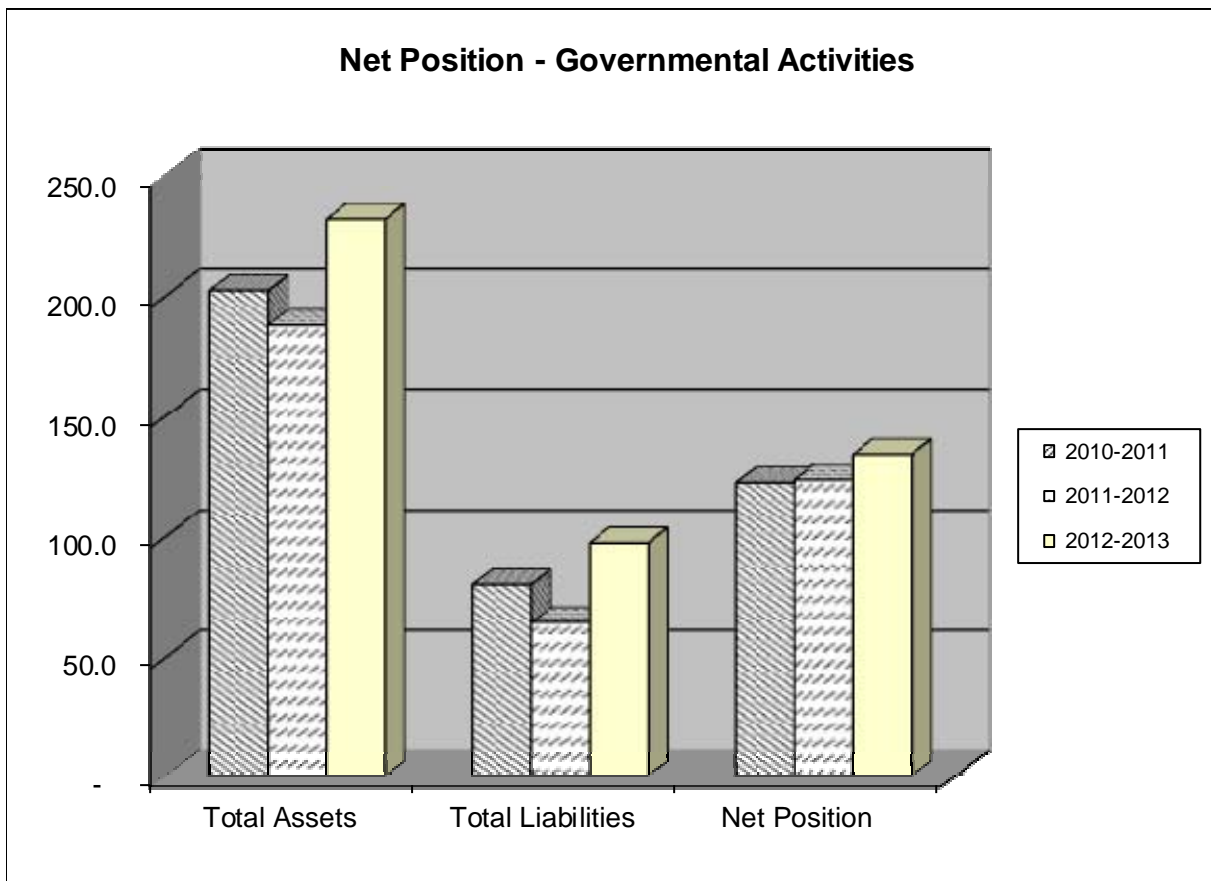
Table 1
Statement of Net Position
June 30, 2013

	2010-2011	2011-2012	2012-2013
Assets			
Cash	106,844,977	92,513,871	91,735,436
Investments	601,089	695,584	795,080
Receivables	56,888,528	57,652,508	96,127,829
Due from other funds			
Stores			
Prepaid expenses	875,997	746,017	525,945
Other current assets			
Capital assets:			
Sites	1,877,796	1,877,796	1,877,796
Site improvements	2,838,632	2,852,665	3,063,436
Buildings and Improvements	35,694,052	35,307,068	36,270,387
Equipment	23,325,512	24,054,622	23,926,443
Work in progress	-	-	7,902,648
Less accumulated depreciation	(26,762,402)	(27,996,855)	(30,727,356)
Total assets	202,184,181	187,703,276	231,497,644
Liabilities			
Accounts payable and other current liabilities	43,567,470	33,810,473	75,287,898
Accrued vacation benefits			
Current loans			
Deferred revenue	11,447,315	8,935,545	4,793,023
Long-term liabilities:			
Due within one year	2,703,387	2,077,281	2,001,941
Due in more than one year	22,318,751	19,476,934	15,218,255
Total liabilities	80,036,923	64,300,233	97,301,117
Net Position			
Invested in capital assets, net of related debt	16,981,087	21,645,296	33,268,354
Restricted	47,456,209	56,832,894	31,406,704
Unrestricted	57,709,962	44,924,853	69,521,469
Total net assets	122,147,258	123,403,043	134,196,527

San Diego County Office of Education
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2013
Unaudited

Chart 1.
Net Position - Governmental Activities
(In Millions)

	2010-2011	2011-2012	2012-2013
Total Assets	202.2	187.7	231.5
Total Liabilities	<u>80.0</u>	<u>64.3</u>	<u>97.3</u>
Net Position	122.2	123.4	134.2

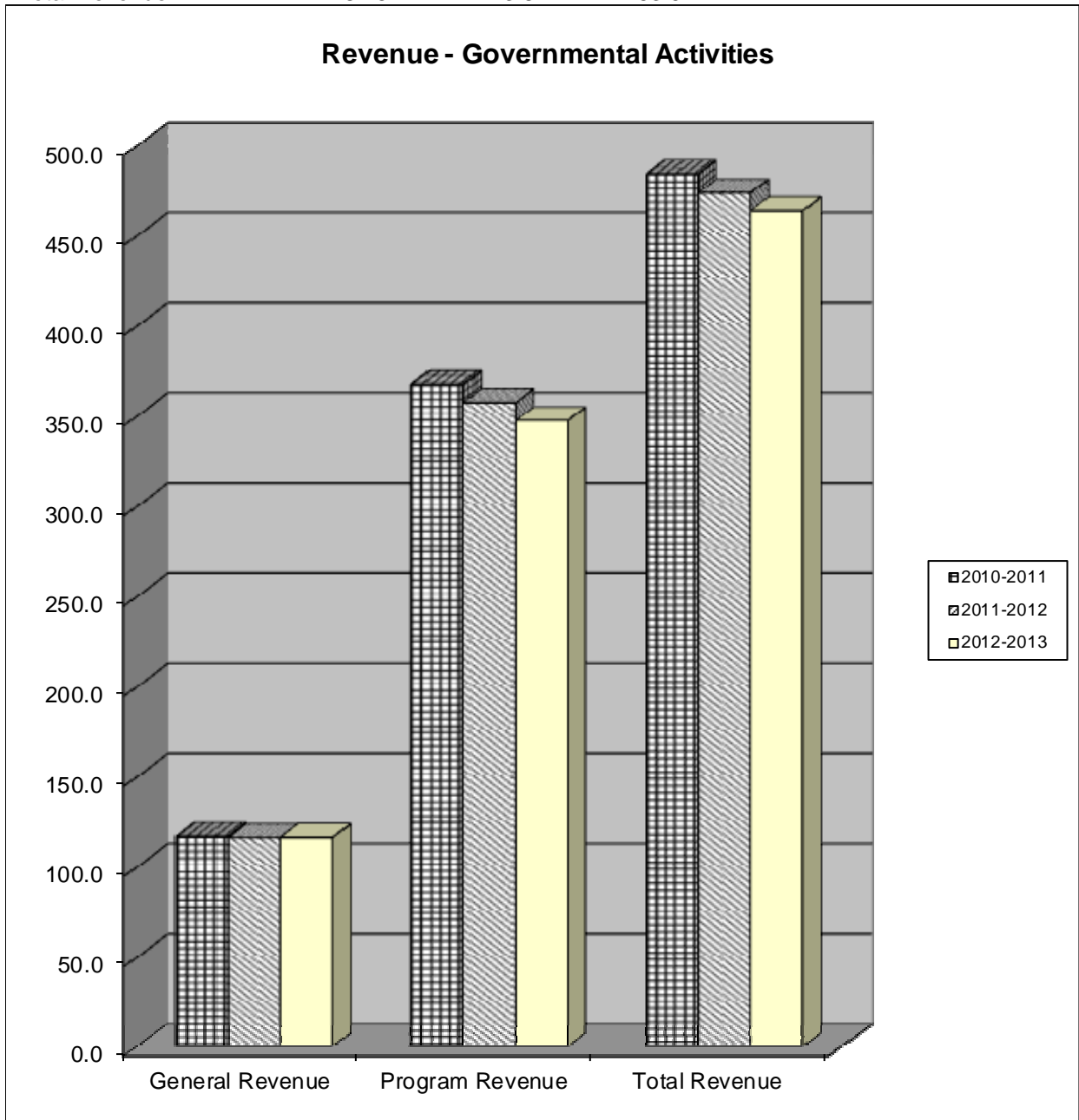


Total assets were \$232 million while total liabilities were \$97 million. Revenue in the Governmental Funds is divided into general revenue, which funds the basic operations of the County Office, and program revenue, which funds specific program activities that support the children and school districts of San Diego County.

San Diego County Office of Education
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2013
Unaudited

Chart 2.
 Revenue - Governmental Activities
(In Millions)

	2010-2011	2011-2012	2012-2013
General Revenue	117.0	116.2	116.3
Program Revenue	<u>367.5</u>	<u>357.6</u>	<u>347.6</u>
Total Revenue	484.5	473.8	463.9



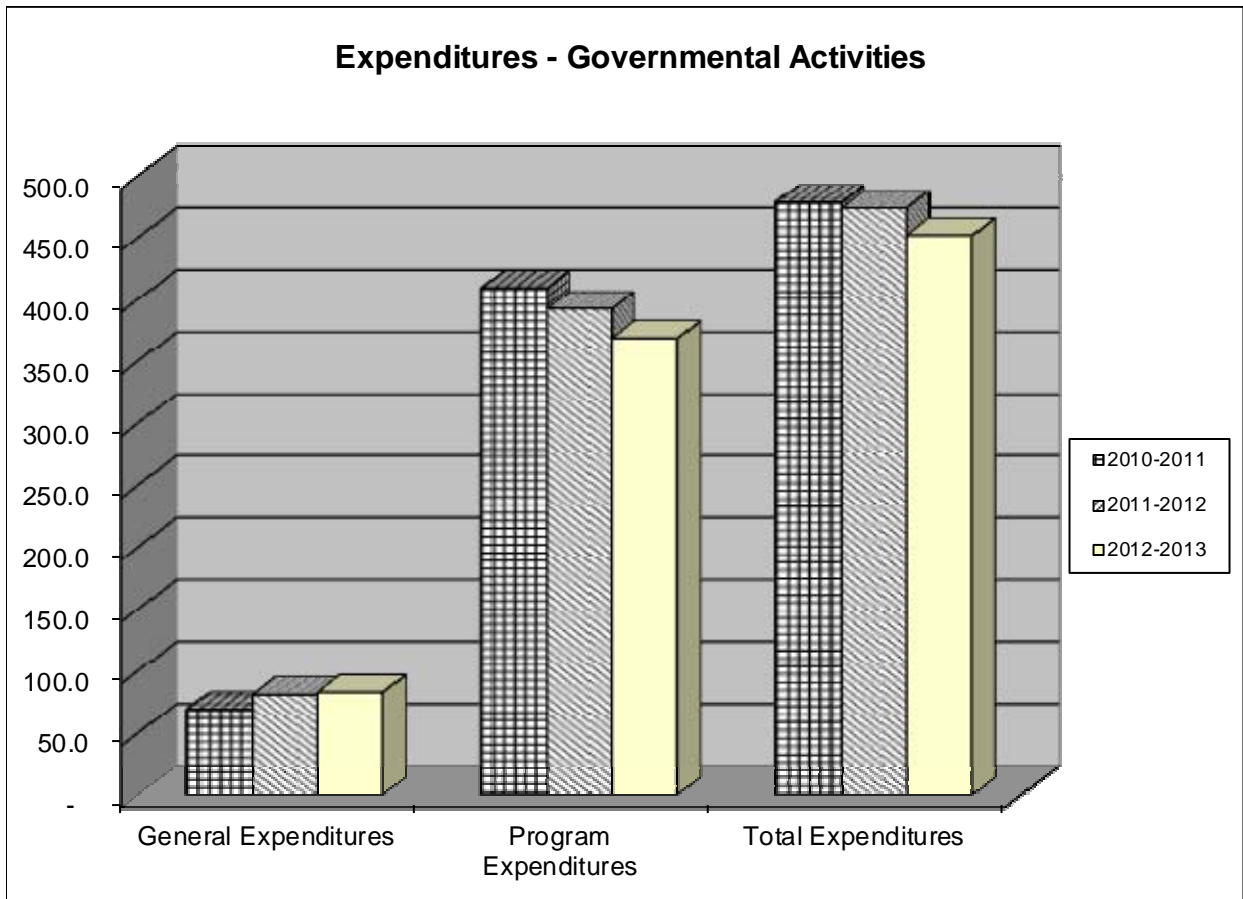
San Diego County Office of Education
 Management's Discussion and Analysis
 For the Fiscal Year Ended June 30, 2013
 Unaudited

The primary sources of general revenue are the state Revenue Limit and local revenue. The main source of program revenue is the State of California which funds many programs operated by the County Office.

Expenditures in the Governmental Funds are similarly divided into general or unrestricted expenses and program expenses.

Chart 3.
 Expenditures - Governmental Activities
 (In Millions)

	2010-2011	2011-2012	2012-2013
General Expenditures	69.3	81.2	83.1
Program Expenditures	<u>409.3</u>	<u>392.6</u>	<u>368.9</u>
Total Expenditures	478.6	473.8	452.0



The general expenditures cover the cost of operating the County Office and operating many of the programs that assist school districts with curriculum, assessment, technology, staff development, and financial services. The general expenditures increased by \$1.9 million while the program expenditures decreased by \$23.7 million.

San Diego County Office of Education
 Management's Discussion and Analysis
 For the Fiscal Year Ended June 30, 2013
 Unaudited

THE COUNTY OFFICE'S FUNDS

Information about the County Office's major funds is shown later in this report. These funds are accounted for using the modified accrual basis of accounting. The County Office's budget is prepared according to California law and is based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The General Fund is the County Office's largest major fund.

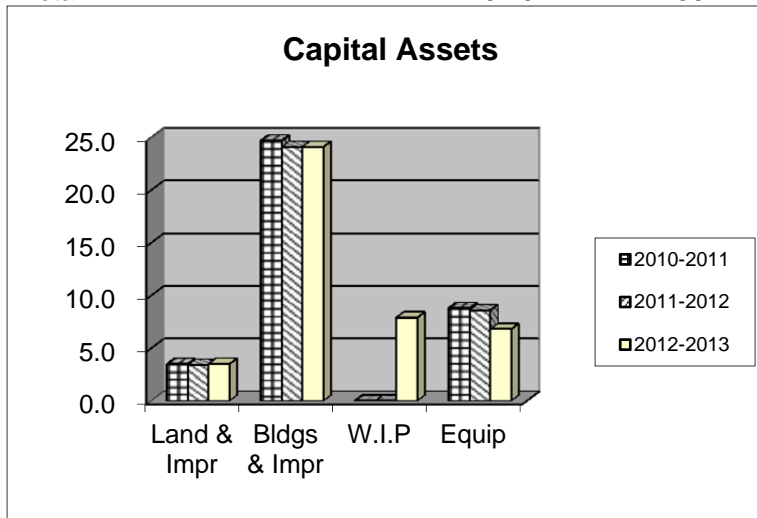
During the course of the 2012-2013 fiscal year, the County Office revised its general fund budget on occasion to better serve our client populations. None of the revisions were significant in terms of the overall budget. The County Office uses a fairly centralized budgeting process which affords control of the budget while allowing flexibility at the program level.

CAPITAL ASSETS

At the end of the 2012-2013 fiscal year, the County Office had \$73.0 million invested in land, buildings, and capital equipment. Depreciation totaling \$30.7 million was charged against the value of those assets for net capital assets of \$42.3 million. Table 4 shows the breakdown of capital assets.

Chart 4.
 Capital Assets at June 30
 (Net of Depreciation - In Millions)

	2010-2011	2011-2012	2012-2013
Land & Improvements	3.5	3.4	3.5
Buildings & Improvements	24.7	24.1	24.1
Work In Progress	0.0	0.0	7.9
Equipment	<u>8.8</u>	<u>8.6</u>	<u>6.8</u>
Total	37.0	36.1	42.3



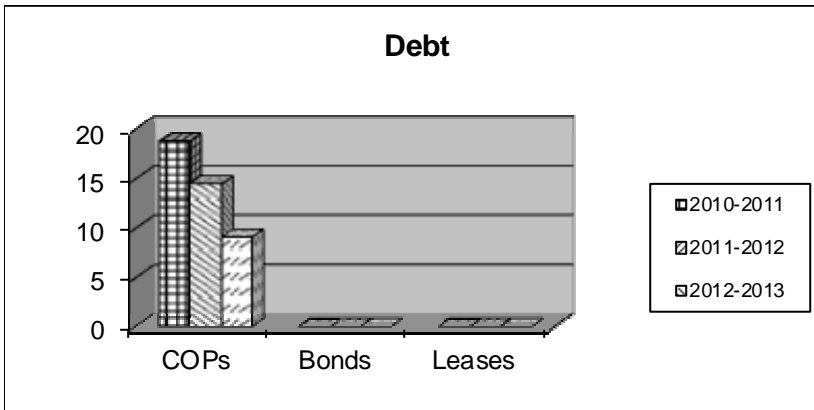
San Diego County Office of Education
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2013
Unaudited

DEBT

At June 30, 2013 the County Office had \$9.1 million in certificates of participation, with \$0.3 million due within one year.

Chart 5.
 Debt - Governmental Funds
(In Millions)

	2010- 2011	2011- 2012	2012- 2013
Certificates of Participation	18.8	14.5	9.1
Lease Revenue Bonds	0.0	0.0	0.0
Capital Leases	0.0	0.0	0.0



CURRENT FINANCIAL RELATED ACTIVITIES

The San Diego County Office of Education is strong financially. As the preceding information shows, assets are strong and the amount of debt is a very small percentage of the overall budget. However, the financial future is full of challenges due to the County Office's dependence on the State of California for the bulk of its revenue.

The passage of Proposition 30, Sales and Income Tax Increase (2012) has given clarity to the 2013-2014 funding level for education. The economic outlook is positive with some sectors of the economy improving. The 2013-2014 State Budget also enacted the Local Control Funding Formula (LCFF) for Local Education Agencies (LEAs). The LCFF is a new distribution system for funding that became effective July 1, 2013. The impact of the new LCFF is still uncertain. With the enactment of the LCFF, County Office's must adopt a Local Control Accountability Plan (LCAP) on or before July 1, 2014, and every three years thereafter. However, the regulations and templates for the LCAP and the accounting for the LCFF are still being drafted. Therefore, the County Office must remain diligent in working with the new funding formula as regulations are adopted.

San Diego County Office of Education
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2013
Unaudited

In addition, while the County Office's system of budgeting and internal controls is well regarded, all of the County Office's financial abilities will be needed to meet the challenges of the future.

CONTACTING THE COUNTY OFFICE'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the County Office's finances and to show the County Office's accountability for the money it receives. If you have questions about this report or need additional financial information you may contact Pamela Gilles, Senior Director, Internal Business Services at San Diego County Office of Education, 6401 Linda Vista Road, Room 501, San Diego, CA 92111. Or E-mail to pgilles@sdcoe.net.

Basic Financial Statements

SAN DIEGO COUNTY OFFICE OF EDUCATION
 STATEMENT OF NET POSITION
 JUNE 30, 2013

	Governmental Activities
ASSETS:	
Cash	\$ 91,735,436
Receivables	96,127,829
Prepaid Expenses	260,988
Prepaid Debt Issue Costs	264,957
Investment in JPA	795,080
Capital Assets:	
Land	1,877,796
Land Improvements	3,063,436
Buildings	36,270,387
Equipment	23,926,443
Work in Progress	7,902,648
Less Accumulated Depreciation	(30,727,356)
Total Assets	<u>231,497,644</u>
LIABILITIES:	
Accounts Payable	75,287,898
Unearned Revenue	4,793,023
Long-Term Liabilities:	
Due Within One Year	2,001,940
Due in More Than One Year	15,218,256
Total Liabilities	<u>97,301,117</u>
NET POSITION:	
Net Investment in Capital Assets	33,268,354
Restricted for:	
Capital Projects	6,071,740
Debt Service	1,559,573
Educational Programs	23,511,769
Other Purposes (Expendable)	234
Other Purposes (Nonexpendable)	263,388
Unrestricted	69,521,469
Total Net Position	<u>\$ 134,196,527</u>

The accompanying notes are an integral part of this statement.

SAN DIEGO COUNTY OFFICE OF EDUCATION

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2013

Functions	Expenses	Program Revenues		Capital Grants and Contributions	Net (Expense) Revenue and Change in Net Position
		Charges for Services	Operating Grants and Contributions		
Governmental Activities:					
Instruction	\$ 45,793,072	\$ 1,085,866	\$ 23,615,198	\$ 111	\$ (21,091,897)
Instruction-Related Services:					
Instructional Supervision and Administration	116,293,013	19,995,035	76,496,486	-	(19,801,492)
Instructional Library, Media and Technology	3,204,566	300,823	783,766	-	(2,119,977)
School Site Administration	4,996,044	58,158	146,639	-	(4,791,247)
Pupil Services:					
Food Services	759,106	6,459	91,386	-	(661,261)
All Other Pupil Services	8,404,575	4,890,038	2,486,450	-	(1,028,087)
General Administration:					
Centralized Data Processing	8,987,000	4,410	469	-	(8,982,121)
All Other General Administration	15,364,311	1,622,146	3,087,961	-	(10,654,204)
Plant Services	10,013,126	592,858	949,165	-	(8,471,103)
Ancillary Services	54,809	47,571	5,054	-	(2,184)
Community Services	11,358	-	-	-	(11,358)
Enterprise Activities	46,914	25,243	2,682	-	(18,989)
Interest on Long-Term Debt	989,401	-	-	-	(989,401)
Special Education Transfers Between Agencies	235,210,640	12,005,925	195,045,586	-	(28,159,129)
Debt Issue Costs	205,888	-	-	-	(205,888)
Depreciation (Unallocated)*	1,631,412	-	-	-	(1,631,412)
Total Expenses	\$ 451,965,235	\$ 40,634,532	\$ 302,710,842	\$ 111	\$ (108,619,750)

General Revenues:

Taxes and Subventions:

Taxes Levied for General Purposes	64,302,040
Taxes Levied for Other Specific Purposes	2,241,781
Federal and State Aid Not Restricted to Specific Programs	38,400,069
Interest and Investment Earnings	484,994
Miscellaneous	15,147,138
Total General Revenues	\$ 120,576,022

Change in Net Position

11,956,272

Net Position Beginning

123,403,043

Adjustment to Beginning Net Position (Note R)

(1,162,788)

Net Position Ending

\$ 134,196,527

*This amount excludes depreciation that is included in the direct expenses of various programs.

The accompanying notes are an integral part of this statement.

SAN DIEGO COUNTY OFFICE OF EDUCATION

BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2013

	General Fund	Special Education Pass-Through	Other Governmental Funds	Total Governmental Funds
ASSETS:				
Cash in County Treasury	\$ 60,607,575	\$ 1,199,115	\$ 28,558,918	\$ 90,365,608
Cash on Hand and in Banks	534,992	-	-	534,992
Cash in Revolving Fund	2,400	-	-	2,400
Cash with a Fiscal Agent/Trustee	-	-	832,437	832,437
Accounts Receivable	45,602,566	50,269,838	255,424	96,127,828
Due from Other Funds	4,601,848	429,102	5,714,809	10,745,759
Prepaid Expenditures	260,988	-	-	260,988
Total Assets	<u>111,610,369</u>	<u>51,898,055</u>	<u>35,361,588</u>	<u>198,870,012</u>
LIABILITIES AND FUND BALANCE:				
Liabilities:				
Accounts Payable	\$ 22,671,316	\$ 51,824,431	\$ 617,332	\$ 75,113,079
Due to Other Funds	5,085,081	73,624	5,587,054	10,745,759
Unearned Revenue	4,779,267	-	13,756	4,793,023
Total Liabilities	<u>32,535,664</u>	<u>51,898,055</u>	<u>6,218,142</u>	<u>90,651,861</u>
Fund Balance:				
Nonspendable Fund Balances:				
Revolving Cash	2,400	-	-	2,400
Prepaid Items	260,988	-	-	260,988
Restricted Fund Balances				
Educational Programs	20,203,925	-	-	20,203,925
Child Development Programs	-	-	21,900	21,900
Capital Projects	-	-	4,450,898	4,450,898
Committed Fund Balances				
Deferred Maintenance	-	-	7,129,213	7,129,213
Assigned Fund Balances				
Educational Programs	50,799,174	-	-	50,799,174
Capital Projects	-	-	17,541,201	17,541,201
Other Assigned Purposes	-	-	234	234
Unassigned:				
Reserve for Economic Uncertainty	5,147,329	-	-	5,147,329
Other Unassigned	2,660,889	-	-	2,660,889
Total Fund Balance	<u>79,074,705</u>	<u>-</u>	<u>29,143,446</u>	<u>108,218,151</u>
Total Liabilities and Fund Balances	<u>\$ 111,610,369</u>	<u>\$ 51,898,055</u>	<u>\$ 35,361,588</u>	<u>\$ 198,870,012</u>

SAN DIEGO COUNTY OFFICE OF EDUCATION
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
 TO THE STATEMENT OF NET POSITION
 JUNE 30, 2013

Total fund balances - governmental funds balance sheet \$ 108,218,152

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 relating to governmental activities, at historical cost:	73,040,710	
Accumulated depreciation:	(30,727,356)	
	Net:	42,313,354

Investment in JPA: In governmental funds the investment in JPA is not recorded because the investment involves an interest in capital assets less the long term debt used to finance those assets. In the government-wide statement of net position the investment is reflected. 795,080

Unamortized costs: In governmental funds, debt issue costs are recognized as expenditures in the period they are incurred. In the government-wide statements, debt issue costs are amortized over the life of the debt. Unamortized debt issue costs included in prepaid expense on the statement of net position are: 264,957

Unmatured interest on long-term debt: In governmental funds, interest on long-term debt is not recognized until the period in which it matures and is paid. In the government-wide statement of activities, it is recognized in the period that it is incurred. The additional liability for unamatured interest owing at the end of the period was: (174,820)

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:

Net OPEB Obligation	6,425,678	
Compensated absences payable	1,313,940	
Retirement incentive	423,000	
Certificates of participation payable	9,057,578	
	Total:	(17,220,196)

Net position of governmental activities - statement of net position \$ 134,196,527

The accompanying notes are an integral part of this statement.

SAN DIEGO COUNTY OFFICE OF EDUCATION

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES

IN FUND BALANCES - GOVERNMENTAL FUNDS

FOR THE YEAR ENDED JUNE 30, 2013

	General Fund	Special Education Pass-Through	Other Governmental Funds	Total Governmental Funds
Revenues:				
Revenue Limit Sources:				
State Apportionments	\$ 1,395,408	\$ -	\$ -	\$ 1,395,408
Local Sources	64,302,421	-	-	64,302,421
Federal Revenue	18,665,394	46,827,307	304,252	65,796,953
Other State Revenue	109,252,048	156,658,949	1,417,570	267,328,567
Other Local Revenue	62,191,371	-	2,944,793	65,136,164
Total Revenues	<u>255,806,642</u>	<u>203,486,256</u>	<u>4,666,615</u>	<u>463,959,513</u>
Expenditures:				
Instruction	44,852,019	-	-	44,852,019
Instruction - Related Services	123,845,777	-	323,277	124,169,054
Pupil Services	9,140,964	-	-	9,140,964
Ancillary Services	54,809	-	-	54,809
Community Services	11,313	-	-	11,313
Enterprise	36,225	-	-	36,225
General Administration	30,486,387	-	34,842	30,521,229
Plant Services	10,849,291	-	2,201,314	13,050,605
Other Outgo	31,319,358	203,486,256	405,026	235,210,640
Debt Service:				
Principal	-	-	5,542,500	5,542,500
Interest	-	-	1,135,382	1,135,382
Total Expenditures	<u>250,596,143</u>	<u>203,486,256</u>	<u>9,642,341</u>	<u>463,724,740</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>5,210,499</u>	<u>-</u>	<u>(4,975,726)</u>	<u>234,773</u>
Other Financing Sources (Uses):				
Transfers In	11,691,946	-	12,631,724	24,323,670
Transfers Out	(6,799,428)	-	(17,524,242)	(24,323,670)
Total Other Financing Sources (Uses)	<u>4,892,518</u>	<u>-</u>	<u>(4,892,518)</u>	<u>-</u>
Net Change in Fund Balance	10,103,017	-	(9,868,244)	234,773
Fund Balance, July 1	68,971,688	-	39,011,690	107,983,378
Fund Balance, June 30	<u>\$ 79,074,705</u>	<u>\$ -</u>	<u>\$ 29,143,446</u>	<u>\$ 108,218,151</u>

The accompanying notes are an integral part of this statement.

SAN DIEGO COUNTY OFFICE OF EDUCATION

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2013

Net change in fund balances - total governmental funds \$ 234,774

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:	10,769,198	
Depreciation expense:	(3,253,018)	
Net:		7,516,180

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:

5,405,000

Debt issue costs: In governmental funds, debt issue costs are recognized as expenditures in the period they are incurred. In the government-wide statements, issue costs are amortized over the life of the debt. The difference between debt issue costs recognized in the current period and issue costs amortized for the period is:

(205,888)

Gain or loss from disposal of capital assets: In governmental funds, the entire proceeds from disposal of capital assets are reported as revenue. In the statement of activities, only the resulting gain or loss is reported. The difference between the proceeds from disposal of capital assets and the resulting gain or loss is:

(135,330)

Unmatured interest on long-term debt: In governmental funds, interest on long-term debt is recognized in the period that it becomes due. In the government-wide statement of activities, it is recognized in the period that it is incurred. Unmatured interest owing at the end of the period, less matured interest paid during the period but owing from the prior period, was:

113,020

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 amounts earned. The difference between compensated absences paid and compensated absences earned was:

213,342

Postemployment benefits other than pensions (OPEB): In governmental funds, OPEB costs are recognized when employer contributions are made. In the statement of activities, OPEB costs are recognized on the accrual basis. This year, the difference between OPEB costs and actual employer contributions was:

(894,279)

Amortization of debt issue premium or discount: In governmental funds, if debt is issued at a premium or at a discount, the premium or discount is recognized as Other Financing Sources or Uses in the period it is incurred. In the government-wide statements, the premium or discount is amortized as interest over the life of the debt. Amortization of premium or discount for the period is:

32,958

Other liabilities not normally liquidated with current financial resources: In the government-wide statements, expenses must be accrued in connection with any liabilities incurred during the period that are not expected to be liquidated with current financial resources, in addition to compensated absences and long-term debt. Examples include special termination benefits such as retirement incentives financed over time, and structured legal settlements. This year, expenses incurred for such obligations were:

(423,000)

Change in value of investment in JPA: Investment in JPA is not accounted for in the governmental funds. Since the Investment in JPA is made up of capital assets and long-term debt, the value is recorded in the government wide financial statements. The change in value of the investment in JPA for the current year is:

99,495

Change in net position of governmental activities - Statement of Activities

\$ 11,956,272

The accompanying notes are an integral part of this statement.

SAN DIEGO COUNTY OFFICE OF EDUCATION

STATEMENT OF FIDUCIARY NET POSITION

FIDUCIARY FUNDS

JUNE 30, 2013

	Private-Purpose Trust Funds	Agency Funds
	<u> </u>	<u> </u>
ASSETS:		
Cash in County Treasury	\$ 115,116,364	\$ 28,378,198
Cash on Hand and in Banks	750,000	8,004
Cash with a Fiscal Agent/Trustee	1,402,880	-
Accounts Receivable	2,276,362	-
Total Assets	<u>119,545,606</u>	<u>28,386,202</u>
 LIABILITIES:		
Accounts Payable	\$ 1,519,515	\$ -
Due to Student Groups	-	8,004
Incurred and Reported Claims	21,651,725	-
Incurred but Not Reported Claims	38,048,689	-
Liability for Underground Storage Tanks	70,000	-
Unearned Revenue	1,993,484	-
Other Liabilities	-	28,378,198
Total Liabilities	<u>63,283,413</u>	<u>28,386,202</u>
 NET POSITION:		
Held in Trust	56,262,193	-
Total Net Position	<u>\$ 56,262,193</u>	<u>\$ -</u>

SAN DIEGO COUNTY OFFICE OF EDUCATION

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

FIDUCIARY FUNDS

FOR THE YEAR ENDED JUNE 30, 2013

	Private-Purpose Trust Funds
Additions:	
Investment Income	\$ 397,529
Participant Fees	105,697,042
Transfers In	2,194,378
Commissions and Refunds	1,110,525
Total Additions	<u>109,399,474</u>
Deductions:	
Claims Paid, Net of Recoveries	61,231,873
Insurance Premiums	27,584,291
Transfers Out	2,553,286
Administrative Expenses	6,015,039
Construction Projects	10,521,882
Other Expenses	4,073,563
Total Deductions	<u>111,979,934</u>
Change in Net Position	(2,580,460)
Net Position-Beginning of the Year	58,842,653
Net Position-End of the Year	<u>\$ 56,262,193</u>

The accompanying notes are an integral part of this statement.

SAN DIEGO COUNTY OFFICE OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2013

A. Summary of Significant Accounting Policies

San Diego County Office of Education (County Office) 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 conform to accounting principles generally accepted in the United States of America (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants (AICPA).

1. Reporting Entity

The County Office's combined financial statements include the accounts of all its operations. The County Office evaluated whether any other entity should be included in these financial statements. The criteria for including organizations as component units within the County Office's reporting entity, as set forth in GASB Statements No. 14 and 31 include whether:

- the organization is legally separate (can sue and be sued in its name)
- the County Office holds the corporate powers of the organization
- the County Office appoints a voting majority of the organization's board
- the County Office is able to impose its will on the organization
- the organization has the potential to impose a financial benefit/burden on the County Office
- there is fiscal dependency by the organization on the County Office

The County Office also evaluated each legally separate, tax-exempt organization whose resources are used principally to provide support to the County Office to determine if its omission from the reporting entity would result in financial statements which are misleading or incomplete. GASB Statement No. 14 requires inclusion of such an organization as a component unit when: 1) The economic resources received or held by the organization are entirely or almost entirely for the direct benefit of the County Office, its component units or its constituents; and 2) The County Office or its component units is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the organization; and 3) Such economic resources are significant to the County Office.

Based on these criteria, the County Office has no component units. Additionally, the County Office is not a component unit of any other reporting entity as defined by the GASB Statement.

2. Basis of Presentation, Basis of Accounting

a. Basis of Presentation

Government-wide Statements: The statement of net position and the statement of activities include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the County Office'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. The County Office does not allocate indirect expenses in the statement of activities. Program revenues include (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the County Office's funds, with separate statements presented for each fund category. 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 nonmajor funds.

SAN DIEGO COUNTY OFFICE OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2013

The County Office reports the following major governmental funds:

County School Service Fund (General Fund). This is the County Office's primary operating fund. It accounts for all financial resources of the County Office except those required to be accounted for in another fund.

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

In addition, the County Office reports the following fund types:

Special Revenue Funds: These funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes.

Capital Projects Funds: These funds account for the acquisition and/or construction of all major governmental general fixed assets.

Private-Purpose Trust Funds: These funds are used to report trust arrangements under which principal and income benefit individuals, private organizations, or other governments not reported in other fiduciary fund types.

Agency Funds: These funds are used for the purpose of remitting payroll tax deposits for various school districts and transmitting various state monies to individual districts and for reflecting the activities of student body activities.

Fiduciary funds are reported in the fiduciary fund financial statements. However, because their assets are held in a trustee or agent capacity and are therefore not available to support County Office programs, these funds are not included in the government-wide statements.

b. Measurement Focus, Basis of Accounting

Government-wide and Fiduciary Fund Financial Statements: These financial statements are reported using the economic resources measurement focus. They 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. Nonexchange transactions, in which the County Office gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental Fund Financial Statements: Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The County Office does not consider revenues collected after its year-end to be available in the current period. Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the State are recognized under the susceptible-to-accrual concept. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

When the County Office incurs an expenditure or expense for which both restricted and unrestricted resources may be used, it is the County Office's policy to use restricted resources first, then unrestricted resources.

SAN DIEGO COUNTY OFFICE OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2013

3. Encumbrances

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

4. Assets, Liabilities, and Equity

a. Deposits and Investments

Cash balances held in banks and in revolving funds are insured to \$250,000 by the Federal Depository Insurance Corporation. All cash held by the financial institutions is fully insured or collateralized.

In accordance with Education Code Section 41001, the County Office maintains substantially all its cash in the San Diego County Treasury. The county pools these funds with those of other entities in the county and invests the cash. These pooled funds are carried at cost, which approximates market value. Interest earned is deposited quarterly into participating funds, in which interest earned is credited to the general fund. Any investment losses are proportionately shared by all funds in the pool.

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

b. Stores Inventories and Prepaid Expenditures

Inventories are recorded using the purchases method in that the cost is recorded as an expenditure at the time individual inventory items are purchased. These inventories are immaterial and have been omitted from these statements.

The County Office has the option of reporting an expenditure in governmental funds for prepaid items either when purchased or during the benefiting period. The County Office has chosen to report the expenditure during the benefiting period.

c. Capital Assets

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated fixed assets are recorded at their estimated fair value at the date of the donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. A capitalization threshold of \$5,000 is used.

Capital assets are being depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Buildings	20-50
Building Improvements	20-25
Land Improvements	20-25
Vehicles	8
Office Equipment	5-15
Computer Equipment	5-20

SAN DIEGO COUNTY OFFICE OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2013

d. Compensated Absences

Accumulated unpaid employee vacation benefits are recognized as liabilities of the County Office. The amount the County Office has estimated as being due within one year is shown in the general fund under accounts payable. The remaining amounts are accrued through GASB Statement 34 conversion entries and are shown as a portion of long-term debt on the government-wide statement of net position.

Some classified and management employees are entitled to be paid for a portion of their earned sick leave. For those employees unpaid sick leave benefits are recorded as a liability of the county office. For the remaining employees accumulated sick leave benefits are not recognized as liabilities of the County Office. The County Office's policy is to record sick leave as an operating expense in the period taken since such benefits do not vest nor is payment probable; however, unused sick leave is added to the creditable service period for calculation of retirement benefits when the employee retires.

e. 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 prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the County Office has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

f. Interfund Activity

Interfund activity results from loans, services provided, reimbursements or transfers between funds. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures or expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers In and Transfers Out are netted and presented as a single "Transfers" line on the government-wide statement of activities. Similarly, interfund receivables and payables are netted and presented as a single "Internal Balances" line of the government-wide statement of net position.

g. Property Taxes

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. Unsecured property taxes are payable in one installment on or before August 31. The County of San Diego bills and collects the taxes for the County Office.

h. Fund Balances - Governmental Funds

Fund balances of the governmental funds are classified as follows:

Nonspendable Fund Balance - represents amounts that cannot be spent because they are either not in spendable form (such as inventory or prepaid insurance) or legally required to remain intact (such as notes receivable or principal of a permanent fund).

Restricted Fund Balance - represents amounts that are constrained by external parties, constitutional provisions or enabling legislation.

SAN DIEGO COUNTY OFFICE OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2013

Committed Fund Balance - represents amounts that can only be used for a specific purpose because of a formal action by the County Office's superintendent. Committed amounts cannot be used for any other purpose unless the superintendent removes those constraints by taking the same type of formal action. Committed fund balance amounts may be used for other purposes with appropriate due process by the superintendent. Commitments are typically done through adoption and amendment of the budget. Committed fund balance amounts differ from restricted balances in that the constraints on their use do not come from outside parties, constitutional provisions, or enabling legislation.

Assigned Fund Balance - represents amounts which the County Office intends to use for a specific purpose, but that do not meet the criteria to be classified as restricted or committed. Intent may be stipulated by the superintendent or by an official or body to which the superintendent delegates the authority. Specific amounts that are not restricted or committed in a special revenue, capital projects, debt service or permanent fund are assigned for purposes in accordance with the nature of their fund type or the fund's primary purpose. Assignments within the general fund conveys that the intended use of those amounts is for a specific purpose that is narrower than the general purposes of the County Office itself.

Unassigned Fund Balance - represents amounts which are unconstrained in that they may be spent for any purpose. Only the general fund reports a positive unassigned fund balance. Other governmental funds might report a negative balance in this classification because of overspending for specific purposes for which amounts had been restricted, committed or assigned.

i. GASB 54 Fund Presentation

Consistent with fund reporting requirements established by GASB Statement No. 54, Fund 20 (Special Reserve Fund for Other Post Employment Benefits) has been combined with the General Fund for purposes of presentation in the audit report.

j. Use of Estimates

The preparation of financial statements in conformity with GAAP requires the use of management's estimates. Actual results could differ from those estimates.

k. GASB 63 Implementation

The County Office has implemented GASB Statement Number 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position. The purpose of this pronouncement is to improve financial reporting by standardizing the presentation of deferred inflows and outflows of resources and their effects on a government's net position. Transactions that result in consumption or acquisition of net assets in one period that are applicable to future periods as deferred outflows and inflows of resources which are distinguished from assets and liabilities. Net position is the difference between 1) assets and deferred outflows of resources; and 2) liabilities and deferred inflows of resources. For the year ended June 30, 2013 the County Office did not have any items which would be considered deferred outflows and inflows of resources.

SAN DIEGO COUNTY OFFICE OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2013

B. Compliance and Accountability

1. Finance-Related Legal and Contractual Provisions

In accordance with GASB Statement No. 38, "Certain Financial Statement Note Disclosures," violations of finance-related legal and contractual provisions, if any, are reported below, along with actions taken to address such violations:

<u>Violation</u>	<u>Action Taken</u>
None reported	Not applicable

2. Deficit Fund Balance or Fund net position of Individual Funds

Following are funds having deficit fund balances or fund net position at year end, if any, along with remarks which address such deficits:

<u>Fund Name</u>	<u>Deficit Amount</u>	<u>Remarks</u>
None reported	Not applicable	Not applicable

C. Cash and Investments

1. Cash in County Treasury:

In accordance with Education Code Section 41001, the County Office maintains substantially all of its cash in the San Diego County Treasury as part of the common investment pool (\$233,860,171 as of June 30, 2013). The fair value of the County Office's portion of this pool as of that date, as provided by the pool sponsor, was \$233,236,497. Assumptions made in determining the fair value of the pooled investment portfolios are available from the County Treasurer.

2. Cash on Hand, in Banks, and in Revolving Fund

Cash balances on hand and in banks (\$1,292,996 as of June 30, 2013) and in the revolving fund (\$2,400) are insured up to \$250,000 by the Federal Depository Insurance Corporation. All cash held by the financial institution is fully insured or collateralized.

3. Investments:

The County Office's investments at June 30, 2013 are shown below.

<u>Investment or Investment Type</u>	<u>Maturity</u>	<u>Fair Value</u>
Business Certificate (Cash in Bank)	8/15/2013	\$ 168,414
Business Certificate (Cash in Bank)	8/27/2013	152,167
Business Certificate (Cash in Bank)	8/15/2014	178,987
Investment Contracts (Cash with Fiscal Agent)	<30 Days	1,402,845
Money Market (Cash with Fiscal Agent)	<30 Days	832,436
Union Bank Institutional Trust Fund (Cash with Fiscal Agent)	<30 Days	35
San Diego County Treasury Pooled Investments	393 Days	233,236,497
Total Investments		<u>\$ 235,971,381</u>

SAN DIEGO COUNTY OFFICE OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2013

4. Analysis of Specific Deposit and Investment Risks

GASB Statement No. 40 requires a determination as to whether the County Office was exposed to the following specific investment risks at year end and if so, the reporting of certain related disclosures:

a. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The county is restricted by Government Code Section 53635 pursuant to Section 53601 to invest only in time deposits, U.S. government securities, state registered warrants, notes or bonds, State Treasurer's investment pool, bankers' acceptances, commercial paper, negotiable certificates of deposit, and repurchase or reverse repurchase agreements. The ratings of securities by nationally recognized rating agencies are designed to give an indication of credit risk. The San Diego County Investment Pool is rated AA+ by Standard & Poors.

b. Custodial Credit Risk

Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the County Office's name.

Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government, and are held by either the counterparty or the counterparty's trust department or agent but not in the County Office's name. At year end, the County Office was not exposed to custodial credit risk.

c. Concentration of Credit Risk

This risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. At year end, the County Office was not exposed to concentration of credit risk.

d. Interest Rate Risk

This is the risk that changes in 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 manages its exposure to interest rate risk by investing in the County Treasury. The County Office maintains an investment with the San Diego Investment Pool with a fair value of \$233,236,497 and a book value of \$233,856,735. The weighted average days to maturity for this investment pool is 393 days.

e. Foreign Currency Risk

This is the risk that exchange rates will adversely affect the fair value of an investment. At year end, the County Office was not exposed to foreign currency risk.

SAN DIEGO COUNTY OFFICE OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2013

5. Investment Accounting Policy

The County Office is required by GASB Statement No. 31 to disclose its policy for determining which investments, if any, are reported at amortized cost. The County Office's general policy is to report money market investments and short-term participating interest-earning investment contracts at amortized cost and to report nonparticipating interest-earning investment contracts using a cost-based measure. However, if the fair value of an investment is significantly affected by the impairment of the credit standing of the issuer or by other factors, it is reported at fair value. All other investments are reported at fair value unless a legal contract exists which guarantees a higher value. The term "short-term" refers to investments which have a remaining term of one year or less at time of purchase. The term "nonparticipating" means that the investment's value does not vary with market interest rate changes. Nonnegotiable certificates of deposit are examples of nonparticipating interest-earning investment contracts.

The County Office's investments in external investment pools are reported at an amount determined by the fair value per share of the pool's underlying portfolio, unless the pool is 2a7-like, in which case they are reported at share value. A 2a7-like pool is one which is not registered with the Securities and Exchange Commission ("SEC") as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940.

D. Accounts Receivable

Accounts receivable at June 30, 2013 consisted of:

	General Fund	Special Education Fund	Nonmajor Governmental Funds	Private Purpose Trusts	Total
Federal Government:					
Federal programs	\$ 3,543,926	\$ 573,033	\$ -	\$ -	\$ 4,116,959
State Government:					
Revenue Limit	270,025	-	-	-	270,025
Lottery	1,214,069	-	-	-	1,214,069
Special Education	15,400,980	49,696,805	-	-	65,097,785
ASES	5,335,009	-	-	-	5,335,009
Other state programs	10,049,523	-	31,250	-	10,080,773
Local Sources:					
Interest	66,921	-	30,089	-	97,010
Fees and Contracts	9,130,101	-	-	-	9,130,101
Tuition	3,336,262	-	-	-	3,336,262
Other local sources	2,590,759	-	194,086	2,276,362	5,061,207
Totals	<u>\$ 45,602,566</u>	<u>\$ 50,269,838</u>	<u>\$ 255,425</u>	<u>\$ 2,276,362</u>	<u>\$ 98,404,191</u>

There are no significant receivables which are not scheduled for collection within one year of year end.

SAN DIEGO COUNTY OFFICE OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2013

E. Capital Assets

Capital asset activity for the year ended June 30, 2013, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 1,877,796	\$ -	\$ -	\$ 1,877,796
Work in progress	-	7,902,648	-	7,902,648
Total capital assets not being depreciated	<u>1,877,796</u>	<u>7,902,648</u>	<u>-</u>	<u>9,780,444</u>
Capital assets being depreciated:				
Buildings	35,307,067	1,089,595	126,275	36,270,387
Improvements	2,852,665	210,771	-	3,063,436
Equipment	24,054,622	1,566,184	1,694,363	23,926,443
Total capital assets being depreciated	<u>62,214,354</u>	<u>2,866,550</u>	<u>1,820,638</u>	<u>63,260,266</u>
Less accumulated depreciation for:				
Buildings	(11,212,956)	(993,098)	(63,059)	(12,142,995)
Improvements	(1,316,569)	(100,722)	-	(1,417,291)
Equipment	(16,630,121)	(2,159,198)	(1,622,249)	(17,167,070)
Total accumulated depreciation	<u>(29,159,646)</u>	<u>(3,253,018)</u>	<u>(1,685,308)</u>	<u>(30,727,356)</u>
Total capital assets being depreciated, net	<u>33,054,708</u>	<u>(386,468)</u>	<u>135,330</u>	<u>32,532,910</u>
Governmental activities capital assets, net	<u>\$ 34,932,504</u>	<u>\$ 7,516,180</u>	<u>\$ 135,330</u>	<u>\$ 42,313,354</u>

Depreciation was charged to functions as follows:

Instruction	\$ 308,295
Instruction-Related Services	221,625
General Administration	736,263
Plant Services	355,423
Unallocated	1,631,412
	<u>\$ 3,253,018</u>

F. Interfund Balances and Activities

1. Due To and From Other Funds

Balances due to and due from other funds at June 30, 2013 consisted of the following:

Due To Fund	Due From Fund	Amount	Purpose
General Fund	Child Development Fund	\$ 2,544	OPEB
General Fund	Child Development Fund	513	Indirect Costs
General Fund	Deferred Maintenance Fund	167	OPEB
General Fund	Deferred Maintenance Fund	500,000	Deferred maintenance
General Fund	Building Fund	4,000,000	Technology project
General Fund	Special Reserve Fund (40)	25,000	Capital project
General Fund	Special Education Fund	73,624	Special Education
Special Education Fund	General Fund	429,102	Special Education
Building Fund	Deferred Maintenance Fund	1,058,830	Deferred maintenance
Special Reserve Fund (40)	General Fund	4,655,979	Technology projects
	Total	<u>\$ 10,745,759</u>	

All amounts due are scheduled to be repaid within one year.

SAN DIEGO COUNTY OFFICE OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2013

2. Transfers To and From Other Funds

Transfers to and from other funds at June 30, 2013 consisted of the following:

Transfers From	Transfers To	Amount	Purpose
Special Reserve Fund (40)	General Fund	\$ 5,487,862	Technology project
General Fund	General Fund	1,425,000	Deferred maintenance
Building Fund	General Fund	4,000,000	Technology project
Deferred Maintenance Fund	General Fund	500,000	Deferred maintenance
Special Reserve Fund (20)	General Fund	29,084	SERP Transfer
Capital Facilities Fund	General Fund	250,000	Capital projects
Capital Facilities Fund	Building Fund	5,197,930	Capital projects
General Fund	Building Fund	556,025	Debt service
Special Reserve Fund (40)	Building Fund	793,203	Capital projects
Deferred Maintenance Fund	Building Fund	1,058,830	Deferred maintenance
General Fund	Special Reserve Fund (40)	4,789,319	Capital Projects
Capital Facilities Fund	Special Reserve Fund (40)	236,418	Capital projects
	Total	\$ 24,323,671	

G. Short-Term Debt Activity

The County Office accounts for short-term debts for maintenance purposes through the General Fund. The proceeds from loans are shown in the financial statements as Other Resources.

H. Accounts Payable

Accounts payable at June 30, 2013 consisted of:

	General Fund	Special Education Fund	Nonmajor Governmental Funds	Private Purpose Trusts	Total
Vendor payables	\$ 21,169,776	\$ -	\$ 616,124	\$ 1,519,515	\$ 23,305,415
Payroll and related benefits	364,473	-	1,208	-	365,681
Pass through liabilities	-	51,824,431	-	-	51,824,431
Vacation liability	1,137,067	-	-	-	1,137,067
Totals	\$ 22,671,316	\$ 51,824,431	\$ 617,332	\$ 1,519,515	\$ 76,632,594

I. Unearned Revenue

Unearned revenue at June 30, 2013 consisted of:

	General Fund	Special Education Funds	Nonmajor Governmental Funds	Private Purpose Trusts	Total
Federal Government: Federal programs	\$ 756,958	\$ -	\$ -	\$ -	\$ 756,958
State Government: State programs	14,168	-	13,756	-	27,924
Local Sources: Fees and Contracts	4,008,141	-	-	1,993,484	6,001,625
Totals	\$ 4,779,267	\$ -	\$ 13,756	\$ 1,993,484	\$ 6,786,507

SAN DIEGO COUNTY OFFICE OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2013

J. Long-Term Obligations

1. Long-Term Obligation Activity

Long-term obligations include debt and other long-term liabilities. Changes in long-term obligations for the year ended June 30, 2013 are as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
<u>Governmental activities:</u>					
Certificates of participation	\$ 14,450,000	\$ -	\$ 5,405,000	\$ 9,045,000	\$ 265,000
Premium	45,535	-	32,957	12,578	-
Other general long term debt	-	423,000	-	423,000	423,000
Compensated absences *	1,527,279	-	213,339	1,313,940	1,313,940
Net OPEB obligation	5,531,399	1,643,000	748,721	6,425,678	-
Total governmental activities	<u>\$ 21,554,213</u>	<u>\$ 2,066,000</u>	<u>\$ 6,400,017</u>	<u>\$ 17,220,196</u>	<u>\$ 2,001,940</u>

<u>Liability</u>	<u>Activity Type</u>	<u>Fund</u>
Compensated absences	Governmental	General

2. Debt Service Requirements

Debt service requirements on long-term debt, net of OPEB obligation, premium, and compensated absences at June 30, 2013 are as follows:

a.

<u>Year Ending June 30,</u>	<u>Certificates of Participation</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 265,000	\$ 381,838	\$ 646,838
2015	275,000	372,962	647,962
2016	285,000	363,336	648,336
2017	295,000	353,362	648,362
2018	305,000	342,446	647,446
2019-2023	1,710,000	1,520,348	3,230,348
2024-2028	2,095,000	1,129,356	3,224,356
2029-2033	2,600,000	626,538	3,226,538
2034-2038	1,215,000	80,278	1,295,278
Totals	<u>\$ 9,045,000</u>	<u>\$ 5,170,464</u>	<u>\$ 14,215,464</u>

b.

<u>Year Ending June 30,</u>	<u>Other General Long Term Debt</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 423,000	\$ -	\$ 423,000
Totals	<u>\$ 423,000</u>	<u>\$ -</u>	<u>\$ 423,000</u>

3. Certificates of Participation

On February 15, 2005 the San Diego County Board of Education issued Certificates of Participation of \$10,875,000 pursuant to a trust agreement between the San Diego County Board of Education and Union Bank of California (Trustee). The Certificates were issued to provide funds to finance a portion of construction cost of certain educational facilities which will be used jointly by the San Marcos Unified School District and the Board of Education, establish a trust fund for the certificates, and pay debt issuance costs. The certificates bear interest ranging from 3.00 - 5.75% payable semi-annually on February 1 and August 1 each year. The certificates fully mature on February 1, 2035.

SAN DIEGO COUNTY OFFICE OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2013

On November 9, 2009 the San Diego County Board of Education issued Certificates of Participation of \$5,755,000 pursuant to a trust agreement between the San Diego County Board of Education and Union Bank of California (Trustee). The Certificates were issued to provide funds to finance a portion of construction cost of certain educational facilities known as the Camp Cuyamaca Outdoor School Project, establish a trust fund for the certificates, and pay debt issuance costs. The certificates bear interest ranging from 4.25 - 5.25% payable semi-annually on February 1 and August 1 each year. The County Office exercised their right to defease the certificates during the 2012-13 fiscal year.

Total certificates of deposit can be summarized as follows:

	Date of Issue	Interest Rate	Maturity Date	Amount of Original Issue
2005 COPs	02/15/2005	3.00-5.75%	02/01/2035	\$ 10,875,000
2009 COPs	11/09/2009	4.25-5.25%	02/01/2025	5,755,000
Total COPs				<u>\$ 16,630,000</u>

	Beginning Balance	Increases	Decreases	Ending Balance
2005 COPs	\$ 9,300,000	\$ -	\$ 255,000	\$ 9,045,000
2009 COPs	5,150,000	-	5,150,000	-
Total COPs	<u>\$ 14,450,000</u>	<u>\$ -</u>	<u>\$ 5,405,000</u>	<u>\$ 9,045,000</u>

K. Commitments Under Noncapitalized Leases

Commitments under operating (noncapitalized) lease agreements for property provide for minimum future rental payments as of June 30, 2013 as follows:

Year Ending June 30,	
2014	\$ 3,479,372
2015	2,891,170
2016	2,153,166
2017	1,450,322
2018	754,510
Total Minimum Rentals	<u>\$ 10,728,540</u>

The County Office will receive no sublease rental revenues nor pay any contingent rentals associated with these leases.

In conjunction with the County Office's participation in the San Diego County Educational Facilities Authority No. 1, the County Office entered into a lease agreement with the JPA for use of the premises. The lease was renewed in November 2003 to reflect the changes in the bond refinancing. The term of the lease ends on August 15, 2018. The JPA holds title to the property, and upon expiration of the lease, the title to the property will remain with the JPA.

Future gross minimum lease payments under the agreement are as follows:

Year Ending June 30,	
2014	\$ 177,596
2015	177,102
2016	176,194
2017	177,444
2018	175,840
2019-2023	178,719
Total Minimum Lease Payments	<u>\$ 1,062,895</u>

SAN DIEGO COUNTY OFFICE OF EDUCATION
 NOTES TO THE FINANCIAL STATEMENTS
 YEAR ENDED JUNE 30, 2013

Commitments under operating (noncapitalized) lease agreements for software provide for minimum future rental payments as of June 30, 2013 as follows:

<u>Year Ending June 30,</u>	
2014	\$ 229,777
Total Minimum Rentals	<u>\$ 229,777</u>

Commitments under operating (noncapitalized) lease agreements for copy machines provide for minimum future rental payments as of June 30, 2013 as follows:

<u>Year Ending June 30,</u>	
2014	\$ 54,781
2015	52,548
2016	44,500
2017	12,468
Total Minimum Rentals	<u>\$ 164,297</u>

Commitments under operating (noncapitalized) lease agreements for computers provide for minimum future rental payments as of June 30, 2013 as follows:

<u>Year Ending June 30,</u>	
2014	\$ 127,346
2015	59,778
2016	29,831
2017	1,598
2018	421
Total Minimum Rentals	<u>\$ 218,974</u>

L. Joint Ventures (Joint Powers Agreements)

The County Office participates in the San Diego County Schools Risk Management Joint Powers Authority. The relationship between the County Office and the JPA is such that the JPA is not a component unit of the County Office.

The JPA arranges for and provide for various types of insurances for its members as requested. The JPA is governed by a board consisting of a representative from each of its members. The board controls the operations of the JPA, including selection of management and approval of operating budgets, independent of any influence by the members beyond their representation on the board. Each member pays a premium commensurate with the level of coverage requested and shares surpluses and deficits proportionate to their participation in the JPA.

Combined condensed unaudited financial information of the County Office's share of the JPA for the year ended June 30, 2013 is as follows:

	San Diego County Schools Risk Management JPA
	<hr/>
Total Assets	\$ 4,392,152
Total Liabilities	2,278,830
Total Fund Balance	2,113,322
Total Cash Receipts	1,469,988
Total Cash Disbursements	1,418,499
Net Change in Fund Balance	51,489

SAN DIEGO COUNTY OFFICE OF EDUCATION

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2013

The County Office entered into a Joint Powers Agreement (JPA) with the Grossmont Union High School District for the purpose of obtaining lease revenue bonds for the construction of a joint use facility. The JPA entity formed is called the San Diego County Educational Facilities Authority No. 1. The County Office has a 50% interest in the assets and liabilities of the JPA. On June 15, 1995 the JPA issued three series of lease revenue bonds in the amount of \$4,620,000, with interest rates ranging from 5.375% to 6.50%.

In November 2003, the JPA issued new lease revenue bonds in the amount of \$4,155,000 for the purpose of advance refunding \$3,890,000 of the JPA's outstanding 1995 lease revenue bonds and to pay \$125,000 principal of the 1995 lease revenue bonds that matured on August 15, 2004. The new bonds mature from August 15, 2004 to August 15, 2018 with interest rates ranging from 2% to 4.25%. The County's interest in the JPA is recorded as Investment in JPA on the Statement of Net Position.

In January 2004, the County Office entered into a Joint Exercise of Powers Agreement with the San Marcos Unified School District. This agreement created and established the San Diego County Educational Facilities Authority No. 2 for the purpose of constructing, owning and operating the North County Regional Education Center (NCREC) on behalf of the County Office and the San Marcos Unified School District.

In February 2005, the County Office issued \$10,875,000 of Certificates of Participation (COP) to provide funds to finance a portion of the construction costs of the NCREC. These COP's are recorded as long-term debt of the County Office and mature in February 2035 (See Note I).

In July 2010, the County Office entered into a Joint Powers Agreement (JPA) with Carlsbad Unified School District, Ramona Unified School District, Coronado Unified School District, Santee School District, San Pasqual Union Elementary School District, Poway Unified School District, Borrego Springs Unified School District, Bonsall School District, Valley Center-Pauma Unified School District, and Lakeside Union School District. The JPA entity formed is called the San Diego County Energy Authority. The purpose of the agreement is to develop county-wide energy strategies, services and projects which may reduce local energy use borrowing and utility costs, promote the greater use of existing and new energy products, services and/or projects to provide significant public benefits. The financial activities of the JPA are reflected as a fund within the private purpose trust funds. Additional financial information can be obtained from the JPA.

In December 2010, the County Office entered into a Joint Powers Agreement (JPA) with Lemon Grove School District, Julian Union High School District, and La Mesa Spring Valley School District. Julian Union High School District subsequently left the JPA in June 2011. The JPA entity formed is called the K-12 Public School Districts and Community Colleges Facility Authority. The purpose of the JPA is to provide a vehicle for member school districts to cooperatively develop, plan and undertake school facility projects, including but not limited to, construction and/or maintenance. Financial activities of the JPA are reflected as a fund within the private purpose trust funds. Additional financial information can be obtained from the JPA.

SAN DIEGO COUNTY OFFICE OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2013

M. Employee Retirement Systems

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

PERS:

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 Law. 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, California 95814.

Funding Policy

Active plan members are required to contribute 7% of their salary, 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 the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2012-13 was 15.223% of annual payroll. The contribution requirements of the plan members are established by state statute. The County Office's contributions to CalPERS for the fiscal year ending June 30, 2013, 2012 and 2011 were \$5,894,820, \$6,166,668 and \$5,426,376, respectively, and equal 100% of the required contributions for each year.

STRS:

Plan Description

The County Office contributes to the State Teachers' Retirement System (STRS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by STRS. The plan provides retirement, disability, and survivor benefits to beneficiaries. Benefit provisions are established by state statutes, as legislatively amended, within the State Teachers' Retirement Law. STRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the STRS annual financial report may be obtained from the STRS, 7667 Folsom Boulevard, Sacramento, California 95826.

Funding Policy

Active plan members are required to contribute 8% of their salary 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 the STRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2012-13 was 8.25% of annual payroll. The contribution requirements of the plan members are established by state statute. The County Office's contributions to STRS for the fiscal year ending June 30, 2013, 2012 and 2011 were \$3,224,630, \$3,361,220 and \$3,260,856, respectively, and equal 100% of the required contributions for each year. The amount contributed by the State on behalf of the County Office was \$2,019,603.

SAN DIEGO COUNTY OFFICE OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2013

N. Postemployment Benefits Other Than Pension Benefits

Plan Description: The San Diego County Office of Education (SDCOE) administers a single-employer healthcare plan (Plan). The plan currently provides medical benefits to age 65 to eligible active employees and eligible retirees. A retiree must be at least age 55 and have at least 10 years service at retirement to be eligible for retiree medical benefits. SDCOE's contribution is based on the cost for single (retiree only) coverage. Some employees also receive life insurance benefits paid by SDCOE. As of the valuation date (July 1, 2012), there were 1,058 active employees earning eligibility for future retiree health benefits as well as 107 retirees currently in receipt of health benefits.

Certificated (Teachers Only) Employees

SDCOE provides retiree medical (including prescription drug, mental health and chiropractic benefits), dental and vision benefits to eligible retirees and their dependents. SDCOE's financial obligation is to pay up to 100% of the cost for single medical coverage subject to an annual maximum to the retiree's attainment of age 65. The maximum amount contributed by SDCOE shall not exceed the amount being contributed by SDCOE for current active employees. The retiree pays for any amounts above SDCOE's contribution for the cost of covering eligible dependents. The retiree also pays for the cost of dental and vision coverage.

SDCOE does not provide any retiree health benefits beyond the retiree's attainment of age 65. Dependent coverage (except COBRA continuation) ceases upon the death of the retiree or when the retiree reaches age 65. The retiree shall apply for Medicare benefits when eligible. In the event that the retiree becomes eligible for benefits through Medicare or any other benefit or insurance program prior to the retirees attainment of age 65, SDCOE will contribute the specified amounts towards a plan which provides comparable benefits as those for a similarly situated current active or retired employee.

Eligibility for retiree health coverage requires retirement under STRS/PERS on or after age 55 with at least at least ten (10) years of full-time service prior to retirement.

Classified Management & Other Employees

SDCOE provides retiree medical (including prescription drug, mental health and chiropractic benefits), dental, vision and life (2 x annual salary) benefits to eligible retirees and their dependents. SDCOE's financial obligation is to pay for basic life insurance coverage to age 65 and pay up to 100% of the cost for single medical coverage subject to an annual maximum up to the first day of the month following the employee's eligibility for Medicare or at the beginning of any month in which the employee becomes eligible for other medical coverage. The maximum amount contributed by SDCOE shall not exceed the amount being contributed by SDCOE for current active employees. The retiree pays for any amounts above SDCOE's contribution for the cost of covering eligible dependents. The retiree also pays for the cost of dental and vision coverage.

SDCOE does not provide any retiree health benefits beyond age 65 or Medicare eligibility, if earlier. Dependent coverage (except COBRA continuation) ceases upon the death of the retiree or when the retiree reaches age 65 or Medicare eligibility, if earlier.

Eligibility for retiree health coverage requires retirement under STRS/PERS/CERS on or after age 55 with at least 10 years of full-time SDCOE service. Full-time employees who have worked in this capacity for 30 years with SDCOE are eligible on or after age 50.

Board Members

SDCOE provides retiree medical (including prescription drug, mental health and chiropractic benefits), dental and vision benefits to eligible retirees and their dependents. For Board Members who served in office after January 1, 1981 who were first elected or appointed prior to January 1, 1990 whose total years of service at time of termination is 12 years or more, SDCOE will pay 100% of the cost for medical, dental and vision coverage for the retiree and any eligible dependents for the retiree's lifetime.

SAN DIEGO COUNTY OFFICE OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2013

For Board Members who were first elected or appointed after January 1, 1990 whose total years of service at time of termination is 12 years or more, SDCOE provided benefits are similar to other retired employees (benefits are provided only between the ages of 55 and 65 or Medicare eligibility).

For Board Members first elected or appointed on or after January 1, 1995 or who have not completed 12 years of service, retiree health benefits are only available on a self-pay basis.

Funding Policy: Beginning in the 2007-08 fiscal year, SDCOE began to accrue the retiree health benefits in accordance with GASB Statement No. 45. The expense is generally accrued over the working career of employees. Under accrual accounting in accordance with GASB Statement No. 45, SDCOE's expense for the fiscal year ended June 30, 2013 is \$1,643,000.

Annual Required Contribution (Expense): Under GASB 45, SDCOE is required to expense for its retiree benefits using accrual accounting. The accrual expense or annual required contribution under GASB terminology is generally accrued over the working career of employees. For SDCOE's 2012-13 fiscal year, the annual required contribution is \$2,015,443. This amount is comprised of the present value of benefits accruing in the fiscal year (normal cost) plus a 25-year amortization (on a level-dollar basis) of the unfunded actuarial accrued liability (past service liability) at July 1, 2012. Thus, it represents a means to expense the plan's liabilities in an orderly manner. The net OPEB obligation at the end of the fiscal year will reflect any actual retiree health benefits and related payments and any GASB eligible pre-funding amounts made by SDCOE during the period.

Annual Required Contribution (ARC)	\$ 2,015,443
Interest on OPEB Obligation	20,024
Adjustment to ARC	<u>(392,467)</u>
Annual OPEB Cost	1,643,000
Actual Employer Contributions	<u>(748,721)</u>
Increase in Net OPEB Obligation	894,279
Net OPEB Obligation, Beginning of Year	<u>5,531,399</u>
Net OPEB Obligation, End of Year	<u><u>\$ 6,425,678</u></u>

SDCOE's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the fiscal year ended June 30, 2013 is as follows:

Fiscal Year Ended June 30,	Net Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2013	\$1,643,000	45.57%	\$6,425,678

O. Contractual Labor Commitments

The County Office currently negotiates labor contracts with two separate labor groups. The two groups, the employees covered, and the terms of each commitment are as follows:

- 1 California Teachers Association (CTA)-representative for teachers of the County Office. The contractual agreement with the CTA expires on June 30, 2013.
- 2 California School Employees Association (CSEA)-representative for the office-technical and business services employees of the County Office. The contractual agreement with CSEA expires on June 30, 2013.

SAN DIEGO COUNTY OFFICE OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2013

P. Commitments and Contingencies

Litigation

The County Office is involved in various litigation. In the opinion of management and legal counsel, the disposition of all litigation pending will not have a material effect on the financial statements.

State and Federal Allowances, Awards, and Grants

The County Office has received state and federal funds for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowances under terms of the grants, it is believed that any required reimbursement will not be material.

Q. Construction Commitments

As of June 30, 2013 the County Office had the following commitments with respect to unfinished capital projects:

	<u>Commitment</u>	<u>*Expected Date of Final Completion</u>
Construction in Process:		
Enterprise Resource Planning Project	\$ 24,571,915	September 2016

* Expected date of final completion subject to change

R. Adjustment to Beginning Balance

The County Office made the following accounting corrections to the beginning balances of the government-wide financial statements:

Beginning July 1, 2012 Audited Government-Wide net position-Originally Stated	\$ 123,403,043
Adjustments:	
Correction to fixed assets	<u>(1,162,788)</u>
Beginning July 1, 2012 Audited Government-Wide net position-As Restated	<u>\$ 122,240,255</u>

Required Supplementary Information

Required supplementary information includes financial information and disclosures required by the Governmental Accounting Standards Board but not considered a part of the basic financial statements.

SAN DIEGO COUNTY OFFICE OF EDUCATION

EXHIBIT B-1

GENERAL FUND
 BUDGETARY COMPARISON SCHEDULE
 FOR THE YEAR ENDED JUNE 30, 2013

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Revenue Limit Sources:				
State Apportionments	\$ 681,351	\$ 1,395,408	\$ 1,395,408	\$ -
Local Sources	58,674,128	64,302,420	64,302,421	1
Federal Revenue	18,978,345	22,113,937	18,665,394	(3,448,543)
Other State Revenue	121,656,832	110,663,386	109,252,048	(1,411,338)
Other Local Revenue	62,377,721	70,160,250	62,166,540	(7,993,710)
Total Revenues	<u>262,368,377</u>	<u>268,635,401</u>	<u>255,781,811</u>	<u>(12,853,590)</u>
Expenditures:				
Current:				
Certificated Salaries	42,610,045	44,245,725	42,547,657	1,698,068
Classified Salaries	39,853,239	39,668,812	37,093,664	2,575,148
Employee Benefits	28,978,420	29,397,588	27,568,382	1,829,206
Books And Supplies	4,981,386	6,179,983	4,134,556	2,045,427
Services And Other Operating Expenditures	117,557,565	138,474,314	99,473,765	39,000,549
Other Outgo	31,875,935	31,630,708	31,319,358	311,350
Direct Support/Indirect Costs	(29,906)	1,621,429	(34,842)	1,656,271
Capital Outlay	447,285	10,433,769	8,493,603	1,940,166
Total Expenditures	<u>266,273,969</u>	<u>301,652,328</u>	<u>250,596,143</u>	<u>51,056,185</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(3,905,592)</u>	<u>(33,016,927)</u>	<u>5,185,668</u>	<u>38,202,595</u>
Other Financing Sources (Uses):				
Transfers In	3,722,432	11,691,945	11,691,946	1
Transfers Out	(1,981,025)	(6,770,344)	(6,770,344)	-
Total Other Financing Sources (Uses)	<u>1,741,407</u>	<u>4,921,601</u>	<u>4,921,602</u>	<u>1</u>
Net Change in Fund Balance	<u>(2,164,185)</u>	<u>(28,095,326)</u>	<u>10,107,270</u>	<u>38,202,596</u>
Fund Balance, July 1	<u>61,462,168</u>	<u>61,462,168</u>	<u>61,462,168</u>	<u>-</u>
Fund Balance, June 30	<u>\$ 59,297,983</u>	<u>\$ 33,366,842</u>	<u>\$ 71,569,438</u>	<u>\$ 38,202,596</u>

SAN DIEGO COUNTY OFFICE OF EDUCATION

SPECIAL EDUCATION PASS-THROUGH FUND

BUDGETARY COMPARISON SCHEDULE

FOR THE YEAR ENDED JUNE 30, 2013

EXHIBIT B-2

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Federal Revenue	\$ 66,795,354	\$ 81,220,381	\$ 46,827,307	\$ (34,393,074)
Other State Revenue	147,251,002	156,827,543	156,658,949	(168,594)
Total Revenues	<u>214,046,356</u>	<u>238,047,924</u>	<u>203,486,256</u>	<u>(34,561,668)</u>
Expenditures:				
Other Outgo	<u>214,046,356</u>	<u>238,047,924</u>	<u>203,486,256</u>	<u>34,561,668</u>
Total Expenditures	<u>214,046,356</u>	<u>238,047,924</u>	<u>203,486,256</u>	<u>34,561,668</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	-	-	-	-
Other Financing Sources (Uses):				
Total Other Financing Sources (Uses)	-	-	-	-
Net Change in Fund Balance	-	-	-	-
Fund Balance, July 1	-	-	-	-
Fund Balance, June 30	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

SAN DIEGO COUNTY OFFICE OF EDUCATION

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF FUNDING PROGRESS

POST EMPLOYMENT HEALTHCARE PLAN

YEAR ENDED JUNE 30, 2013

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
7/1/2006	\$ -	\$ 12,305,255	\$ 12,305,255	-	\$ 81,540,200	15.1%
7/1/2008	-	11,745,889	11,745,889	-	72,237,000	16.3%
7/1/2010	-	12,722,298	12,722,298	-	71,700,000	17.7%
7/1/2012	-	14,015,759	14,015,759	-	74,110,000	18.9%

SAN DIEGO COUNTY OFFICE OF EDUCATION
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2013

Budgetary Comparison Schedule - General Fund

As described in Note A to these financial statements, for purposes of reporting in conformity with GASB Statement No. 54, the District's Special Reserve Fund for Post Employment Benefits (Fund 20) was included with the General Fund for financial reporting purposes. The Budgetary Comparison Schedule included in the Required Supplementary Information is based on the legally adopted budget for the General Fund only.

Combining Statements and Budget Comparisons as Supplementary Information

This supplementary information includes financial statements and schedules not required by the Governmental Accounting Standards Board, nor a part of the basic financial statements, but are presented for purposes of additional analysis.

SAN DIEGO COUNTY OFFICE OF EDUCATION

COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2013

	Special Revenue Funds	Capital Projects Funds	Total Nonmajor Governmental Funds (See Exhibit A-3)
ASSETS:			
Cash in County Treasury	\$ 8,810,972	\$ 19,747,946	\$ 28,558,918
Cash with a Fiscal Agent/Trustee	-	832,437	832,437
Accounts Receivable	38,390	217,034	255,424
Due from Other Funds	-	5,714,809	5,714,809
Total Assets	<u>8,849,362</u>	<u>26,512,226</u>	<u>35,361,588</u>
LIABILITIES AND FUND BALANCE:			
Liabilities:			
Accounts Payable	\$ 122,205	\$ 495,127	\$ 617,332
Due to Other Funds	1,562,054	4,025,000	5,587,054
Unearned Revenue	13,756	-	13,756
Total Liabilities	<u>1,698,015</u>	<u>4,520,127</u>	<u>6,218,142</u>
Fund Balance:			
Restricted Fund Balances			
Child Development Program	21,900	-	21,900
Capital Projects	-	4,450,898	4,450,898
Committed Fund Balances			
Deferred Maintenance	7,129,213	-	7,129,213
Assigned Fund Balances			
Capital Projects	-	17,541,201	17,541,201
Other Assigned Purposes	234	-	234
Total Fund Balance	<u>7,151,347</u>	<u>21,992,099</u>	<u>29,143,446</u>
Total Liabilities and Fund Balances	<u>\$ 8,849,362</u>	<u>\$ 26,512,226</u>	<u>\$ 35,361,588</u>

SAN DIEGO COUNTY OFFICE OF EDUCATION

COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2013

	Special Revenue Funds	Capital Projects Funds	Total Nonmajor Governmental Funds (See Exhibit A-5)
Revenues:			
Federal Revenue	\$ 304,252	\$ -	\$ 304,252
Other State Revenue	1,417,570	-	1,417,570
Other Local Revenue	39,516	2,905,277	2,944,793
Total Revenues	<u>1,761,338</u>	<u>2,905,277</u>	<u>4,666,615</u>
Expenditures:			
Instruction - Related Services	323,277	-	323,277
General Administration	34,842	-	34,842
Plant Services	875,167	1,326,147	2,201,314
Other Outgo	405,026	-	405,026
Debt Service:			
Principal	-	5,542,500	5,542,500
Interest	-	1,135,382	1,135,382
Total Expenditures	<u>1,638,312</u>	<u>8,004,029</u>	<u>9,642,341</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>123,026</u>	<u>(5,098,752)</u>	<u>(4,975,726)</u>
Other Financing Sources (Uses):			
Transfers In	-	12,631,724	12,631,724
Transfers Out	(1,558,830)	(15,965,412)	(17,524,242)
Total Other Financing Sources (Uses)	<u>(1,558,830)</u>	<u>(3,333,688)</u>	<u>(4,892,518)</u>
Net Change in Fund Balance	(1,435,804)	(8,432,440)	(9,868,244)
Fund Balance, July 1	8,587,151	30,424,539	39,011,690
Fund Balance, June 30	<u>\$ 7,151,347</u>	<u>\$ 21,992,099</u>	<u>\$ 29,143,446</u>

SAN DIEGO COUNTY OFFICE OF EDUCATION

COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS
JUNE 30, 2013

	Child Development Fund	Deferred Maintenance Fund	Forest Reserve Fund	Total Nonmajor Special Revenue Funds (See Exhibit C-1)
ASSETS:				
Cash in County Treasury	\$ 21,134	\$ 8,789,662	\$ 176	\$ 8,810,972
Accounts Receivable	31,259	7,073	58	38,390
Total Assets	<u>52,393</u>	<u>8,796,735</u>	<u>234</u>	<u>8,849,362</u>
LIABILITIES AND FUND BALANCE:				
Liabilities:				
Accounts Payable	\$ 13,680	\$ 108,525	\$ -	\$ 122,205
Due to Other Funds	3,057	1,558,997	-	1,562,054
Unearned Revenue	13,756	-	-	13,756
Total Liabilities	<u>30,493</u>	<u>1,667,522</u>	<u>-</u>	<u>1,698,015</u>
Fund Balance:				
Restricted Fund Balances				
Child Development Programs	21,900	-	-	21,900
Committed Fund Balances				
Deferred Maintenance	-	7,129,213	-	7,129,213
Assigned Fund Balances				
Other Purposes	-	-	234	234
Total Fund Balance	<u>21,900</u>	<u>7,129,213</u>	<u>234</u>	<u>7,151,347</u>
Total Liabilities and Fund Balances	<u>\$ 52,393</u>	<u>\$ 8,796,735</u>	<u>\$ 234</u>	<u>\$ 8,849,362</u>

SAN DIEGO COUNTY OFFICE OF EDUCATION

COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED JUNE 30, 2013

	Child Development Fund	Deferred Maintenance Fund	Forest Reserve Fund	Total Nonmajor Special Revenue Funds (See Exhibit C-2)
Revenues:				
Federal Revenue	\$ -	\$ -	\$ 304,252	\$ 304,252
Other State Revenue	358,740	1,058,830	-	1,417,570
Other Local Revenue	5,999	33,283	234	39,516
Total Revenues	<u>364,739</u>	<u>1,092,113</u>	<u>304,486</u>	<u>1,761,338</u>
Expenditures:				
Instruction - Related Services	323,277	-	-	323,277
General Administration	34,842	-	-	34,842
Plant Services	-	875,167	-	875,167
Other Outgo	100,642	-	304,384	405,026
Total Expenditures	<u>458,761</u>	<u>875,167</u>	<u>304,384</u>	<u>1,638,312</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(94,022)</u>	<u>216,946</u>	<u>102</u>	<u>123,026</u>
Other Financing Sources (Uses):				
Transfers Out	-	(1,558,830)	-	(1,558,830)
Total Other Financing Sources (Uses)	<u>-</u>	<u>(1,558,830)</u>	<u>-</u>	<u>(1,558,830)</u>
Net Change in Fund Balance	(94,022)	(1,341,884)	102	(1,435,804)
Fund Balance, July 1	115,922	8,471,097	132	8,587,151
Fund Balance, June 30	<u>\$ 21,900</u>	<u>\$ 7,129,213</u>	<u>\$ 234</u>	<u>\$ 7,151,347</u>

SAN DIEGO COUNTY OFFICE OF EDUCATION

COMBINING BALANCE SHEET

NONMAJOR CAPITAL PROJECTS FUNDS

JUNE 30, 2013

	Building Fund	Capital Facilities Fund
ASSETS:		
Cash in County Treasury	\$ 3,665,695	\$ 6,066,743
Cash with a Fiscal Agent/Trustee	832,437	-
Accounts Receivable	2,611	204,303
Due from Other Funds	1,058,830	-
Total Assets	<u>5,559,573</u>	<u>6,271,046</u>
 LIABILITIES AND FUND BALANCE:		
Liabilities:		
Accounts Payable	\$ -	\$ 199,307
Due to Other Funds	4,000,000	-
Total Liabilities	<u>4,000,000</u>	<u>199,307</u>
 Fund Balance:		
Restricted Fund Balances		
Capital Projects	-	1,164,954
Assigned Fund Balances		
Capital Projects	1,559,573	4,906,785
Total Fund Balance	<u>1,559,573</u>	<u>6,071,739</u>
 Total Liabilities and Fund Balances	<u>\$ 5,559,573</u>	<u>\$ 6,271,046</u>

EXHIBIT C-5

County School Facilities Fund	Capital Outlay Projects Fund	Total Nonmajor Capital Projects Funds (See Exhibit C-1)
\$ 30,700	\$ 9,984,808	\$ 19,747,946
-	-	832,437
24	10,096	217,034
-	4,655,979	5,714,809
<u>30,724</u>	<u>14,650,883</u>	<u>26,512,226</u>
\$ -	\$ 295,820	\$ 495,127
-	25,000	4,025,000
<u>-</u>	<u>320,820</u>	<u>4,520,127</u>
30,724	3,255,220	4,450,898
-	11,074,843	17,541,201
<u>30,724</u>	<u>14,330,063</u>	<u>21,992,099</u>
<u>\$ 30,724</u>	<u>\$ 14,650,883</u>	<u>\$ 26,512,226</u>

SAN DIEGO COUNTY OFFICE OF EDUCATION

COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR CAPITAL PROJECTS FUNDS
FOR THE YEAR ENDED JUNE 30, 2013

	Building Fund	Capital Facilities Fund
Revenues:		
Other Local Revenue	\$ 593,087	\$ 2,266,658
Total Revenues	<u>593,087</u>	<u>2,266,658</u>
Expenditures:		
Plant Services	10	613,002
Debt Service:		
Principal	5,542,500	-
Interest	1,135,382	-
Total Expenditures	<u>6,677,892</u>	<u>613,002</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(6,084,805)</u>	<u>1,653,656</u>
Other Financing Sources (Uses):		
Transfers In	7,605,987	-
Transfers Out	(4,000,000)	(5,684,348)
Total Other Financing Sources (Uses)	<u>3,605,987</u>	<u>(5,684,348)</u>
Net Change in Fund Balance	(2,478,818)	(4,030,692)
Fund Balance, July 1	4,038,390	10,102,431
Fund Balance, June 30	<u>\$ 1,559,572</u>	<u>\$ 6,071,739</u>

EXHIBIT C-6

County School Facilities Fund	Capital Outlay Projects Fund	Total Nonmajor Capital Projects Funds (See Exhibit C-2)
\$ 111	\$ 45,421	\$ 2,905,277
<u>111</u>	<u>45,421</u>	<u>2,905,277</u>
-	713,135	1,326,147
-	-	5,542,500
-	-	1,135,382
<u>-</u>	<u>713,135</u>	<u>8,004,029</u>
111	(667,714)	(5,098,752)
-	5,025,737	12,631,724
-	(6,281,064)	(15,965,412)
<u>-</u>	<u>(1,255,327)</u>	<u>(3,333,688)</u>
111	(1,923,041)	(8,432,440)
30,613	16,253,105	30,424,539
<u>\$ 30,724</u>	<u>\$ 14,330,064</u>	<u>\$ 21,992,099</u>

SAN DIEGO COUNTY OFFICE OF EDUCATION

COMBINING STATEMENT OF FIDUCIARY NET POSITION

PRIVATE-PURPOSE TRUST FUNDS

JUNE 30, 2013

	Employee Benefits Self-Insurance Trust Fund	Workers' Compensation Trust Fund
ASSETS:		
Cash in County Treasury	\$ 24,149,186	\$ 65,344,829
Cash on Hand and in Banks	100,000	500,000
Cash with a Fiscal Agent/Trustee	-	-
Accounts Receivable	1,634,119	304,908
Total Assets	<u>25,883,305</u>	<u>66,149,737</u>
LIABILITIES:		
Accounts Payable	\$ 1,060,039	\$ 202,347
Incurred and Reported Claims	-	17,412,676
Incurred but Not Reported Claims	4,468,797	28,938,902
Liability for Underground Storage Tanks	-	-
Unearned Revenue	1,993,484	-
Total Liabilities	<u>7,522,320</u>	<u>46,553,925</u>
NET POSITION:		
Held in Trust	18,360,985	19,595,812
Total Net Position	<u>\$ 18,360,985</u>	<u>\$ 19,595,812</u>

EXHIBIT C-7

Property & Liability Self-Insurance Trust Fund	Joint Facilities Authority	Joint Public Energy Authority	Total Private- Purpose Trust Funds (See Exhibit A-7)
\$ 25,618,913	\$ 3,436	\$ -	\$ 115,116,364
150,000	-	-	750,000
-	1,402,845	35	1,402,880
140,528	196,807	-	2,276,362
<u>25,909,441</u>	<u>1,603,088</u>	<u>35</u>	<u>119,545,606</u>
\$ 56,886	\$ 200,243	\$ -	\$ 1,519,515
4,239,049	-	-	21,651,725
4,640,990	-	-	38,048,689
70,000	-	-	70,000
-	-	-	1,993,484
<u>9,006,925</u>	<u>200,243</u>	<u>-</u>	<u>63,283,413</u>
16,902,516	1,402,845	35	56,262,193
<u>\$ 16,902,516</u>	<u>\$ 1,402,845</u>	<u>\$ 35</u>	<u>\$ 56,262,193</u>

SAN DIEGO COUNTY OFFICE OF EDUCATION
 COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
 ALL PRIVATE-PURPOSE TRUST FUNDS
 FOR THE YEAR ENDED JUNE 30, 2013

	Employee Benefits Self-Insurance Trust Fund	Workers' Compensation Trust Fund	Property & Liability Self-Insurance Trust Fund
Additions:			
Investment Income	\$ 79,713	\$ 223,524	\$ 93,893
Participant Fees	62,387,116	23,673,838	10,552,865
Transfers In	1,806,866	258,238	129,274
Commissions and Refunds	1,110,525	-	-
Total Additions	<u>65,384,220</u>	<u>24,155,600</u>	<u>10,776,032</u>
Deductions:			
Claims Paid, Net of Recoveries	41,685,390	16,204,345	3,342,138
Insurance Premiums	13,985,715	8,467,137	5,131,439
Transfers Out	2,131,948	166,970	254,368
Administrative Expenses	4,004,725	641,809	1,368,505
Construction Projects	-	-	-
Other Expenses	308,596	3,314,453	450,514
Total Deductions	<u>62,116,374</u>	<u>28,794,714</u>	<u>10,546,964</u>
Change in Net Assets	3,267,846	(4,639,114)	229,068
Net Assets-Beginning of the Year	15,093,139	24,234,926	16,673,448
Net Assets-End of the Year	<u>\$ 18,360,985</u>	<u>\$ 19,595,812</u>	<u>\$ 16,902,516</u>

EXHIBIT C-8

Joint Facilities Authority Trust Fund	Joint Energy Authority Trust Fund	Total Private-Purpose Trust Funds (See Exhibit A-8)
\$ 399	\$ -	\$ 397,529
9,062,128	21,095	105,697,042
-	-	2,194,378
-	-	1,110,525
<u>9,062,527</u>	<u>21,095</u>	<u>109,399,474</u>
-	-	61,231,873
-	-	27,584,291
-	-	2,553,286
-	-	6,015,039
10,500,822	21,060	10,521,882
-	-	4,073,563
<u>10,500,822</u>	<u>21,060</u>	<u>111,979,934</u>
(1,438,295)	35	(2,580,460)
2,841,140	-	58,842,653
<u>\$ 1,402,845</u>	<u>\$ 35</u>	<u>\$ 56,262,193</u>

SAN DIEGO COUNTY OFFICE OF EDUCATION

COMBINING STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES

AGENCY FUNDS

JUNE 30, 2013

	Warrant/ Pass-through Fund	Student Body Fund	Total Agency Funds (See Exhibit A-7)
ASSETS:			
Cash in County Treasury	\$ 28,378,198	\$ -	\$ 28,378,198
Cash on Hand and in Banks	-	8,004	8,004
Total Assets	<u>28,378,198</u>	<u>8,004</u>	<u>28,386,202</u>
LIABILITIES:			
Due to Student Groups	\$ -	\$ 8,004	\$ 8,004
Other liabilities	28,378,198	-	28,378,198
Total Liabilities	<u>-</u>	<u>8,004</u>	<u>28,386,202</u>
NET POSITION:			
Total Net Position	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Other Supplementary Information

This section includes financial information and disclosures not required by the Governmental Accounting Standards Board and not considered a part of the basic financial statements. It may, however, include information which is required by other entities.

Supplementary Information Section

SAN DIEGO COUNTY OFFICE OF EDUCATION

LOCAL EDUCATION AGENCY

ORGANIZATION STRUCTURE

JUNE 30, 2013

The San Diego County Board of Education has operated under the laws of the State of California continuously since the 1800's. The Board of Education became fiscally independent of the San Diego County Board of Supervisors on July 1, 1970. There were no changes in the boundaries of the Board of Education during the fiscal year. The Board of Education currently maintains and operates juvenile court and community schools, classes for preschool handicapped children and outdoor education facilities.

Governing Board

<u>Name</u>	<u>Office</u>	<u>Term and Term Expiration</u>
Sharon C. Jones	President	Four year term Expires January 2015
Susan Hartley	Vice President	Four year term Expires January 2015
Gregg Robinson, Ph.D.	Member	Four year term Expires January 2017
Lyn Neylon, Ph.D.	Member	Four year term Expires January 2017
Mark C. Anderson, M.P.H.	Member	Four year term Expires January 2017

Administration

Randolph E. Ward, Ed.D.
Superintendent

Lora Duzyk
Assistant Superintendent
Business Services Division

Pamela Gilles
Senior Director
Internal Business Services

SAN DIEGO COUNTY OFFICE OF EDUCATION

SCHEDULE OF AVERAGE DAILY ATTENDANCE

YEAR ENDED JUNE 30, 2013

TABLE D-1

	Second Period Report		Annual Report	
	Original	Revised	Original	Revised
Elementary:				
Juvenile Halls, Homes and Camps	54.98	N/A	62.13	N/A
County Group Home and Instruction Pupils	1.50	N/A	1.88	N/A
Community Schools	241.29	N/A	261.96	N/A
Elementary totals	<u>297.77</u>	<u>N/A</u>	<u>325.97</u>	<u>N/A</u>
High School:				
Juvenile Halls, Homes and Camps	1,208.29	N/A	1,188.49	N/A
County Group Home and Instruction Pupils	40.65	N/A	39.91	N/A
Community Schools	1,813.22	N/A	1,798.40	N/A
High school totals	<u>3,062.16</u>	<u>N/A</u>	<u>3,026.80</u>	<u>N/A</u>
ADA totals	<u>3,359.93</u>	<u>N/A</u>	<u>3,352.77</u>	<u>N/A</u>

Note: There were no audit findings which resulted in revisions to the second period or annual report of attendance.

Average daily attendance is a measurement of the number of pupils attending classes of the county office. 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. This schedule provides information regarding the attendance of students at various grade levels and in different programs.

SAN DIEGO COUNTY OFFICE OF EDUCATION

SCHEDULE OF INSTRUCTIONAL TIME

YEAR ENDED JUNE 30, 2013

TABLE D-2

Grade Level	1982-83 Actual Minutes	1982-83 Adjusted & Reduced	1986-87 Minutes Requirement	1986-87 Adjusted & Reduced	2012-13 Actual Minutes	Number of Days Traditional Calendar	Number of Days Multitrack Calendar	Status
Kindergarten	63,000	61,250	36,000	35,000	72,275	245	-	Complied
Grade 1	63,000	61,250	50,400	49,000	72,275	245	-	Complied
Grade 2	63,000	61,250	50,400	49,000	72,275	245	-	Complied
Grade 3	63,000	61,250	50,400	49,000	72,275	245	-	Complied
Grade 4	63,000	61,250	54,000	52,500	72,275	245	-	Complied
Grade 5	63,000	61,250	54,000	52,500	72,275	245	-	Complied
Grade 6	63,000	61,250	54,000	52,500	72,275	245	-	Complied
Grade 7	63,000	61,250	54,000	52,500	72,275	245	-	Complied
Grade 8	63,000	61,250	54,000	52,500	72,275	245	-	Complied
Grade 9	63,000	61,250	64,800	63,000	72,275	245	-	Complied
Grade 10	63,000	61,250	64,800	63,000	72,275	245	-	Complied
Grade 11	63,000	61,250	64,800	63,000	72,275	245	-	Complied
Grade 12	63,000	61,250	64,800	63,000	72,275	245	-	Complied

County offices of education must maintain their instructional minutes at either the 1982-83 actual minutes or the 1986-87 requirements, whichever is greater, as required by Education Code Section 46201. This schedule is required of all county offices of education.

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

SAN DIEGO COUNTY OFFICE OF EDUCATION
 SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
 YEAR ENDED JUNE 30, 2013

TABLE D-3

General Fund	Budget 2014 (See Note 1)	2013 (See Note 3)	2012 (See Note 3)	2011
Revenues and other financial sources	\$ 270,457,758	\$ 267,473,758	\$ 257,112,411	\$ 482,592,697
Expenditures, other uses and transfers out	278,333,666	257,366,487	260,977,743	480,257,532
Change in fund balance (deficit)	(7,875,908)	10,107,271	(3,865,332)	2,335,165
Ending fund balance	\$ 63,693,531	\$ 71,569,439	\$ 61,462,168	\$ 65,765,909
Available reserves (See Note 2)	\$ 5,925,209	\$ 7,808,218	\$ 8,052,332	\$ 25,160,925
Available reserves as a percentage of total outgo	2.1%	3.0%	3.1%	5.2%
Total long-term debt	\$ 15,218,256	\$ 17,220,197	\$ 21,554,215	\$ 25,649,843
Average daily attendance at P-2	3,534	3,488	3,410	3,643

This schedule discloses the county office'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's ability to continue as a going concern for a reasonable period of time.

The general fund balance has increased by \$8,577,104 (13.52%) over the past three years. The fiscal year 2013-2014 budget projects a decrease of \$7,875,908 (11%). For a county office of this size, the State recommends available reserves of at least 2% of total general fund expenditures, transfers out, and other uses (total outgo).

Total long-term debt has decreased by \$8,204,703 over the past three years.

Average daily attendance has decreased by 165 over the past three years.

Notes:

- 1 Budget 2014 is included for analytical purposes only and has not been subjected to audit.
- 2 Available reserves consist of all unassigned fund balances and all funds reserved for economic uncertainties contained within the General Fund.
- 3 Beginning in the 2011-12 fiscal year, revenues and expenditures associated with pass through special education funds are reported in Fund 10 Special Education Pass-Through Fund. Prior to the 2011-12 fiscal year the activities associated with these funds were recorded in the General Fund.
- 4 For financial reporting purposes in the fund financial statements, the Special Reserve Fund for Post Employment Benefits (Fund 20) has been combined as part of the General Fund to be in compliance with GASB Statement No. 54. This report is a reflection of activity in the General Fund only.

SAN DIEGO COUNTY OFFICE OF EDUCATION
 RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET
 REPORT WITH AUDITED FINANCIAL STATEMENTS
 YEAR ENDED JUNE 30, 2013

TABLE D-4

	General Fund	Special Reserve Fund for OPEB (Fund 20)
June 30, 2013, annual financial and budget report fund balances	\$ <u>71,569,438</u>	\$ <u>7,505,267</u>
Adjustments and reclassifications:		
Increasing (decreasing) the fund balance:		
Incorporation of fund in accordance with GASB 54	<u>7,505,267</u>	<u>(7,505,267)</u>
Net adjustments and reclassifications	<u>7,505,267</u>	<u>(7,505,267)</u>
June 30, 2013, audited financial statement fund balances	\$ <u><u>79,074,705</u></u>	\$ <u><u>-</u></u>

This schedule provides the information necessary to reconcile the fund balances of all funds and the total liabilities balance of the general long-term debt account group as reported on the SACS report to the audited financial statements. Funds that required no adjustment are not presented.

SAN DIEGO COUNTY OFFICE OF EDUCATION
SCHEDULE OF CHARTER SCHOOLS
YEAR ENDED JUNE 30, 2013

TABLE D-5

The San Diego County Office of Education charters one charter school.

<u>Charter Schools</u>	Included In Audit?
Literacy First Charter School	No

SAN DIEGO COUNTY OFFICE OF EDUCATION
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 YEAR ENDED JUNE 30, 2013

TABLE D-6
 Page 1 of 2

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
<u>U. S. DEPARTMENT OF THE INTERIOR</u>			
Direct Program:			
US Wildlife Reserve Funds	15.663	-	\$ 1,614
Total U. S. Department of the Interior			<u>1,614</u>
<u>U. S. DEPARTMENT OF JUSTICE</u>			
Direct Program:			
Second Chance Act Prisoner Reentry Initiative	16.812	-	84,870
Total U. S. Department of Justice			<u>84,870</u>
<u>U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>			
Direct Programs:			
Medi-Cal Billing Option	93.778	-	128,155
Adoption Opportunities: Administration for Children and Families	93.652	-	98,934
Total Direct Programs			<u>227,089</u>
Passed Through County of San Diego Health and Human Services Agency:			
Child Care Development	93.575	519835	63,096
Foster Care Title IV-E	93.658	525896	171,727
ARRA School Wellness	93.724	533293	56,799
Substance Abuse Prevention and Treatment	93.959	521100	323,014
Total Passed Through County of San Diego Health and Human Services Agency			<u>614,636</u>
Total U. S. Department of Health and Human Services			<u>841,725</u>
<u>U. S. DEPARTMENT OF EDUCATION</u>			
Passed Through State Department of Education:			
Title I Part A Basic	84.010	14329	1,666,419
Title I Part D Local Delinquents Program	84.010	14357	2,015,799
Total Title I Cluster			<u>3,682,218</u>
Migrant Education Even Start	84.011	14768	397,018
Migrant Education	84.011	14326	6,714,979
Total Migrant Education Cluster			<u>7,111,997</u>
Special Education IDEA	84.027	13379	39,911,384
Special Education Preschool Local Entitlement	84.027A	13682	2,746,959
Special Education IDEA Mental Health	84.027A	14468	3,314,738
Special Education Preschool	84.173	13430	1,627,331
Special Education Preschool Staff Development	84.173A	13431	16,563
Total Special Education Cluster			<u>47,616,975</u>
Carl D. Perkins Career and Technical Education	84.048	14894	176,665
Early Intervention	84.181	23761	398,486
Title X Homeless Childrens Education	84.196	14332	219,798
21st Century	84.287	14535 & 14603	5,401,913
21st Century Technical Assistance	84.287	14535	109,079
Total 21st Century			<u>5,510,992</u>
Foreign Language Acquisition Program	84.293B	-	109,073
Title II Technology	84.318	14334	10,001

SAN DIEGO COUNTY OFFICE OF EDUCATION
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 YEAR ENDED JUNE 30, 2013

TABLE D-6
 Page 2 of 2

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
Title III Technical Assistant	84.365A	14967	234,512
Title II Teacher Quality	84.367	14341	9,073
ARRA Education Jobs Fund	84.410	25152	115
Total Passed Through State Department of Education			<u>65,079,905</u>
Total U. S. Department of Education			<u>65,079,905</u>
 <u>U. S. DEPARTMENT OF AGRICULTURE</u>			
Direct Program:			
Forest Reserve Funds	10.665	-	304,252
Passed Through State Department of Education:			
National School Lunch Program	10.555	13396	81,143
Total U. S. Department of Agriculture			<u>385,395</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u><u>\$ 66,393,509</u></u>

The accompanying notes are an integral part of this schedule.

SAN DIEGO COUNTY OFFICE OF EDUCATION

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2013

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of San Diego 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 OMB 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 general purpose financial statements.

2. Subrecipients

Of the federal expenditures presented in the schedule, San Diego County Office of Education provided federal awards to subrecipients as follows:

<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>Amount Provided to Subrecipients</u>
Special Education IDEA	84.027A	\$ 39,114,802
Special Education Preschool Local Entitlement	84.027A	2,714,184
Special Education IDEA Mental Health	84.027A	3,311,164
Special Education Preschool	84.173A	1,592,977
Special Education Preschool Staff Development	84.173A	16,424
Early Intervention	84.181	77,756
Carl D. Perkins Career and Technical Education	84.048	105,064
Title II Technology	84.318	10,001
21st Century	84.287	5,402,161
21st Century Technical Assistance	84.287	14,995
Title III Technical Assistance	84.365	141,321
Second Chance Act Prisoner Reentry Initiative	16.812	22,527
Total Provided to Subrecipients		<u>\$ 52,523,376</u>

Other Independent Auditor's Reports

Wilkinson Hadley King & Co. LLP

CPA's and Advisors
218 W. Douglas Ave.
El Cajon, California

Independent Auditor's Report on Internal Control over Financial Reporting and
On Compliance and Other Matters Based on an Audit of Financial Statements
Performed In Accordance With *Government Auditing Standards*

Board of Trustees
San Diego County Office of Education
San Diego, California

Members of the Board of Trustees:

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 San Diego County Office of Education, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise San Diego County Office of Education's basic financial statements, and have issued our report thereon dated December 16, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered San Diego 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 San Diego County Office of Education's internal control. Accordingly, we do not express an opinion on the effectiveness of San Diego 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.

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 San Diego County Office of Education's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item(s) 2013-1.

San Diego County Office of Education's Response to Findings

San Diego County Office of Education's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. San Diego County Office of Education's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.

Wilkinson Hadley King & Co. LLP

El Cajon, California
December 16, 2013

Wilkinson Hadley King & Co. LLP

CPA's and Advisors
218 W. Douglas Ave.
El Cajon, California

Independent Auditor's Report on Compliance for Each Major Program and
on Internal Control Over Compliance Required by OMB Circular A-133

Board of Trustees
San Diego County Office of Education
San Diego, California

Members of the Board of Trustees:

Report on Compliance for Each Major Federal Program

We have audited San Diego 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 San Diego County Office of Education's major federal programs for the year ended June 30, 2013. San Diego 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 San Diego 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 San Diego 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 San Diego County Office of Education's compliance.

Opinion on Each Major Federal Program

In our opinion, San Diego 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 identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs for the year ended June 30, 2013.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 2013-1. Our opinion on each major federal program is not modified with respect to these matters.

San Diego County Office of Education's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. San Diego County Office of Education's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of San Diego 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 San Diego 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 San Diego 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 considered to be material weaknesses. However, material weaknesses may exist that have not been identified.

San Diego County Office of Education's response to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. San Diego County Office of Education's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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.

Wilkinson Hadley King & Co. LLP

El Cajon, California
December 16, 2013

Wilkinson Hadley King & Co. LLP
 CPA's and Advisors
 218 W. Douglas Ave.
 El Cajon, California

Independent Auditor's Report on State Compliance

Board of Trustees
 San Diego County Office of Education
 San Diego, California

Members of the Board of Trustees:

Report on State Compliance

We have audited the District's compliance with the types of compliance requirements described in the *Standards and Procedures for Audits of California K-12 Local Education Agencies 2012-13*, published by the California Education Audit Appeals Panel that could have a direct and material effect on each of the District's state programs identified below for the fiscal year ended June 30, 2013.

Management's Responsibility for State Compliance

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 applicable program as identified in the State's audit guide, *Standards and Procedures for Audits of California K-12 Local Education Agencies 2012-13* published by the Education Audit Appeals Panel. 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 State's audit guide *Standards and Procedures for Audits of California K-12 Local Education Agencies 2012-13* published by the Education Audit Appeals Panel. Those standards and audit guide require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the 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 the District'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. Our audit does not provide a legal determination of the District's compliance with those requirements.

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

<u>Description</u>	<u>Procedures In Audit Guide</u>	<u>Procedures Performed</u>
Attendance Accounting:		
Attendance Reporting	6	Yes
Teacher Certification and Misassignments	3	Yes
Kindergarten Continuance	3	N/A
Independent Study	23	Yes
Continuation Education	10	N/A

Instructional Time:		
School Districts	6	N/A
County Offices of Education	3	Yes
Instructional Materials, General Requirements	8	Yes
Ratios of Administrative Employees to Teachers	1	N/A
Classroom Teacher Salaries	1	N/A
Early Retirement Incentive	4	N/A
GANN Limit Calculation	1	Yes
School Accountability Report Card	3	Yes
Juvenile Court Schools	8	Yes
Class Size Reduction (Including Charter Schools):		
General Requirements	7	N/A
Option One	3	N/A
Option Two	4	N/A
Only One School Serving Grades K-3	4	N/A
After School Education and Safety Program:		
General Requirements	4	N/A
After School	5	N/A
Before School	6	N/A
Charter Schools		
Contemporaneous Records of Attendance	1	N/A
Mode of Instruction	1	N/A
Nonclassroom-Based Instruction/Independent Study	15	N/A
Determination of Funding for Nonclassroom-Based Instruction	3	N/A
Annual Instructional Minutes - Classroom Based	4	N/A

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

Opinion on State Compliance

In our opinion, San Diego County Office of Education complied, in all material respects, with the compliance requirements referred to above that are applicable to the statutory requirements listed in the schedule above for the year ended June 30, 2013.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of 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 outside of the items tested as noted above. This report is an integral part of an audit performed in accordance with *Standards and Procedures for Audits of California K-12 Local Education Agencies*, published by the Education Audit Appeals Panel in considering the entity's compliance. Accordingly, this communication is not suitable for any other purpose.

Wilkinson Hadley King & Co. LLP

El Cajon, California
December 16, 2013

Findings and Recommendations Section

SAN DIEGO COUNTY OFFICE OF EDUCATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013

A. Summary of Auditor's Results

1. Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

One or more material weaknesses identified?	<u> </u> Yes	<u> X </u> No
One or more significant deficiencies identified that are not considered to be material weaknesses?	<u> </u> Yes	<u> X </u> None Reported

Noncompliance material to financial statements noted? Yes X No

2. Federal Awards

Internal control over major programs:

One or more material weaknesses identified?	<u> </u> Yes	<u> X </u> No
One or more significant deficiencies identified that are not considered to be material weaknesses?	<u> </u> Yes	<u> X </u> None Reported

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? X Yes No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.010	Title I Cluster
10.665	Forest Reserve Funds
84.181	Early Intervention
84.027, 84.027A, 84.173	Special Education Cluster
84.365	Title III

Dollar threshold used to distinguish between type A and type B programs: \$1,992,348

Auditee qualified as low-risk auditee? X Yes No

SAN DIEGO COUNTY OFFICE OF EDUCATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013

3. State Awards

Any audit findings disclosed that are required to be reported in accordance with Standards and Procedures for Audits of California K-12 Local Education Agencies? Yes X No

Type of auditor's report issued on compliance for state programs: Unmodified

B. Financial Statement Findings

None

C. Federal Award Findings and Questioned Costs

Finding 2013-1 (50000)
Single Plan for Student Achievement

Federal Program Information
84.010 - 2012-13 Title I Cluster

Federal Grantor Agency
U.S. Department of Education

Pass Through Grantor Agency
California Department of Education

Criteria or Specific Requirement
Special Tests and Provisions - Schoolwide Plan

To operate a schoolwide program, a school must include the following three core elements:

1. Comprehensive needs assessment of the entire school (34 CFR Section 200.26(a))
2. Comprehensive plan based on data from the needs assessment (34 CFR Section 200.26(b))
3. Annual evaluation of the results achieved by the schoolwide program and revision of the schoolwide plan based on that evaluation (34 CFR Section 200.26(c)).

A schoolwide plan must also include the following components:

1. Schoolwide reform strategies (34 CFR Section 200.28(a))
2. Instruction by highly qualified professional staff (34 CFR Section 200.28(b))
3. Strategies to increase parent involvement (34 CFR Section 200.28 (c))
4. Additional support to students experiencing difficulty (34 CFR Section 200.28 (d))
5. Transition plans for assisting preschool children in the successful transition to the schoolwide program (34 CFR Section 200.28 (e)).

SAN DIEGO COUNTY OFFICE OF EDUCATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013

In accordance with Education Code Section 64001 these requirements are included in a single plan for student achievement which is required to be updated annually by a school site council which must be composed of one half members consisting of the principal, classroom teachers, and other school personnel (with classroom teachers making up the majority of this group) and one half consisting of parents or other community members selected by parents at elementary schools or one half of the members consisting of the principal, classroom teacher, and other school personnel (with classroom teachers making up the majority of this group) and the remaining half consisting of equal numbers of students selected by students and parents or other community members selected by parents in secondary schools (Education Code Sections 55852 and 64001).

Condition

- A. The school site council member list for three sites did not meet the composition requirements. For Monarch school, two classroom teachers out of five school site council staff members does not meet the teacher majority requirement as an elementary school and the other five members should all be parents or community members, not three parents and two students. For South Region, three classroom teachers out of six staff members does not meet the teacher majority requirement. For San Pasqual, parent and student members are not equal, and the school site council does not have the minimum number of staff members required (six for a secondary school). In addition, peer selection of classroom, teacher, other staff, parent, and student school site council members is not documented across all three schools.

- B. South Region Community School was closed and reorganized into three new schools. The County Office did not prepare a single plan for student achievement for each of the three new schools but rather prepared one single plan for student achievement for all three combined. This does not meet the requirements for each school to prepare a single plan for student achievement.

Questioned Costs

Allocations of Title I Funds for the above noted school sites was:

Title I, Part A Basic (84.010)	
Monarch School	\$73,611
South Region	\$59,711
Total Title I, Part A	<u>\$133,322</u>
Title I, Part D Local Delinquent (84.010)	
San Pasqual	\$92,464
Total Title I, Part D	<u>\$92,464</u>

Context

Requirements for schoolwide plans are identified in 24 CFR Section 200.26 and 200.28 along with Education Code Sections 52852 and 64001 as noted above.

Effect

The County Office was not in compliance with the requirements for Title I Cluster.

Cause

There was a misunderstanding in the requirements for school site council composition. In addition, the County Office did not update their single plan for student achievement for the south region when the school closed and reorganized.

SAN DIEGO COUNTY OFFICE OF EDUCATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013

Recommendation

We recommend the County Office review the membership for all schools to ensure they meet the requirements for composition of school site council. In addition, the County Office should review and update procedures for preparing single plans for student achievement to ensure requirements are met.

LEA's Response

The SSC Composition finding was resolved on 12/10/13. The LEA submitted revised, board-approved 2012-13 SPSAs for Monarch School and SPA that included updated SSC membership rosters. In discussion with the CDE reviewers, it was determined that the LEA would not be required to submit a revised SPSA for South Region Community Schools, since the school has been closed. Instead, the LEA has developed 2013-14 SPSAs for the San Diego County Court School and the San Diego County Community School. Drafts of these new SPSAs have been reviewed positively by the CDE and are now in the site level approval process and scheduled for San Diego County Board of Education approval at the February 2014 meeting. Additionally, the LEA has adopted a new web-based SPSA development tool published by Document Tracking Services (DTS) that allows the LEA administration to closely monitor SPSA development, especially with regard to the alignment of Title I Allocations to site level expenditures. This newly implemented SPSA development process will ensure that requirements are met.

D. State Award Findings and Questioned Costs

None

SAN DIEGO COUNTY OFFICE OF EDUCATION
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2013

<u>Finding/Recommendation</u>	<u>Current Status</u>	<u>Management's Explanation If Not Implemented</u>
There were no findings in the prior year audit report.		