



P. Robert Wilkinson, CPA
Brian K. Hadley, CPA
Shannon Johnston, CPA

Aubrey W. Mann, CPA
Kevin A. Sproul, CPA
Mark Bomediano, CPA

March 9, 2018

Michael Simonson
Assistant Superintendent, Business Services
San Diego County Office of Education

Dear Mr. Simonson,

In planning and performing our audit of the San Diego County Office of Education (County Office), as of and for the year ended June 30, 2017, in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States, we considered the County Office's internal controls over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements. The procedures we performed were for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

For your consideration we herein submit our comments and suggestions which are designed to assist in effecting improvements in internal controls and procedures. Those less significant matters, if any, which arose during the course of the audit, were reviewed with management as the audit field work progressed.

The accompanying comments and recommendations are intended solely for the information and use of the Board of Education, management, and others within the San Diego County Office of Education.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various County Office personnel. We would be pleased to discuss our comments and suggestions in further detail with you at your convenience, to perform any additional procedures on these matters, or to review the procedures necessary to bring about desirable changes.

We commend the Internal Business Department for the well prepared audit package and we appreciate the courtesy and assistance given to us by the entire County Office staff.

Wilkinson Hadley King & Co., LLP

Wilkinson Hadley King & Co. LLP

RECOMMENDATIONS

1. Trust Accounts - Retirement

Comment

In our review of cash balances held by the retirement trust accounts, a fiduciary fund of the County Office, we noted that the balances were not reconciled timely. The reconciliations were several months behind and were not reconciled to year end when the books were closed in November 2017. Additional testing was performed on the accounts during the course of our audit, with no misstatements noted in testing. Reconciliations are an internal control that can help the County Office identify and correct misstatements, whether due to error or fraud.

Recommendation

Establish a process for reconciliation of all accounts on a timely basis. Implement deadlines for reconciliations to be completed. Monitor compliance with policies to ensure that all accounts are reconciled timely.

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

AUDIT REPORT

JUNE 30, 2017

**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, 2017

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 Net Position - Internal Service Fund.....	20	Exhibit A-7
Statement of Revenues, Expenses, and Changes in		
Fund Net Position - Internal Service Fund.....	21	Exhibit A-8
Statement of Cash Flows - Proprietary Funds.....	22	Exhibit A-9
Statement of Fiduciary Net Position - Fiduciary Funds.....	23	Exhibit A-10
Statement of Changes in Fiduciary Net Position - Fiduciary Funds.....	24	Exhibit A-11
Notes to the Financial Statements	25	
 <u>Required Supplementary Information</u>		
Budgetary Comparison Schedules:		
General Fund.....	68	Exhibit B-1
Special Education Pass-Through Fund.....	69	Exhibit B-2
Schedule of Funding Progress for Other Post Employment Benefits Plan.....	70	
Schedule of the County Office's Proportionate Share of the		
Net Pension Liability - California State Teachers' Retirement System (CalSTRS).....	71	Exhibit B-3
Schedule of County Office's Contributions - CalSTRS.....	72	Exhibit B-4
Schedule of Changes in the County Office's Net Pension Liability		
And Related Ratios -CalPERS - SDCOE Miscellaneous Plan	73	Exhibit B-5
Schedule of County Office's Contributions - CalPERS - SDCOE Miscellaneous Plan.....	74	Exhibit B-6
Schedule of Changes in the County Office's Net OPEB Liability		
And Related Ratios -San Diego County Office Of Education (SDCOE) OPEB Plan ...	75	Exhibit B-7
Schedule of County Office's Contributions - SDCOE OPEB Plan.....	76	Exhibit B-8
Schedule of Investment Returns - SDCOE OPEB Plan.....	77	Exhibit B-9
Notes to Required Supplementary Information.....	78	

San Diego County Office of Education
Audit Report
For The Year Ended June 30, 2017

TABLE OF CONTENTS

	<u>Page</u>	<u>Exhibit/Table</u>
<u>Combining Statements as Supplementary Information:</u>		
Combining Balance Sheet - All Nonmajor Governmental Funds.....	80	Exhibit C-1
Combining Statement of Revenues, Expenditures and Changes in Fund Balances - All Nonmajor Governmental Funds.....	81	Exhibit C-2
Special Revenue Funds:		
Combining Balance Sheet - Nonmajor Special Revenue Funds.....	82	Exhibit C-3
Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Nonmajor Special Revenue Funds.....	83	Exhibit C-4
Capital Projects Funds:		
Combining Balance Sheet - Nonmajor Capital Projects Funds.....	84	Exhibit C-5
Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Nonmajor Capital Projects Funds.....	86	Exhibit C-6
Fiduciary Funds:		
Private-Purpose Trust Funds:		
Combining Statement of Fiduciary Net Position.....	88	Exhibit C-7
Combining Statement of Changes in Fiduciary Net Position.....	90	Exhibit C-8
Agency Funds:		
Combining Statement of Fiduciary Assets and Liabilities.....	92	Exhibit C-9
 OTHER SUPPLEMENTARY INFORMATION SECTION		
Local Education Agency Organization Structure.....	93	
Schedule of Average Daily Attendance.....	94	Table D-1
Schedule of Instructional Time.....	95	Table D-2
Schedule of Financial Trends and Analysis.....	96	Table D-3
Reconciliation of Annual Financial and Budget Report With Audited Financial Statements.....	97	Table D-4
Schedule of Charter Schools.....	98	Table D-5
Schedule of Expenditures of Federal Awards	99	Table D-6
Notes to the Schedule of Expenditures of Federal Awards.....	101	
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>	102	
Report on Compliance for Each Major Program and on Internal Control over Compliance Required by Title 2 CFR Part 200 (Uniform Guidance).....	104	
Independent Auditor's Report on State Compliance.....	106	
Schedule of Findings and Questioned Costs	109	
Summary Schedule of Prior Audit Findings.....	111	

Financial Section

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 the San Diego County Office of Education ("the County Office") as of and for the year ended June 30, 2017, 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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, 2017, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Change in Accounting Principle

As described in Note A to the financial statements, in 2017, San Diego County Office of Education adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. 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, schedule of funding progress for OPEB benefits, schedule of the County Office's proportionate share of the net pension liability and schedule of County Office pension contributions 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 Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, 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, *2016-17 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* prescribed in Title 5, *California Code of Regulations*, Section 19810 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 March 9, 2018 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
March 9, 2018

San Diego County Office of Education
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2017
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, 2017. 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 2016-2017 are as follows:

- Total assets are \$296,432,637, an increase of \$16,640,705 over 2015-2016.
- Total debt is \$145,872,362, an increase of \$29,435,912 over 2015-2016.
- Total revenue is \$497,024,662, an increase of \$17,421,563 over 2015-2016.
- Total expenses are \$478,011,854, an increase of \$33,179,390 over 2015-2016.

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 2016-2017?" The Statement of Net Position and the Statement of Activities answer this question.

San Diego County Office of Education
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2017
Unaudited

These statements include all assets and all liabilities using the accrual basis of 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 position and changes in that position. This change in net position 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 Position 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, 2017
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 2015-2016 and 2016-2017.

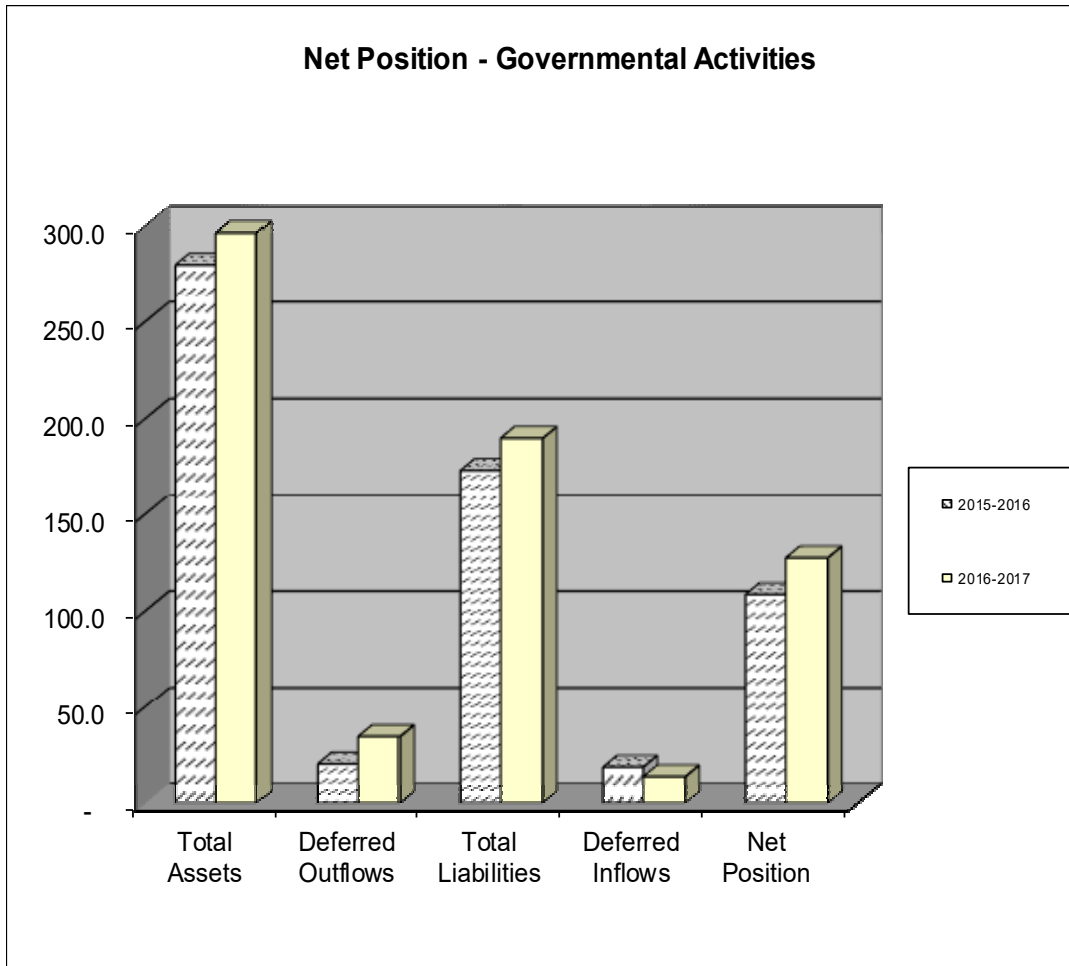
Table 1
Statement of Net Position
June 30

	2015-2016	2016-2017
Assets		
Cash	\$ 164,915,111	\$ 183,381,261
Investments in JPA	1,112,212	1,577,992
Receivables	51,242,609	46,551,687
Due from other funds		
Stores		
Prepaid expenses	2,177,466	2,211,615
Other current assets		
Capital assets:		
Land	1,877,796	1,877,796
Land improvements	2,119,249	2,119,249
Buildings	35,030,143	38,624,853
Equipment	47,381,161	51,415,470
Work in progress	1,000,000	-
Less accumulated depreciation	(27,063,815)	(31,327,286)
Total assets	<u>279,791,932</u>	<u>296,432,637</u>
Deferred Outflows of Resources	20,282,709	34,397,517
Liabilities		
Accounts payable	50,061,952	39,081,892
Unearned revenue	6,609,021	4,825,981
Long-term liabilities:		
Due within one year	2,985,321	3,339,717
Due in more than one year	113,451,129	142,532,645
Total liabilities	<u>173,107,423</u>	<u>189,780,235</u>
Deferred Inflows of Resources	18,599,056	13,668,949
Net Position (from Schedule A-1)		
Net investment in capital assets	59,987,050	62,421,868
Restricted	29,355,669	26,200,484
Unrestricted	19,025,443	38,758,618
Total net position	<u>\$ 108,368,162</u>	<u>\$ 127,380,970</u>

San Diego County Office of Education
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2017
Unaudited

Chart 1.
Net Position - Governmental Activities
June 30
(In Millions)

	2015-2016	2016-2017
Total Assets	279.8	296.4
Deferred Outflows	20.3	34.4
Total Liabilities	173.1	189.8
Deferred Inflows	18.6	13.6
Net Position	108.4	127.4

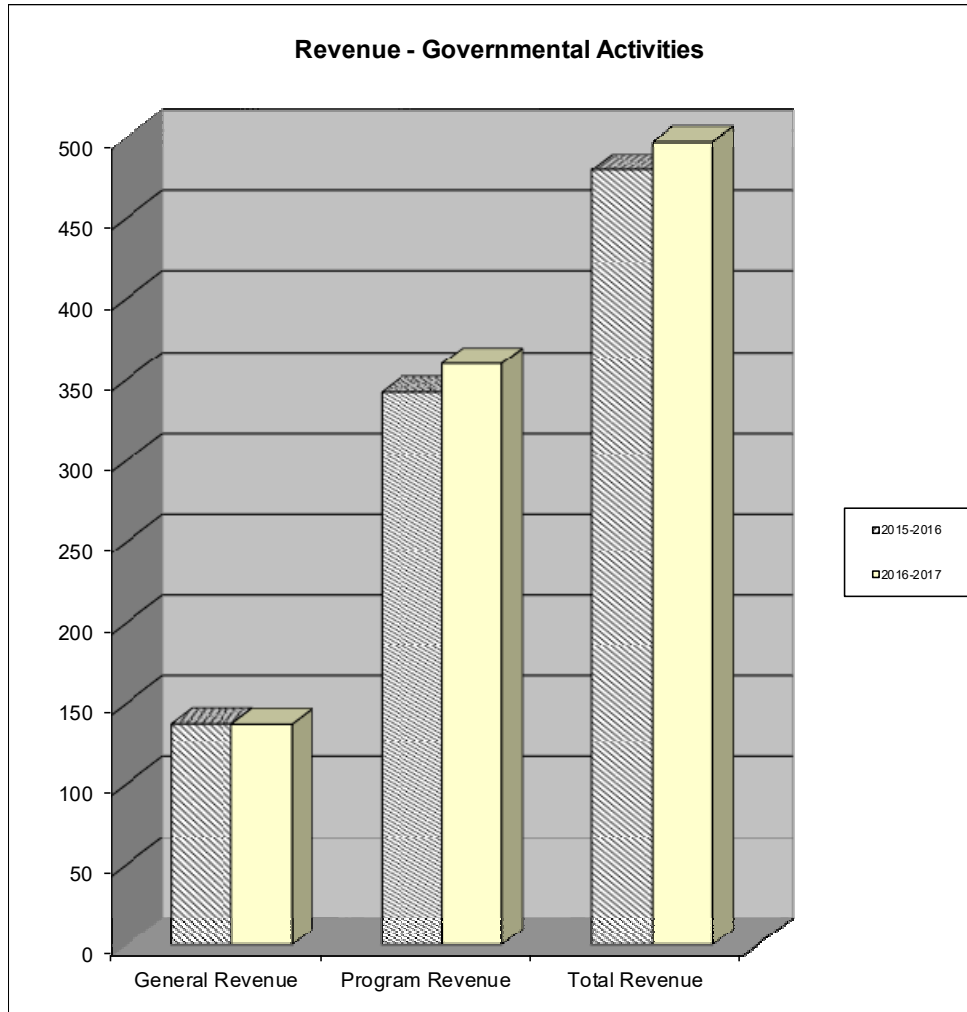


Total assets were \$296.4 million while total liabilities were \$189.8 million. Deferred outflows of resources were \$34.4 million and deferred inflows of resources were \$13.6 million as of June 30, 2017.

San Diego County Office of Education
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2017
Unaudited

Chart 2.
Revenue - Governmental Activities
June 30
(In Millions)

	2015-2016	2016-2017
General Revenue	137.4	137.2
Program Revenue	<u>342.2</u>	<u>359.8</u>
Total Revenue	<u>479.6</u>	<u>497.0</u>



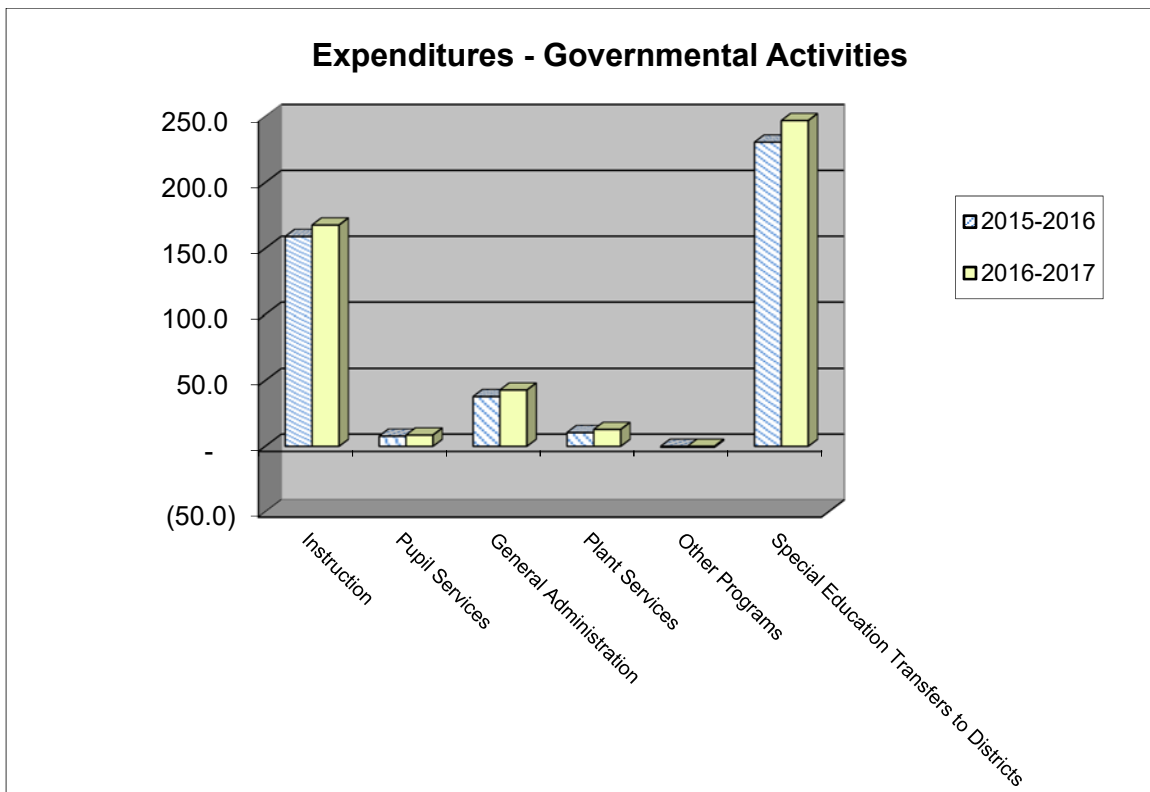
Revenue is divided into general revenue, which funds the basic operations of the County Office, and program revenue, which funds specific program activities that support the children and school districts of San Diego County.

The primary sources of general revenue are the Local Control Funding Formula (LCFF) and local revenue. The main source of program revenue is the State of California which funds many programs operated by the County Office.

San Diego County Office of Education
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2017
Unaudited

Chart 3.
Expenditures - Governmental Activities
June 30
(in Millions)

	2015-2016	2016-2017
Instruction	159.0	167.7
Pupil Services	7.7	8.5
General Administration	37.8	42.8
Plant Services	10.4	12.8
Other Programs	(0.7)	(0.8)
Special Education Transfers	230.6	247.0
Total Expenditures	444.8	478.0



The expenditures are divided into function classifications. They 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 business support services. The expenditures increased by \$33.2 million, of which \$16.5 million was the result of Special Education Transfers Between Agencies.

San Diego County Office of Education
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2017
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.

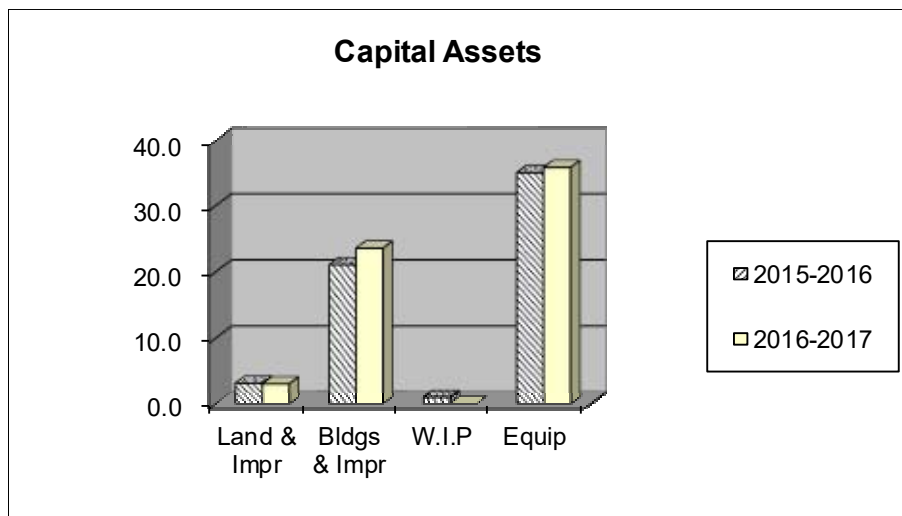
During the course of the 2016-2017 fiscal year, the County Office revised its general fund budget on occasion to better serve our client populations. None of the revisions were significant in terms of the overall budget. The County Office uses a fairly centralized budgeting process which affords control of the budget while allowing flexibility at the program level.

CAPITAL ASSETS

At the end of the 2016-2017 fiscal year, the County Office had \$94.0 million invested in land, buildings, work in progress, and capital equipment. Depreciation totaling \$31.3 million was charged against the value of those assets for net capital assets of \$62.7 million. Table 4 shows the breakdown of capital assets.

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

	2015-2016	2016-2017
Land & Improvements	3.2	3.1
Buildings & Improvements	21.1	23.6
Work In Progress	1.0	0.0
Equipment	<u>35.0</u>	<u>35.8</u>
Total	60.3	62.7



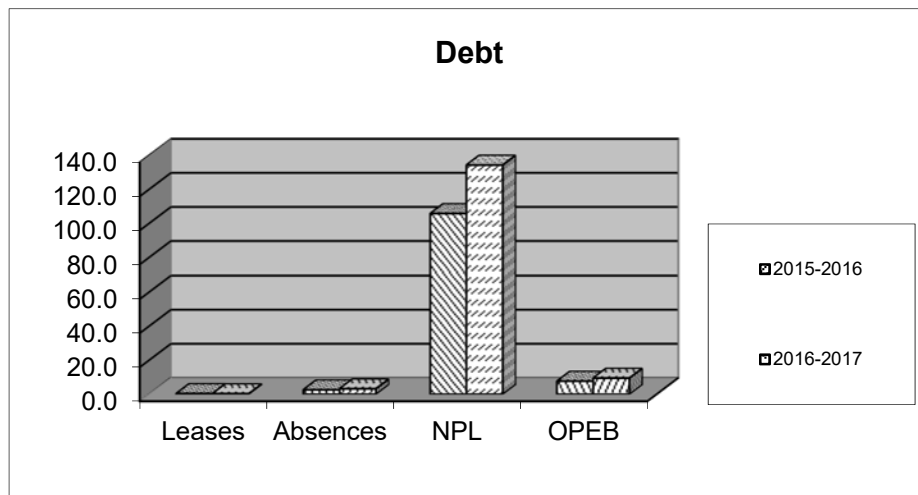
San Diego County Office of Education
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2017
Unaudited

DEBT

As of June 30, 2017, the County Office had capital leases of \$.3 million, compensated absences of \$3.2 million, a net pension liability of \$134.3 million, and other post-employment benefits obligation of \$9.5 million, as implemented by GASB Statement No. 68 "Accounting and Financial Reporting for Pensions," utilizing a measurement date of June 30, 2014.

Chart 5.
Debt - Governmental Funds
(In Millions)

	2015-2016	2016-2017
Capital Leases	0.4	0.3
Compensated Absences	2.6	3.2
Net Pension Liability	105.8	134.3
OPEB	7.7	9.5



San Diego County Office of Education
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2017
Unaudited

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 that affects our cash flow 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.

In June 2012 & November 2013, the GASB issued Statement No. 68 "Accounting and Financial Reporting for Pensions," and Statement No. 71 "Pension Transition for Contributions Made Subsequent to the Measurement Date," respectively, which the County Office has implemented the provisions of these statements as of June 30, 2015. As a result, the County Office is required to recognize pension expense, report deferred outflows of resources and deferred inflows of resources related to pensions and a net pension liability for its proportionate shares.

A major concern for SDCOE and all districts continues to be the significant rate increases to the CalSTRS and CalPERS employer pension contribution rates, which are estimated to increase to 14.4% and 18.8%, respectively, based upon employee payroll for each of the pension systems.

The 2014-2015 State Budget enacted the Local Control Funding Formula (LCFF) for Local Education Agencies (LEAs). The LCFF is the distribution system for funding that became effective July 1, 2013. With the enactment of the LCFF, the County Office was required to adopt a Local Control Accountability Plan (LCAP) on or before July 1, 2014. The LCAP is a three-year plan, which is reviewed and updated annually, as required. On November 14, 2014 the State Board of Education approved the final regulations for the LCAP and the LCFF spending requirements. The new regulations became effective on January 8, 2015, approved by the Office of Administrative Law (OAL). The State Board of Education (SBE) continues to clarify regulations and update the LCAP template.

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, Executive 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, 2017

	Governmental Activities
ASSETS	
Cash	\$ 183,381,261
Receivables	46,551,687
Prepaid Expenses	2,211,615
Investment in JPA	1,577,992
Capital Assets:	
Land	1,877,796
Land Improvements	2,119,249
Buildings	38,624,853
Equipment	51,415,470
Less Accumulated Depreciation	(31,327,286)
Total Assets	<u>296,432,637</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>34,397,517</u>
LIABILITIES	
Accounts Payable	39,081,892
Unearned Revenue	4,825,981
Long-Term Liabilities:	
Due Within One Year	3,339,717
Due in More Than One Year	142,532,645
Total Liabilities	<u>189,780,235</u>
DEFERRED INFLOWS OF RESOURCES	<u>13,668,949</u>
NET POSITION	
Net Investment in Capital Assets	62,421,868
Restricted for:	
Capital Projects	8,293,342
Educational Programs	12,897,385
Other Purposes (Expendable)	2,770,742
Other Purposes (Nonexpendable)	2,239,015
Unrestricted	38,758,618
Total Net Position	<u>\$ 127,380,970</u>

The accompanying notes are an integral part of this statement.

SAN DIEGO COUNTY OFFICE OF EDUCATIONSTATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017

Functions	Expenses	Program Revenues			Net (Expense) Revenue and Change in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental Activities:					
Instruction	\$ 54,400,515	\$ 1,620,943	\$ 29,231,767	\$ 320	\$ (23,547,485)
Instruction-Related Services:					
Instructional Supervision and Administration	103,398,942	14,545,700	68,315,733	-	(20,537,509)
Instructional Library, Media and Technology	2,546,975	308,555	334,570	-	(1,903,850)
School Site Administration	7,383,915	-	473,105	-	(6,910,810)
Pupil Services:					
Food Services	1,690,806	5,692	458,694	-	(1,226,420)
All Other Pupil Services	6,774,459	235,631	4,523,911	-	(2,014,917)
General Administration:					
Centralized Data Processing	19,673,286	-	7,496	-	(19,665,790)
All Other General Administration	22,551,813	1,051,795	3,939,161	-	(17,560,857)
Plant Services	12,792,987	215,535	929,825	-	(11,647,627)
Ancillary Services	116,741	46,765	5,170	-	(64,806)
Community Services	23,685	400	44	-	(23,241)
Enterprise Activities	(912,827)	16,898	1,868	-	931,593
Interest on Long-Term Debt	(123,657)	-	-	-	123,657
Special Education Transfers Between Agencies	247,033,141	8,829,506	224,704,730	-	(13,498,905)
Depreciation (Unallocated)*	661,073	-	-	-	(661,073)
Total Expenses	\$ 478,011,854	\$ 26,877,420	\$ 332,926,074	\$ 320	\$ (118,208,040)

General Revenues:

Taxes and Subventions:

Taxes Levied for General Purposes	75,111,739
Taxes Levied for Other Specific Purposes	3,121,552
Federal and State Aid Not Restricted to Specific Programs	37,059,895
Interest and Investment Earnings	1,905,995
Miscellaneous	20,021,667
Total General Revenues	\$ 137,220,848

Change in Net Position

19,012,808

Net Position Beginning

108,368,162

Net Position Ending

\$ 127,380,970

*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, 2017

	General Fund	Special Education Pass-Through	Other Governmental Funds	Total Governmental Funds
ASSETS:				
Cash in County Treasury	\$ 144,204,526	\$ 182,902	\$ 35,731,287	\$ 180,118,715
Cash on Hand and in Banks	166,519	-	-	166,519
Cash in Revolving Fund	27,400	-	-	27,400
Accounts Receivable	25,937,164	20,320,715	284,664	46,542,543
Due from Other Funds	170,817	1,184,827	5,870,070	7,225,714
Prepaid Expenditures	2,211,615	-	-	2,211,615
Total Assets	<u>172,718,041</u>	<u>21,688,444</u>	<u>41,886,021</u>	<u>236,292,506</u>
LIABILITIES AND FUND BALANCE:				
Liabilities:				
Accounts Payable	\$ 17,248,792	\$ 21,687,987	\$ 145,113	\$ 39,081,892
Due to Other Funds	8,289,161	457	170,360	8,459,978
Unearned Revenue	4,496,747	-	329,234	4,825,981
Total Liabilities	<u>30,034,700</u>	<u>21,688,444</u>	<u>644,707</u>	<u>52,367,851</u>
Fund Balance:				
Nonspendable Fund Balances:				
Revolving Cash	27,400	-	-	27,400
Prepaid Items	2,211,615	-	-	2,211,615
Restricted Fund Balances	16,052,135	-	7,909,334	23,961,469
Committed Fund Balances	-	-	8,540,668	8,540,668
Assigned Fund Balances	91,698,219	-	24,791,312	116,489,531
Unassigned:				
Reserve for Economic Uncertainty	4,563,722	-	-	4,563,722
Other Unassigned	28,130,250	-	-	28,130,250
Total Fund Balance	<u>142,683,341</u>	<u>-</u>	<u>41,241,314</u>	<u>183,924,655</u>
Total Liabilities and Fund Balances	<u>\$ 172,718,041</u>	<u>\$ 21,688,444</u>	<u>\$ 41,886,021</u>	<u>\$ 236,292,506</u>

The accompanying notes are an integral part of this statement.

SAN DIEGO COUNTY OFFICE OF EDUCATION
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JUNE 30, 2017

Total fund balances - governmental funds balance sheet \$ 183,924,655

Amounts reported for assets, deferred outflows of resources, liabilities and deferred inflows of resources 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:	94,037,368	
Accumulated depreciation:	(31,327,286)	
Net:		62,710,082

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.

1,577,992

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

Capital leases payable	288,214	
Net pension liability	134,321,989	
Compensated absences payable	3,239,869	
Total:		(137,850,072)

Deferred outflows and inflows of resources relating to pensions: In governmental funds, deferred outflows and inflows of resources relating to pensions are not reported because they are applicable to future periods. In the statement of net position, deferred outflows and inflows of resources relating to pensions are reported.

Deferred outflows of resources relating to pensions	34,397,517
Deferred inflows of resources relating to pensions	(13,668,949)

Internal Service Funds: Internal service funds are used to conduct certain activities for which costs are charged to other funds on a full cost-recovery basis. Because internal service funds are presumed to operate for the benefit of governmental activities, assets, deferred outflows of resources, liabilities, and deferred inflows of resources of internal service funds are reported with governmental activities in the statement of net position. Net position for internal service funds is:

(3,710,257)

Rounding Variance	2
-------------------	---

Net position of governmental activities - statement of net position \$ 127,380,970

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, 2017

	General Fund	Special Education Pass-Through	Other Governmental Funds	Total Governmental Funds
Revenues:				
LCFF Sources:				
State Apportionment or State Aid	\$ 35,109,606	\$ -	\$ -	\$ 35,109,606
Education Protection Account Funds	315,336	-	-	315,336
Local Sources	73,887,128	-	1,225,000	75,112,128
Federal Revenue	24,771,957	77,513,611	300,951	102,586,519
Other State Revenue	59,428,184	159,153,377	5,835,345	224,416,906
Other Local Revenue	55,934,268	-	3,549,896	59,484,164
Total Revenues	<u>249,446,479</u>	<u>236,666,988</u>	<u>10,911,192</u>	<u>497,024,659</u>
Expenditures:				
Current:				
Instruction	51,285,527	-	-	51,285,527
Instruction - Related Services	104,038,414	-	5,536,933	109,575,347
Pupil Services	7,914,104	-	-	7,914,104
Ancillary Services	116,725	-	-	116,725
Community Services	22,792	-	-	22,792
Enterprise	18,743	-	-	18,743
General Administration	37,105,930	-	292,170	37,398,100
Plant Services	10,561,981	-	697,517	11,259,498
Other Outgo	10,064,903	236,666,988	301,250	247,033,141
Capital Outlay	4,900,804	-	1,784,242	6,685,046
Debt Service:				
Principal	376,177	-	625,119	1,001,296
Interest	7,639	-	20,094	27,733
Total Expenditures	<u>226,413,739</u>	<u>236,666,988</u>	<u>9,257,325</u>	<u>472,338,052</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>23,032,740</u>	<u>-</u>	<u>1,653,867</u>	<u>24,686,607</u>
Other Financing Sources (Uses):				
Transfers In	268,743	-	1,772,323	2,041,066
Transfers Out	(1,791,066)	-	(250,000)	(2,041,066)
Other Sources	63,335	-	408,007	471,342
Total Other Financing Sources (Uses)	<u>(1,458,988)</u>	<u>-</u>	<u>1,930,330</u>	<u>471,342</u>
Net Change in Fund Balance	21,573,752	-	3,584,197	25,157,949
Fund Balance, July 1	121,109,589	-	37,657,117	158,766,706
Fund Balance, June 30	<u>\$ 142,683,341</u>	<u>\$ -</u>	<u>\$ 41,241,314</u>	<u>\$ 183,924,655</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, 2017

Net change in fund balances - total governmental funds \$ 25,157,949

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:	6,685,044	
Depreciation expense:	(4,310,503)	
Net:		2,374,541

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:

501,296

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

(432,027)

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:

(8,993)

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:

151,390

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:

(612,031)

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

(9,516,666)

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:

465,780

Internal Service Funds: Internal service funds are used to conduct certain activities for which costs are charged to other funds on a full cost-recovery basis. Because internal service funds are presumed to benefit governmental activities, internal service activities are reported as governmental in the statement of activities. The net increase or decrease in internal service funds was:

931,570

Rounding Variance

(1)

Change in net position of governmental activities - Statement of Activities

\$ 19,012,808

The accompanying notes are an integral part of this statement.

SAN DIEGO COUNTY OFFICE OF EDUCATION

STATEMENT OF NET POSITION

INTERNAL SERVICE FUND

JUNE 30, 2017

Internal Service
FundSelf-Insurance
Fund**ASSETS:**

Current Assets:

Cash in County Treasury

\$ 3,068,627

Accounts Receivable

9,144

Due from Other Funds

1,234,263

Total Current Assets

4,312,034

Total Assets

4,312,034

LIABILITIES:

Noncurrent Liabilities:

Other Postemployment Benefits

\$ 8,022,291

Total Noncurrent Liabilities

8,022,291

Total Liabilities

8,022,291

NET POSITION:

Unrestricted (Deficit)

(3,710,257)

Total Net Position

\$ (3,710,257)

The accompanying notes are an integral part of this statement.

SAN DIEGO COUNTY OFFICE OF EDUCATION

STATEMENT OF REVENUES, EXPENSES, AND CHANGES
 IN FUND NET POSITION - INTERNAL SERVICE FUND
 FOR THE YEAR ENDED JUNE 30, 2017

	Internal Service Fund
	Self-Insurance Fund
Operating Revenues:	
Interest Income	\$ 28,874
Contributions & Premiums	2,203,997
Total Revenues	<u>2,232,871</u>
Operating Expenses:	
Employee Benefits	1,301,301
Total Expenses	<u>1,301,301</u>
Change in Net Position	931,570
Total Net Position - Beginning	(4,641,827)
Total Net Position - Ending	<u>\$ (3,710,257)</u>

The accompanying notes are an integral part of this statement.

SAN DIEGO COUNTY OFFICE OF EDUCATION

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS

FOR THE YEAR ENDED JUNE 30, 2017

	Internal Service Fund
	Self-Insurance Fund
Cash Flows from Operating Activities:	
Cash Received from Interfund Services Provided	\$ 2,007,730
Cash Payments to Other Suppliers for Goods and Services	(969,732)
Net Cash Provided (Used) by Operating Activities	<u>1,037,998</u>
Cash Flows from Investing Activities:	
Interest and Dividends on Investments	<u>22,609</u>
Net Cash Provided (Used) for Investing Activities	<u>22,609</u>
Net Increase (Decrease) in Cash and Cash Equivalents	1,060,607
Cash and Cash Equivalents at Beginning of Year	2,008,019
Cash and Cash Equivalents at End of Year	<u>\$ 3,068,626</u>
Reconciliation of Operating & Investment Income to Net Cash Provided by Operating & Investing Activities:	
Operating Income (Loss)	\$ 931,570
Adjustments to Reconcile Operating & Investment Income to Net Cash Provided by Operating Activities	
Change in Assets and Liabilities:	
Decrease (Increase) in Receivables	(6,268)
Decrease (Increase) in Due From Other Funds	(196,264)
Increase (Decrease) in Net OPEB Liability	331,569
Total Adjustments	<u>129,037</u>
Net Cash Provided (Used) by Operating & Investment Activities	<u>\$ 1,060,607</u>

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, 2017

	OPEB Trust Fund	Private-Purpose Trust Funds	Agency Funds
ASSETS:			
Cash in County Treasury	\$ -	\$ 134,452,948	\$ 38,855,736
Cash on Hand and in Banks	-	750,000	4,342
Cash with a Fiscal Agent/Trustee	8,287,041	2,213,991	-
Accounts Receivable	-	3,177,049	-
Prepaid Expenditures/Expenses	-	530,084	-
Total Assets	<u>8,287,041</u>	<u>141,124,072</u>	<u>38,860,078</u>
DEFERRED OUTFLOWS OF RESOURCES:			
Deferred Outflows of Resources - Pension Related	-	1,571,522	-
Total Outflows of Resources	<u>\$ -</u>	<u>\$ 1,571,522</u>	<u>\$ -</u>
LIABILITIES:			
Current Liabilities:			
Accounts Payable	\$ -	\$ 3,047,723	\$ -
Due to Student Groups/Other Groups	-	-	38,860,078
Unearned Revenue	-	2,131,898	-
Liability for Underground Storage Tanks	-	70,000	-
Unpaid Self-Insurance Claim Liabilities	-	59,567,306	-
Total Current Liabilities	<u>-</u>	<u>64,816,927</u>	<u>38,860,078</u>
Long-Term Liabilities:			
Compensated Absences Payable	-	251,908	-
Net OPEB Obligation	-	208,145	-
Net Pension Liability	-	3,718,757	-
Total Long-Term Liabilities	<u>-</u>	<u>4,178,810</u>	<u>-</u>
Total Liabilities	<u>-</u>	<u>68,995,737</u>	<u>38,860,078</u>
DEFERRED INFLOWS OF RESOURCES:			
Deferred Inflows of Resources - Pension Related	-	893,504	-
Total Deferred Inflows of Resources	<u>-</u>	<u>893,504</u>	<u>-</u>
NET POSITION:			
Held in Trust for OPEB Benefit	8,287,041	-	-
Held in Trust for Other Benefits	-	72,806,353	-
Total Net Position	<u>\$ 8,287,041</u>	<u>\$ 72,806,353</u>	<u>\$ -</u>

The accompanying notes are an integral part of this statement.

SAN DIEGO COUNTY OFFICE OF EDUCATION

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

FIDUCIARY FUNDS

FOR THE YEAR ENDED JUNE 30, 2017

	OPEB Trust Fund	Private-Purpose Trust Funds
Additions:		
Investment Income	\$ 792,406	\$ 1,332,869
Participant Fees	-	93,291,829
Employer Contributions Outside of Trust	1,584,795	-
Commissions and Refunds	-	1,138,048
Total Additions	<u>2,377,201</u>	<u>95,762,746</u>
Deductions:		
Claims Paid, Net of Recoveries	-	51,963,303
Insurance Premiums	-	24,261,441
OPEB Reimbursements Outside of Trust	1,584,795	-
Administrative Expenses	4,022	6,245,823
Construction Projects	-	7,564,221
Other Expenses	-	4,240,996
Total Deductions	<u>1,588,817</u>	<u>94,275,784</u>
Change in Net Position	788,384	1,486,962
Net Position-Beginning of the Year	7,498,657	71,319,391
Net Position-End of the Year	<u>\$ 8,287,041</u>	<u>\$ 72,806,353</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, 2017

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 operates under a locally elected Board form of government and provides educational services as mandated by the state. A reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure the financial statements are not misleading. The primary government of the County Office consists of all funds, departments and agencies that are not legally separate from the County Office. For the County Office, this includes general operations, special education pass through activities, self-insurance activities, OPEB trust fund activities, private-purpose trust fund activities, warrant pass-through activities, and student body activities.

2. Component Units

Component units are legally separate organizations for which the County Office is financially accountable. Component units may also include organizations that are fiscally dependent on the County Office in that the County Office approves their budget, the issuance of their debt or the levying of their taxes. In addition, component units are other legally separate organizations for which the County Office is not financially accountable but the nature and significance of the organization's relationship with the County Office is such that exclusion would cause the County Office's financial statements to be misleading or incomplete. The County Office has no component units. Additionally, the County Office is not a component unit of any other reporting entity as defined by GASB Statements 14, 39, and 61.

3. 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.

The County Office reports the following major governmental funds:

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.

SAN DIEGO COUNTY OFFICE OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017

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.

Internal Service Funds: These funds are used to account for revenues and expenses related to services provided to parties inside the County Office. These funds facilitate distribution of support costs to the users of support services on a cost-reimbursement basis. Because the principal users of the internal services are the County Office's governmental activities, this fund type is included in the "Governmental Activities" column of the government-wide financial statements.

Self-Insurance Fund. The self-insurance fund is used to account for the activities of the County Office's Other Post Employments Benefit Plan for retiree healthcare self-insured activities.

Pension (and Other Employee Benefit) Trust Funds: These funds are used to report resources that are required to be held in trust for the members and beneficiaries of defined benefit pension plans, defined contribution plans, other postemployment benefit plans, or other employee benefit plans.

The County Office has an Other Post Employment Benefit (OPEB) Plan Trust Fund which holds assets that are accumulated for the payment of OPEB Plan benefits.

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.

The County Office has fiduciary responsibility for six private-purpose trust funds organized under joint powers agreements for the administration of self-insurance plans, joint facilities costs, and joint energy projects.

Agency Funds: These funds are used to report student activity funds and other resources held in a purely custodial capacity (assets equal liabilities). Agency funds typically involve only the receipt, temporary investment, and remittance of fiduciary resources to individuals, private organizations, or other governments. The County Office reports two agency funds, the Warrant-Pass Through Fund and the Associated Student Body Fund.

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

SAN DIEGO COUNTY OFFICE OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017

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.

4. 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.

5. Budgets and Budgetary Accounting

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

These budgets are revised by the County Office's governing board and County Office superintendent during the year to give consideration to unanticipated income and expenditures.

Formal budgetary integration was used as a management control device during the year for all budgeted funds. The County Office employs budget control by major object and by individual appropriation accounts. Expenditures cannot legally exceed appropriations by major object code.

6. Revenues and Expenses

a. Revenues - Exchange and Non-Exchange

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current year or expected to be collected soon enough thereafter, to be used to pay liabilities of the current fiscal year. Generally, available is defined as collectible within 60 days. However, to achieve comparability of reporting among California County Offices and so as to not distort normal revenue patterns, with specific respect to reimbursement grants and corrections to State-aid apportionments, the California Department of Education has defined available for County Offices as collectible within one year. The following revenue sources are considered to be both measurable and available at fiscal year-end: State apportionments, property taxes, interest, certain grants, and other local sources.

SAN DIEGO COUNTY OFFICE OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017

Non-exchange transactions are transactions in which the County Office receives value without directly giving equal value in return, including property taxes, certain grants, entitlements, and donations. Revenue from property taxes is recognized in the fiscal year in which the taxes are received. Revenue from certain grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include time and purpose restrictions. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

b. Expenses/Expenditures

On the accrual basis of accounting, expenses are recognized at the time they are incurred. The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable, and typically paid within 90 days. Principal and interest on long-term obligations, which has not matured, are recognized when paid in the governmental funds as expenditures. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds but are recognized in the government-wide financial statements.

7. 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. For purposes of the statement of cash flows, highly liquid investments are considered to be cash equivalents if they have a maturity of three months or less when purchased.

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 County Offices 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, except for the Tax Override 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.

Information regarding the amount of dollars invested in derivatives with San Diego County Treasury was not available.

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. Reported inventories are equally offset by a fund balance reserve, which indicates that these amounts are not "available for appropriation and expenditure" even though they are a component of net current assets. 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.

SAN DIEGO COUNTY OFFICE OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017

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	5-15

d. Compensated Absences

Accumulated unpaid employee vacation benefits are recognized as liabilities of the County Office in the government-wide financial statements. For certain eligible employees 25% of accrued sick leave may be requested to be paid out upon retirement. This portion of accumulated sick leave is recorded as a liability in the government-wide financial statements. The remaining 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 unearned revenue is removed from the 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 March 1. Taxes are payable in two installments on November 15 and March 15. 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.

SAN DIEGO COUNTY OFFICE OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017

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.

Committed Fund Balance - represents amounts that can only be used for a specific purpose because of a formal action by the County Office's governing board. Committed amounts cannot be used for any other purpose unless the governing board 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 governing board. 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 governing board or by an official or body to which the governing board 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.

When an expenditure is incurred for a purpose for which both restricted and unrestricted fund balance is available, the County Office considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the County Office considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds.

8. Deferred Inflows and Deferred Outflows of Resources

Deferred outflows of resources is a consumption of net position that is applicable to a future reporting period. Deferred inflows of resources is an acquisition of net position that is applicable to a future reporting period. Deferred outflows of resources and deferred inflows of resources are recorded in accordance with GASB Statement numbers 63 and 65.

9. GASB 54 Fund Presentation

Consistent with fund reporting requirements established by GASB Statement No. 54, Fund 20 (Special Reserve Fund for Postemployment Benefits) is merged with the General Fund for purposes of presentation in the audit report.

SAN DIEGO COUNTY OFFICE OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017

10. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the CalPERS Schools Pool Cost-Sharing Multiple-Employer Plan (CalPERS Plan) and CalSTRS Schools Pool Cost-Sharing Multiple Employer Plan (CalSTRS Plan) and additions to/deductions from the CalPERS Plan and CalSTRS Plan's fiduciary net positions have been determined on the same basis as they are reported by the CalPERS Financial Office and CalSTRS Financial Office. For this purpose, benefit payments (including refunds of employee contributions) are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value.

GASB 68 requires that the reported results must pertain to liability and asset information within certain defined time frames. For this report, the following time frames are used:

Valuation Date (VD)	June 30, 2015
Measurement Date (MD)	June 30, 2016
Measurement Period (MP)	July 1, 2015 to June 30, 2016

11. 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.

12. Fair Value Measurements

The County Office categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles as defined by Governmental Accounting Standards Board (GASB) Statement No. 72. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. The hierarchy is detailed as follows:

Level 1 Inputs:	Quoted prices (unadjusted) in active markets for identical assets or liabilities that a government can access at the measurement date.
Level 2 Inputs:	Inputs other than quoted prices included within Level 1 that are observable for an asset or liability, either directly or indirectly.
Level 3 Inputs:	Unobservable inputs for an asset or liability.

For the current fiscal year the County Office did not have any recurring or nonrecurring fair value measurements.

13. Change in Accounting Policies

The County Office has adopted accounting policies compliant with new pronouncements issued by the Government Accounting Standards Board (GASB) that are effective for the fiscal year ended June 30, 2017. Those newly implemented pronouncements are as follows:

GASB Statement No. 74 - Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans

The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability.

SAN DIEGO COUNTY OFFICE OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017

This Statement replaces Statements No. 43, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, as amended, and No. 57, OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans, as amended, Statement 43, and Statement No. 50 Pension Disclosures.

The scope of this Statement includes OPEB plans—defined benefit and defined contribution - administered trusts that meet the following criteria:

1. Contributions from employers and nonemployer contributing entities to the OPEB plan and earnings on those contributions are irrevocable.
2. OPEB plan assets are dedicated to providing OPEB to plan members in accordance with the benefit terms.
3. OPEB plan assets are legally protected from the creditors of employers, nonemployer contributing entities, and the OPEB plan administrator. If the plan is a defined benefit OPEB plan, plan assets also are legally protected from creditors of the plan members.

This Statement also includes requirements to address financial reporting for assets accumulated for purposes of providing defined benefit OPEB through OPEB plans that are not administered through trusts that meet the specified criteria.

Note disclosure compliant with GASB Statement No. 74 can be found at Note S. Additionally, Required Supplementary information for GASB Statement 74 can be found at Exhibit B-8 and Exhibit B-9.

GASB Statement No. 77 - Tax Abatement Disclosures

The objective of this Statement is to improve usefulness of information about tax abatement agreements entered into by governmental agencies. Disclosure of information about the nature and magnitude of tax abatements will make these transactions more transparent to financial statement users. As a result, users will be better equipped to understand (1) how tax abatements affect a government's future ability to raise resources and meet its financial obligations and (2) the impact those abatements have on a government's financial position and economic condition.

This Statement requires governments that enter into tax abatement agreements to disclose the following information about the agreements:

1. Brief descriptive information, such as the tax being abated, the authority under which tax abatements are provided, eligibility criteria, the mechanism by which taxes are abated, provisions for recapturing abated taxes, and the types of commitments made by tax abatement recipients.
2. The gross dollar amount of taxes abated during the period.
3. Commitments made by a government, other than to abate taxes, as part of a tax abatement agreement.

The County Office has not entered into any tax abatement agreements. As a result, the adoption of GASB Statement No. 77 did not result in a change to the financial statements or note disclosures.

GASB Statement No. 80 - Blending Requirements for Certain Component Units

The objective of this Statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement amends the blending requirements established in paragraph 53 of Statement No. 14, The Financial Reporting Entity, as amended.

SAN DIEGO COUNTY OFFICE OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017

This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, Determining Whether Certain Organizations Are Component Units.

The County Office did not have any component units which met the definition noted above. As a result, the adoption of GASB Statement No. 80 did not result in a change to the financial statements or note disclosures.

GASB Statement No. 82 - Pension Issues - An Amendment of GASB No. 67, No. 68 and No. 73

The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, Financial Reporting for Pension Plans, No. 68, Accounting and Financial Reporting for Pensions, and No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within The Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

Prior to the issuance of this Statement, Statements 67 and 68 required presentation of covered employee payroll, which is the payroll of employees that are provided with pensions through the pension plan, and ratios that use that measure, in schedules of required supplementary information. This Statement amends Statements 67 and 68 to instead require the presentation of covered payroll, defined as the payroll on which contributions to a pension plan are based, and ratios that use that measure.

This Statement clarifies that a deviation, as the term is used in Actuarial Standards of Practice issued by the Actuarial Standards Board, from the guidance in an Actuarial Standard of Practice is not considered to be in conformity with the requirements of Statement 67, Statement 68, or Statement 73 for the selection of assumptions used in determining the total pension liability and related measures.

This Statement clarifies that payments that are made by an employer to satisfy contribution requirements that are identified by the pension plan terms as plan member contribution requirements should be classified as plan member contributions for purposes of Statement 67 and as employee contributions for purposes of Statement 68. It also requires that an employer's expense and expenditures for those amounts be recognized in the period for which the contribution is assessed and classified in the same manner as the employer classifies similar compensation other than pensions (for example, as salaries and wages or as fringe benefits).

The financial statements and note disclosures have been updated for the affects of the adoption of GASB Statement No. 82.

SAN DIEGO COUNTY OFFICE OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017

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:

Violation	Action Taken
None reported	Not applicable

2. Deficit Fund Balance or Fund Net Position of Individual Funds

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

Fund Name	Deficit Amount	Remarks
Self Insurance Fund	\$ 3,710,257	The deficit in Self-Insurance Fund ending fund balance can be attributed to the increase in Net OPEB Obligation as a result of only partial funding of the annual required contribution.

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 (\$356,496,026 as of June 30, 2017). The fair value of the County Office's portion of this pool as of that date, as provided by the pool sponsor, was \$356,496,026. Assumptions made in determining the fair value of the pooled investment portfolios are available from the County Treasurer.

The County Office is considered to be an involuntary participant in an external investment pool as the County Office is required to deposit all receipts and collections of monies with their County Treasurer (Education Code Section 41001). The fair value of the County Office's investments in the pool is reported in the accounting financial statements as amounts based upon the County Office's pro-rata share of the fair value provided by the County Treasurer for the entire portfolio (in relation to the amortized cost of the portfolio). The balance available for withdrawal is based on the accounting records maintained by the County Treasurer, which is recorded on the amortized cost basis.

The San Diego County Treasury is not registered with the Securities and Exchange Commission (SEC) as an investment company; however, the County Treasury acts in accordance with investment policies monitored by a Treasury Oversight Committee consisting of members appointed by participants in the investment pool and up to five members of the public having expertise, or an academic background in, public finance. In addition, the County Treasury is audited annually by an independent auditor.

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

Cash balances on hand and in banks (\$920,861 as of June 30, 2017) and in the revolving fund (\$27,400) are insured up to \$250,000 by the Federal Depository Insurance Corporation.

SAN DIEGO COUNTY OFFICE OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017

3. Investments

The County Office's investments at June 30, 2017 are shown below.

Investment or Investment Type	Maturity	Fair Value
Union Bank Institutional Trust Fund (Cash with Fiscal Agent)	<30 Days	\$ 2,213,991
CERBT Investment Strategy 1 (Cash with Fiscal Agent)	<30 Days	8,287,041
Total Investments		<u>\$ 10,501,032</u>

4. General Authorizations

The table below identifies the investment types that are authorized for the County Office by the California Government Code (or the County Office's investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or the County Office's investment policy where more restrictive) that address interest rate risk, credit risk, and concentration of credit risk. This table does not address investments of debt proceeds held by bond trustee that are governed by the provisions of debt agreements of the County Office, rather than the general provisions of the California Government Code or the County Office's investment policy.

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

5. 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. At year end, the County Office was not exposed to this risk.

SAN DIEGO COUNTY OFFICE OF EDUCATION

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2017

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.

California Government Code requires that a financial institution secure deposits made by State or Local Governmental units by pledging securities in an undivided collateral pool held by a depository regulated under State law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agency. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having value of 105% of the secured deposits.

As of June 30, 2017, the County Office's bank balances (including revolving cash) of \$698,261 was exposed to custodial credit risk because it was insured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the name of the County Office.

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.

The investment policy of the County Office contains no limitations on the amount that can be invested in any one issuer beyond the amount stipulated by the California Government Code. Investments in any one issuer that represent five percent or more of the total investments are either an external investment pool and are therefore exempt. As such, 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 pool.

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.

6. 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.

SAN DIEGO COUNTY OFFICE OF EDUCATION

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2017

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 as of June 30, 2017 consisted of the following:

	Major Governmental Funds		Nonmajor	Total
	General	Special	Governmental	Governmental
	Fund	Education	Funds	Funds
Federal Government:				
Categorical Programs	\$ 6,898,289	\$ -	\$ -	\$ 6,898,289
Special Education	480,569	15,714,106	-	16,194,675
State Government:				
Special Education	6,489,091	4,606,609	-	11,095,700
Lottery	175,328	-	-	175,328
Education Protection Account	11,294	-	-	11,294
After School Education and Safety	1,885,699	-	-	1,885,699
Other State Programs	907,997	-	128,967	1,036,964
Local Sources:				
Interest	510,319	-	112,048	622,367
Quality Preschool Initiative	5,927,284	-	-	5,927,284
Fees & Contracts	2,651,293	-	43,649	2,694,942
Totals	<u>\$ 25,937,163</u>	<u>\$ 20,320,715</u>	<u>\$ 284,664</u>	<u>\$ 46,542,542</u>
	Self	Private		
	Insurance	Purpose		
	Fund	Trusts		
Local Sources:				
Interest	\$ 9,144	\$ 403,474		
Fees & Contracts	-	2,773,575		
Totals	<u>\$ 9,144</u>	<u>\$ 3,177,049</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, 2017

E. Prepaid Expenses

Prepaid expenses as of June 30, 2017 consisted of the following:

	General Fund	Special Education Fund	Nonmajor Governmental Funds	Total Governmental Funds
Prepaid travel	\$ 10,956	\$ -	\$ -	\$ 10,956
Prepaid insurance	2,030,084	-	-	2,030,084
Other prepaid expenses	170,575	-	-	170,575
Totals	<u>\$ 2,211,615</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,211,615</u>
	Private Purpose Trusts			
Prepaid insurance	\$ 530,084			
Totals	<u>\$ 530,084</u>			

F. Capital Assets

Capital asset activity for the year ended June 30, 2017, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
<u>Governmental activities:</u>				
Capital assets not being depreciated:				
Land	\$ 1,877,796	\$ -	\$ -	\$ 1,877,796
Work in progress	1,000,000	-	1,000,000	-
Total capital assets not being depreciated	<u>2,877,796</u>	<u>-</u>	<u>1,000,000</u>	<u>1,877,796</u>
Capital assets being depreciated:				
Buildings	35,030,143	3,594,710	-	38,624,853
Improvements	2,119,249	-	-	2,119,249
Equipment	47,381,161	4,090,334	56,025	51,415,470
Total capital assets being depreciated	<u>84,530,553</u>	<u>7,685,044</u>	<u>56,025</u>	<u>92,159,572</u>
Less accumulated depreciation for:				
Buildings	(13,875,759)	(1,001,079)	-	(14,876,838)
Improvements	(771,165)	(102,476)	-	(873,641)
Equipment	(12,416,891)	(3,206,948)	(47,032)	(15,576,807)
Total accumulated depreciation	<u>(27,063,815)</u>	<u>(4,310,503)</u>	<u>(47,032)</u>	<u>(31,327,286)</u>
Total capital assets being depreciated, net	<u>57,466,738</u>	<u>3,374,541</u>	<u>8,993</u>	<u>60,832,286</u>
Governmental activities capital assets, net	<u>\$ 60,344,534</u>	<u>\$ 3,374,541</u>	<u>\$ 1,008,993</u>	<u>\$ 62,710,082</u>

Depreciation was charged to functions as follows:

Instruction	\$ 52,072
Instruction-Related Services	183,405
General Administration	2,130,451
Plant Services	1,283,502
Unallocated	661,073
	<u>\$ 4,310,503</u>

SAN DIEGO COUNTY OFFICE OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017

G. Interfund Balances and Activities

1. Due To and From Other Funds

Balances due to and due from other funds at June 30, 2017, consisted of the following:

Due To Fund	Due From Fund	Amount	Purpose
General Fund	Special Ed. Pass-Through	\$ 457	Reimburse expenses
General Fund	Other Governmental Funds	170,360	Reimburse expenses
Special Ed. Pass-Through	General Fund	832,849	Special education fund transfer
Special Ed. Pass-Through	General Fund	351,978	Prior year adjustments
Other Governmental Funds	General Fund	2,752,475	Capital projects transfer of funds
Other Governmental Funds	General Fund	1,810,067	Capital projects expenditures
Other Governmental Funds	General Fund	1,307,528	Deferred maintenance
Self-Insurance Fund	General Fund	1,234,264	OPEB expenses
	Total	<u>\$ 8,459,978</u>	

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

2. Transfers To and From Other Funds

Transfers to and from other funds at June 30, 2017, consisted of the following:

Transfers From	Transfers To	Amount	Reason
General Fund	General Fund	\$ 18,743	SERP Payment
General Fund	Other Governmental Funds	1,772,323	Capital projects and deferred maintenance expenses
Other Governmental Funds	General Fund	250,000	Capital projects expenses
	Total	<u>\$ 2,041,066</u>	

H. Accounts Payable

Accounts Payable as of June 30, 2017 consisted of the following:

	General Fund	Special Education Fund	Nonmajor Governmental Funds	Total Governmental Funds
Vendor payables	\$ 15,547,272	\$ -	\$ 135,875	\$ 15,683,147
Payroll and related benefits	590,133	-	4,851	594,984
Pension related liabilities	1,111,387	-	4,387	1,115,774
Pass through liabilities	-	21,687,987	-	21,687,987
Totals	<u>\$ 17,248,792</u>	<u>\$ 21,687,987</u>	<u>\$ 145,113</u>	<u>\$ 39,081,892</u>
	Private Purpose Trusts			
Vendor payables	\$ 3,047,723			
Totals	<u>\$ 3,047,723</u>			

SAN DIEGO COUNTY OFFICE OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017

I. Unearned Revenue

Unearned Revenue as of June 30, 2017 consisted of the following:

	Major Governmental Funds		Nonmajor	Total
	General	Special	Governmental	Governmental
	Fund	Education	Funds	Funds
		Fund		
Federal Government:				
Title I - Delinquent	\$ 324,013	\$ -	\$ -	\$ 324,013
Title III	147,740	-	-	147,740
Other Federal Programs	40,572	-	-	40,572
State Government:				
California Career Pathways	1,772,840	-		1,772,840
Career Technical Education Grant	401,531	-		401,531
Child Development Program	-	-	329,234	329,234
Other State Programs	39,199	-	-	39,199
Local Sources:				
Fees and Contracts	1,770,852	-	-	1,770,852
Totals	<u>\$ 4,496,747</u>	<u>\$ -</u>	<u>\$ 329,234</u>	<u>\$ 4,825,981</u>
		Private		
		Purpose		
		Trusts		
Local Sources:				
Fees and Contracts	\$ 2,131,898			
Totals	<u>\$ 2,131,898</u>			

J. 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.

SAN DIEGO COUNTY OFFICE OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017

K. Components of Ending Fund Balance

As of June 30, 2017 ending fund balance in governmental funds consisted of:

	Major Governmental Funds		Nonmajor	Total
	General	Special	Governmental	Governmental
	Fund	Education	Funds	Funds
		Fund		
Nonspendable Fund Balances				
Revolving Cash	\$ 27,400	\$ -	\$ -	\$ 27,400
Prepaid Expenses	2,211,615	-	-	2,211,615
Total Nonspendable	2,239,015	-	-	2,239,015
Restricted Fund Balances				
Educational Programs	12,859,940	-	37,445	12,897,385
Medi-Cal	687,593	-	-	687,593
Mental Health	151,018	-	-	151,018
Capital Projects	421,453	-	7,871,889	8,293,342
Other Restricted	1,932,131	-	-	1,932,131
Total Restricted	16,052,135	-	7,909,334	23,961,469
Committed Fund Balances				
Deferred Maintenance	-	-	8,540,668	8,540,668
Total Committed	-	-	8,540,668	8,540,668
Assigned Fund Balances				
Educational Programs	52,518,925	-	-	52,518,925
Post Employment Benefits	13,259,425	-	-	13,259,425
Equipment Reserve	1,680,000	-	-	1,680,000
Software Reserve	8,000,000	-	-	8,000,000
Pension Reserve	7,000,000	-	-	7,000,000
Vacation Accrual	3,239,869	-	-	3,239,869
Sustainability Reserve	6,000,000	-	-	6,000,000
Forest Reserve	-	-	464	464
Capital Projects	-	-	24,790,848	24,790,848
Total Assigned	91,698,219	-	24,791,312	116,489,531
Unassigned Fund Balances				
For Economic Uncertainty	4,563,722	-	-	4,563,722
Other Unassigned	28,130,250	-	-	28,130,250
Total Unassigned	32,693,972	-	-	32,693,972
Total Fund Balance	\$ 142,683,341	\$ -	\$ 41,241,314	\$ 183,924,655

SAN DIEGO COUNTY OFFICE OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017

L. 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, 2017 are as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
<u>Governmental activities:</u>					
Capital leases	\$ 357,482	\$ 432,027	\$ 501,296	\$ 288,213	\$ 99,848
Compensated absences *	2,627,838	612,031	-	3,239,869	3,239,869
Net pension liability	105,760,408	28,561,581	-	134,321,989	-
Net OPEB obligation	7,690,723	331,569	-	8,022,292	-
Total governmental activities	<u>\$ 116,436,451</u>	<u>\$ 29,937,208</u>	<u>\$ 501,296</u>	<u>\$ 145,872,363</u>	<u>\$ 3,339,717</u>
<u>Private Purpose Trusts</u>					
Net OPEB obligation	\$ 160,827	\$ 47,318	\$ -	\$ 208,145	-
Net pension liability	2,926,406	792,321	-	3,718,727	-
Compensated absences *	203,184	48,724	-	251,908	251,908
Total Private Purpose Trusts	<u>\$ 3,290,417</u>	<u>\$ 888,363</u>	<u>\$ -</u>	<u>\$ 4,178,780</u>	<u>\$ 251,908</u>

Liability	Activity Type	Fund
Compensated absences	Governmental	General
Compensated absences	Private Purpose Trusts	Private Purpose Trust Funds

2. Debt Service Requirements

Debt service requirements on long-term debt net of net pension liability, net OPEB obligation, and compensated absences as of June 30, 2017 are as follows:

Year Ending June 30,	Capital Leases		
	Principal	Interest	Total
2018	\$ 99,848	\$ 15,141	\$ 114,989
2019	105,971	13,365	119,336
2020	82,394	6,886	89,280
Totals	<u>\$ 288,213</u>	<u>\$ 35,392</u>	<u>\$ 323,605</u>

3. Capital Leases

During the 2013-14 fiscal year the County Office entered into a lease agreement with Unisys to finance the purchase of software. The lease calls for annual payments of \$364,661 which is inclusive of principal and accrued interest. Interest accrues at a rate of 1.95%. The total lease amount was for \$1,413,714 with the first payment being made in 2013-14. The final payment on the lease was made August 1, 2016.

During the 2016-17 fiscal year the County Office entered into lease agreements with Dell Financial Services to finance the purchase of computer equipment. The leases call for payments of \$74,215 which are inclusive of principal and accrued interest. Interest accrues at a rate of 9.2%. The total lease amounts were \$269,491 with the first payments made during the 2016-17 fiscal year. The final payment on the leases comes due on May 1, 2020.

SAN DIEGO COUNTY OFFICE OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017

During the 2016-17 fiscal year the County Office entered into lease agreements with Dell Financial Services to finance the purchase of computer equipment. The leases call for payments of \$2,068 which are inclusive of principal and accrued interest. Interest accrues at a rate of 4.8%. The total lease amounts were \$7,879 with the first payments made during the 2016-17 fiscal year. The final payments on the leases comes due on June 1, 2020.

During the 2016-17 fiscal year the County Office entered into lease agreements with Dell Financial Services to finance the purchase of computer equipment. The leases call for payments of \$30,196 which are inclusive of principal and accrued interest. Interest accrues at a rate of 7.3%. The total lease amounts were \$112,002 with the first payments made during the 2016-17 fiscal year. The final payments on the leases comes due on July 1, 2019.

During the 2016-17 fiscal year the County Office entered into lease agreements with Apple Inc. to finance the purchase of computer equipment. The leases call for payments of \$11,455 which are inclusive of principal and accrued interest. Interest accrues at a rate of 4.99%. The total lease amounts were \$42,655 with the first payments made during the 2016-17 fiscal year. The final payment on the leases comes due on July 1, 2019.

M. Commitments Under Noncapitalized Leases

Commitments under operating (noncapitalized) lease agreements for property provide for minimum future rental payments as of June 30, 2017 as follows:

<u>Year Ending June 30,</u>	
2018	\$ 1,149,146
2019	782,121
Total Minimum Rentals	<u>\$ 1,931,267</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:

<u>Year Ending June 30,</u>	
2018	\$ 175,840
2019	178,719
Total Minimum Lease Payments	<u>\$ 354,559</u>

Commitments under operating (noncapitalized) lease agreements for copy machines provide for minimum future rental payments as of June 30, 2017 as follows:

<u>Year Ending June 30,</u>	
2018	\$ 1,552
2019	1,552
2020	1,552
Total Minimum Rentals	<u>\$ 4,656</u>

SAN DIEGO COUNTY OFFICE OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017

Commitments under operating (noncapitalized) lease agreements for computers provide for minimum future rental payments as of June 30, 2017 as follows:

<u>Year Ending June 30,</u>	
2018	\$ 32,058
2019	32,058
2020	2,325
Total Minimum Rentals	<u>\$ 66,441</u>

N. 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, 2017 is as follows:

	San Diego County Schools Risk Management			
	Workers Compensation Fund	Property & Liability Fund	Miscellaneous Property Fund	Total Combined Funds
Assets	\$ 4,722,491	\$ 702,093	\$ 38,950	\$ 5,463,534
Deferred Outflows of Resources	20,214	10,822	1,090	32,126
Liabilities	1,820,654	410,528	4,440	2,235,622
Deferred Inflows of Resources	10,746	6,556	1,039	18,341
Total Net Position	<u>\$ 2,911,305</u>	<u>\$ 295,831</u>	<u>\$ 34,561</u>	<u>\$ 3,241,697</u>
Income	\$ 1,338,157	\$ 201,495	\$ 55,227	\$ 1,594,879
Expenses	1,426,660	436,996	64,032	1,927,688
Change in Net Position	<u>\$ (88,503)</u>	<u>\$ (235,501)</u>	<u>\$ (8,805)</u>	<u>\$ (332,809)</u>

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 Office'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.

SAN DIEGO COUNTY OFFICE OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017

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 have been fully repaid as of June 30, 2017.

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. The JPA suspended all operations during the 2013-14 fiscal year. Operations were re-activated in September 2014.

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. During the 2013-14 fiscal year Industrial and Municipal Stormwater Consortium members joined the JPA. 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, maintenance and stormwater management. Members of the JPA change annually based on projects and needs of school districts and community colleges in San Diego County. 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.

O. Risk Management

The County Office is exposed to risk of losses due to:

- a. Torts,
- b. Theft of, damage to, or destruction of assets,
- c. Business interruption,
- d. Errors or omissions,
- e. Job related illnesses or injuries to employees,
- f. Natural disasters,
- g. Other risks associated with public entity risk pools

Risk management is the process of managing the County Office's activities to minimize the adverse effects of these risks. The main element of risk management are risk control (to minimize the losses that strike an organization) and risk financing (to obtain finances to provide for or restore the economic damages of those losses). Risk financing techniques include risk retention (self-insurance), risk transfer to and from an insurer, and risk transfer to a noninsurer.

The County Office has implemented the risk financing technique of risk transfer to an insurer. The County Office has purchased property and liability insurance as well as workers compensation insurance to cover any losses resulting from the risks identified above.

The County Office purchases insurance through joint powers authorities. The County Office is not obligated to cover any losses beyond the premiums paid for the insurance costs. As a result there has not been a liability recorded for incurred but not reported claims.

The County Office has established a self-insurance fund for the purpose of accounting for other post employment benefits. The activities of the fund include payment of pay-as-you-go premiums for other post employment health insurance as well as recording of changes in the other post employment benefits liability.

SAN DIEGO COUNTY OFFICE OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017

P. Pension Plans

1. General Information About the Pension Plans

a. Plan Descriptions

Qualified employees are covered under multiple-employer defined benefit pension plans maintained by agencies of the State of California. Certificated employees are members of the California State Teachers' Retirement System (CalSTRS) and classified employees are members of the California Public Employees' Retirement System (CalPERS). Benefit provisions under the Plans are established by State statute and Local Government resolution. Support by the State for the CalSTRS plan is such that the plan has a special funding situation as defined by GASB Statement No. 68. CalSTRS and CalPERS issue publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on their respective websites.

b. Benefits Provided

CalSTRS and CalPERS provide service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members. Benefits are based on years of credited service, equal to one year of full-time employment. Members with five years of total service are eligible to retire at age 62 for normal benefits or at age 55 with statutorily reduced benefits. Employees hired prior to January 1, 2013 are eligible to retire at age 60 for normal benefits or at age 55 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. All members are eligible for death benefits after one year of total service.

The Plans' provisions and benefits in effect at June 30, 2017 are summarized as follows:

	CalSTRS	
	Before Jan. 1, 2013	On or After Jan. 1, 2013
Hire Date		
Benefit Formula	2% at 60	2% at 62
Benefit Vesting Schedule	5 Years	5 Years
Benefit Payments	Monthly for Life	Monthly for Life
Retirement Age	50-62	55-67
Monthly benefits, as a % of eligible compensation	1.1 - 2.4%	1.0 - 2.4%*
Required employee contribution rates (at June 30, 2017)	10.250%	9.205%
Required employer contribution rates (at June 30, 2017)	12.580%	12.580%
Required state contribution rates (at June 30, 2017)	7.058%	7.058%

*Amounts are limited to 120% of Social Security Wage Base.

**The rate imposed on CalSTRS 2% at 62 members is based on the normal cost of benefits.

	CalPERS	
	Before Jan. 1, 2013	On or After Jan. 1, 2013
Hire Date		
Benefit Formula	2% at 55	2% at 62
Benefit Vesting Schedule	5 Years	5 Years
Benefit Payments	Monthly for Life	Monthly for Life
Retirement Age	50-62	52-67
Monthly benefits, as a % of eligible compensation	1.1 - 2.5%	1.0 - 2.5%
Required employee contribution rates (at June 30, 2017)	7.00%	6.00%
Required employer contribution rates (at June 30, 2017)	18.431%	18.431%

*Amounts are limited to 120% of Social Security Wage Base.

SAN DIEGO COUNTY OFFICE OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017

c. Contributions - CalPERS

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The CalPERS Board retains the authority to amend contribution rates. The total plan contributions are determined through CalPERS' annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The employer is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. For the measurement period ended June 30, 2016 (measurement date), the average active employee contribution rate is 6.974% of annual pay, and the employer's contribution rate is 17.628% of annual payroll. For the fiscal year ending June 30, 2017, the average active employee contribution rate is 6.974%, and the employer's contribution rate is 18.431%.

d. Contributions - CalSTRS

For the measurement period ended June 30, 2016 (measurement date), Section 22950 of the California Education Code requires members to contribute monthly to the system 9.20% (if hired prior to January 1, 2013) or 8.56% (if hired on or after January 1, 2013) of the creditable compensation upon which members' contributions under this part are based (rates increased to 10.25% and 9.205% for fiscal year ended June 30, 2017). In addition the employer required rates established by the CalSTRS Board have been established at 10.73% of creditable compensation for the measurement period ended June 30, 2016 and 12.58% for the fiscal year ended June 30, 2017. Rates are defined in Section 22950.5 through measurement period ending June 30, 2021. Beginning in the fiscal year 2021-22 and for each fiscal year thereafter, the CalSTRS Board has the authority to increase or decrease percentages paid specific to reflect the contribution required to eliminate by June 30, 2046, the remaining unfunded actuarial obligation with respect to service credited to members before July 1, 2014, as determined by the Board based upon a recommendation from its actuary.

e. On Behalf Payments

Consistent with Section 22955.1 of the California Education Code, the State of California makes contributions to CalSTRS on behalf of employees working for the County Office. For the measurement period ended June 30, 2016 (measurement date), fiscal year ended June 30, 2017, the State contributed 7.058% of salaries creditable to CalSTRS. For the fiscal year ended June 30, 2016 the State contribution rate was 7.126% of salaries creditable to CalSTRS. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, these amounts have been recorded in these financial statements. On behalf payments have been excluded from the calculation of available reserves, and have not been included in the budgeted amounts reported in the General Fund Budgetary Comparison Schedule.

On Behalf Payments reported by the County Office for the past three fiscal years are as follows:

Year Ended June 30,	Contribution Rate	Contribution Amount
2015	5.679%	\$ 2,220,223
2016	7.126%	2,748,863
2017	7.058%	2,696,297

SAN DIEGO COUNTY OFFICE OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017

f. Contributions Recognized

For the measurement period ended June 30, 2016 (fiscal year June 30, 2017), the contributions recognized for each plan were:

	Governmental Activities		Private Purpose Trusts		
	CalSTRS	CalPERS	CalSTRS	CalPERS	Total
Contributions - Employer	\$ 4,266,609	\$ 7,206,204	\$ -	\$ 385,085	\$ 11,857,898
Contributions - State	2,696,297	-	-	-	2,696,297
Total Contributions	<u>\$ 6,962,906</u>	<u>\$ 7,206,204</u>	<u>\$ -</u>	<u>\$ 385,085</u>	<u>\$ 14,554,195</u>

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

As of June 30, 2017, the County Office reported net pension liabilities for its proportionate shares of the net pension liability of each plan as follows:

	Governmental Activities	Private Purpose Trusts	Total
	Proportionate Share of Net Pension Liability	Proportionate Share of Net Pension Liability	Proportionate Share of Net Pension Liability
CalSTRS	\$ 64,731,851	\$ -	\$ 64,731,851
CalPERS	69,590,138	3,718,757	73,308,895
Total Net Pension Liability	<u>\$ 134,321,989</u>	<u>\$ 3,718,757</u>	<u>\$ 138,040,746</u>

The County Office's net pension liability for each Plan is measured as the proportionate share of the net pension liability. The net pension liability of each of the Plans is measured as of June 30, 2016, and the total pension liability for each Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015 rolled forward to June 30, 2016 using standard update procedures. The County Office's proportion of the net pension liability was based on a projection of the County Office's long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined.

The County Office's proportionate share of the net pension liability for each Plan as of June 30, 2016 and June 30, 2017 were as follows:

CalSTRS					
	County Office's Proportionate Share		State's Proportionate Share		Total for County Office Employees
	Governmental Activities	Private Purpose Trusts	Governmental Activities	Private Purpose Trusts	
June 30, 2016	0.0811%	-	0.0541%	-	0.1352%
June 30, 2017	0.0800%	-	0.0516%	-	0.1316%
Change	-0.0011%	-	-0.0025%	-	-0.0036%

CalPERS		
	County Office's Proportionate Share	
	Governmental Activities	Private Purpose Trusts
June 30, 2016	94.5893%	5.4107%
June 30, 2017	94.9273%	5.0727%
Change	0.3380%	-0.3380%

SAN DIEGO COUNTY OFFICE OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017

a. Pension Expense

For the measurement period ended June 30, 2016 (fiscal year June 30, 2017), pension expense was recognized as follows:

	Governmental Activities		
	CalSTRS	CalPERS	Total
Change in net pension liability	\$ 10,130,446	\$ 18,431,135	\$ 28,561,581
Contributions - state on behalf payments	2,696,297	-	2,696,297
Increase/(Decrease) resulting from changes in deferred outflows and deferred inflows of resources for:			
Contributions - employer made subsequent to measurement date	(1,067,351)	(907,743)	(1,975,094)
Differences between actual and expected experiences	(5,769)	(3,072,810)	(3,078,579)
Changes in assumptions	-	(782,510)	(782,510)
Changes in proportionage share	(150,456)	(111,833)	(262,289)
Net difference between projected and actual earnings	(7,686)	(12,938,757)	(12,946,443)
Total	\$ 11,595,481	\$ 617,482	\$ 12,212,963

	Private-Purpose Trusts		
	CalSTRS	CalPERS	Total
Change in net pension liability	\$ -	\$ 792,351	\$ 792,351
Contributions - state on behalf payments	-	-	-
Increase/(Decrease) resulting from changes in deferred outflows and deferred inflows of resources for:			
Contributions - employer made subsequent to measurement date	-	(57,826)	(57,826)
Differences between actual and expected experiences	-	(166,322)	(166,322)
Changes in assumptions	-	(50,010)	(50,010)
Changes in proportionage share	-	111,831	111,831
Net difference between projected and actual earnings	-	(709,293)	(709,293)
Total	\$ -	\$ (79,269)	\$ (79,269)

SAN DIEGO COUNTY OFFICE OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017

b. Deferred Outflows and Inflows of Resources

At June 30, 2017, the County Office reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Deferred Outflows of Resources

	Governmental Activities		
	CalSTRS	CalPERS	Total
Pension contributions subsequent to measurement date	\$ 5,382,962	\$ 8,083,389	\$ 13,466,351
Differences between actual and expected experience	-	2,510,303	2,510,303
Changes in employer's proportionate share	-	249,470	249,470
Net difference between projected and actual earnings	18,292	18,153,101	18,171,393
Total Deferred Outflows of Resources	<u>\$ 5,401,254</u>	<u>\$ 28,996,263</u>	<u>\$ 34,397,517</u>

	Private Purpose Trusts		
	CalSTRS	CalPERS	Total
Pension contributions subsequent to measurement date	\$ -	\$ 442,911	\$ 442,911
Differences between actual and expected experience	-	134,145	134,145
Net difference between projected and actual earnings	-	994,466	994,466
Total Deferred Outflows of Resources	<u>\$ -</u>	<u>\$ 1,571,522</u>	<u>\$ 1,571,522</u>

Deferred Inflows of Resources

	Governmental Activities		
	CalSTRS	CalPERS	Total
Differences between actual and expected experience	\$ (21,140)	\$ (1,687,522)	\$ (1,708,662)
Changes in assumptions	-	(2,347,531)	(2,347,531)
Changes in employer's proportionate share	(2,755,027)	-	(2,755,027)
Net difference between projected and actual earnings	-	(6,857,729)	(6,857,729)
Total Deferred Outflows of Resources	<u>\$ (2,776,167)</u>	<u>\$ (10,892,782)</u>	<u>\$ (13,668,949)</u>

	Private Purpose Trusts		
	CalSTRS	CalPERS	Total
Differences between actual and expected experience	\$ -	\$ (96,529)	\$ (96,529)
Changes in assumptions	-	(129,036)	(129,036)
Changes in employer's proportionate share	-	(249,468)	(249,468)
Net difference between projected and actual earnings	-	(418,471)	(418,471)
Total Deferred Outflows of Resources	<u>\$ -</u>	<u>\$ (893,504)</u>	<u>\$ (893,504)</u>

SAN DIEGO COUNTY OFFICE OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017

Pension contributions made subsequent to measurement date reported as deferred outflows of resources will be recognized as a portion of pension expense in the year ended June 30, 2018. The remaining amounts reported as deferred outflows or deferred inflows of resources will be recognized as an increase or decrease to pension expense over a five year period. Pension expense resulting from deferred outflows and deferred inflows of resources will be recognized as follows:

Year Ended June 30	Governmental Activities				
	Deferred Outflows of Resources		Deferred Inflows of Resources		Net Effect on Expenses
	CalSTRS	CalPERS	CalSTRS	CalPERS	
2018	\$ 5,388,198	\$ 13,860,411	\$ (878,295)	\$ (4,773,882)	\$ 13,596,432
2019	5,236	5,777,022	(878,295)	(4,773,881)	130,082
2020	5,236	5,777,024	(875,163)	(1,345,019)	3,562,078
2021	2,584	3,581,806	(144,414)	-	3,439,976
Total	<u>\$ 5,401,254</u>	<u>\$ 28,996,263</u>	<u>\$ (2,776,167)</u>	<u>\$ (10,892,782)</u>	<u>\$ 20,728,568</u>

Year Ended June 30	Private Purpose Trusts				
	Deferred Outflows of Resources		Deferred Inflows of Resources		Net Effect on Expenses
	CalSTRS	CalPERS	CalSTRS	CalPERS	
2018	\$ -	\$ 755,965	\$ -	\$ (355,394)	\$ 400,571
2019	-	313,054	-	(355,393)	(42,339)
2020	-	313,055	-	(146,159)	166,896
2021	-	189,448	-	(36,558)	152,890
Total	<u>\$ -</u>	<u>\$ 1,571,522</u>	<u>\$ -</u>	<u>\$ (893,504)</u>	<u>\$ 678,018</u>

c. Actuarial Assumptions

The total pension liabilities in the June 30, 2017 actuarial valuations were determined using the following actuarial assumptions:

	CalSTRS	CalPERS
Valuation Date	June 30, 2015	June 30, 2015
Measurement Date	June 30, 2016	June 30, 2016
Actuarial Cost Method	Entry Age Normal	Entry Age Normal
Actuarial Assumptions:		
Discount Rate	7.6000%	7.6500%
Inflation	3.00%	2.75%
Payroll Growth	3.75%	3.00%
Projected Salary Increase	0.05%-5.6% (1)	3.20%-10.80% (1)
Investment Rate of Return	7.6000% (2)	7.6500% (2)
Mortality	.013-.435% (3)	.0013-.4591% (3)

- (1) Depending on age, service and type of employment
(2) Net of pension plan investment expenses, including inflation
(3) Industry standard published by the Society of Actuaries

SAN DIEGO COUNTY OFFICE OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017

d. Discount Rate

The discount rate used to measure the total pension liability was 7.6000% for CalSTRS and 7.6500% for CalPERS. The projection of cash flows used to determine the discount rate assumed the contributions from plan members, employers, and state contributing agencies will be made at statutory contribution rates. To determine whether the County Office bond rate should be used in the calculation of a discount rate for each plan, CalSTRS and CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current discount rates are adequate and the use of the County Office bond rate calculation is not necessary for either plan. The stress test results are presented in a detailed report that can be obtained from the CalPERS and CalSTRS websites.

CalPERS has changed the discount rate from 7.50% to 7.65% to correct for an adjustment to exclude administrative expenses.

According to Paragraph 30 of GASB Statement No. 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The investment return assumption used in the accounting valuations is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. Using this lower discount rate has resulted in a slightly higher Total Pension Liability and Net Pension Liability. CalSTRS and CalPERS checked the materiality threshold for the difference in calculation and did not find it to be a material difference.

CalSTRS and CalPERS are scheduled to review all actuarial assumptions as part of their regular Asset Liability Management (ALM) review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require board action and proper stakeholder outreach. For these reasons, CalSTRS and CalPERS expect to continue using a discount rate net of administrative expenses for GASB 67 and GASB 68 calculations through at least the 2017-18 fiscal year. CalSTRS and CalPERS will continue to check the materiality of the difference in calculation until such time as they have changed their methodology.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalSTRS and CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first 10 years) and long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest quarter of one percent.

SAN DIEGO COUNTY OFFICE OF EDUCATION

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2017

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

CalSTRS		
Asset Class	Assumed Allocation 06/30/16	Long Term Expected Return*
Global Equity	47.00%	6.30%
Fixed Income	12.00%	0.30%
Real Estate	13.00%	5.20%
Private Equity	13.00%	9.30%
Absolute Return	9.00%	2.90%
Inflation Sensitive	4.00%	3.80%
Cash/Liquidity	2.00%	-1.00%

*20 year geometric average used for long term expected real rate of return

CalPERS			
Asset Class	Allocation 06/30/16	Real Return (Years 1-10)(1)	Real Return (Years 11+)(2)
Global Equity	51.00%	5.25%	5.71%
Global Debt Securities	20.00%	0.99%	2.43%
Inflation Assets	6.00%	0.45%	3.36%
Private Equity	10.00%	6.83%	6.95%
Real Estate	10.00%	4.50%	5.13%
Infrastructure	2.00%	4.50%	5.09%
Liquidity	1.00%	-0.55%	-1.05%

(1) An expected inflation of 2.5% used for this period

(2) An expected inflation of 3.0% used for this period

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

The following represents the County Office's proportionate share of the net pension liability for each Plan, calculated using the discount rate for each Plan, as well as what the County Office's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	Governmental Activities		Private Purpose Trusts	
	CalSTRS	CalPERS	CalSTRS	CalPERS
1% Decrease	6.60%	6.65%	6.60%	6.65%
Net Pension Liability	\$ 93,163,731	\$ 107,429,924	\$ -	\$ 5,740,839
Current Discount Rate	7.60%	7.65%	7.60%	7.65%
Net Pension Liability	\$ 64,731,851	\$ 69,590,138	\$ -	\$ 3,718,757
1% Increase	8.60%	8.65%	8.60%	8.65%
Net Pension Liability	\$ 41,117,982	\$ 38,293,324	\$ -	\$ 2,046,319

SAN DIEGO COUNTY OFFICE OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017

f. Pension Plan Fiduciary Net Position

CalSTRS - Governmental Activities

	Increase (Decrease)				
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)	State's Share of Net Pension Liability (c)	County Office's Share of Net Pension Liability (a) - (b) - (c)
Balance at June 30, 2016 (Previously Reported)	\$ 350,372,315	\$ 259,348,674	\$ 91,023,641	\$ 36,422,236	\$ 54,601,405
Changes for the year:					
Change in proportionate share	(9,249,704)	(6,846,712)	(2,402,992)	(1,683,098)	(719,894)
Service cost	7,732,137	-	7,732,137	3,030,984	4,701,153
Interest	25,447,339	-	25,447,339	9,975,312	15,472,027
Differences between expected and actual experience	(1,591,446)	-	(1,591,446)	(623,844)	(967,602)
Contributions:					
Employer	-	4,463,873	(4,463,873)	(1,749,830)	(2,714,043)
Employee	-	3,893,018	(3,893,018)	(1,526,056)	(2,366,962)
State On Behalf	-	2,553,555	(2,553,555)	(1,000,989)	(1,552,566)
Net investment income	-	3,034,091	(3,034,091)	(1,189,358)	(1,844,733)
Other income	-	54,653	(54,653)	(21,424)	(33,229)
Benefit payments, including refunds of employee contributions	(17,307,873)	(17,307,873)	-	-	-
Administrative expenses	-	(237,014)	237,014	92,909	144,105
Other expenses	-	(20,049)	20,049	7,859	12,190
Net Changes	5,030,453	(10,412,458)	15,442,911	5,312,465	10,130,446
Balance at June 30, 2017	\$ 355,402,768	\$ 248,936,216	\$ 106,466,552	\$ 41,734,701	\$ 64,731,851

SAN DIEGO COUNTY OFFICE OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017

CalPERS - Governmental Activities

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance at June 30, 2016 (Previously Reported)	\$ 257,007,136	\$ 205,848,133	\$ 51,159,003
Changes for the year:			
Adjustment for change in proportionate share	918,346	735,543	182,803
Service cost	6,573,115	-	6,573,115
Interest	19,782,881	-	19,782,881
Differences between expected and actual experience	3,137,879	-	3,137,879
Changes in assumptions	-	-	-
Contributions - Employer	-	7,206,204	(7,206,204)
Contributions - Employee	-	3,028,143	(3,028,143)
Net investment income	-	1,137,098	(1,137,098)
Benefit payments, including refunds of employee contributions	(11,500,324)	(11,500,324)	-
Administrative expenses	-	(125,902)	125,902
Net Changes	18,911,897	480,762	18,431,135
Balance at June 30, 2017	\$ 275,919,033	\$ 206,328,895	\$ 69,590,138

CalPERS - Private Purpose Trusts

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance at June 30, 2016 (Previously Reported)	\$ 14,701,359	\$ 11,774,954	\$ 2,926,405
Changes for the year:			
Adjustment for change in proportionate share	(918,341)	(735,538)	(182,803)
Service cost	351,255	-	351,255
Interest	1,057,158	-	1,057,158
Differences between expected and actual experience	167,682	-	167,682
Changes in assumptions	-	-	-
Contributions - Employer	-	385,085	(385,085)
Contributions - Employee	-	161,818	(161,818)
Net investment income	-	60,764	(60,764)
Benefit payments, including refunds of employee contributions	(614,554)	(614,554)	-
Administrative expenses	-	(6,727)	6,727
Net Changes	43,200	(749,152)	792,352
Balance at June 30, 2017	\$ 14,744,559	\$ 11,025,802	\$ 3,718,757

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

SAN DIEGO COUNTY OFFICE OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017

Q. Deferred Outflows of Resources

As of June 30, 2017 deferred outflows of resources consisted of:

	Beginning Balance	Current Year Increases	Current Year Amortization	Ending Balance
<u>Governmental Activities</u>				
Pension Related	\$ 20,282,709	\$ 31,388,324	\$ 17,273,516	\$ 34,397,517
<u>Private Purpose Trusts</u>				
Pension Related	879,495	1,390,167	698,140	1,571,522
Total Deferred Outflows	<u>\$ 21,162,204</u>	<u>\$ 32,778,491</u>	<u>\$ 17,971,656</u>	<u>\$ 35,969,039</u>

R. Deferred Inflows of Resources

As of June 30, 2017 deferred inflows of resources consisted of:

	Beginning Balance	Current Year Increases	Current Year Amortization	Ending Balance
<u>Governmental Activities</u>				
Pension Related	\$ 18,599,056	\$ 722,070	\$ 5,652,177	\$ 13,668,949
<u>Private Purpose Trusts</u>				
Pension Related	1,073,097	182,802	362,395	893,504
Total Deferred Outflows	<u>\$ 19,672,153</u>	<u>\$ 904,872</u>	<u>\$ 6,014,572</u>	<u>\$ 14,562,453</u>

S. Postemployment Benefits Other Than Pension Benefits

1. Plan Description

Plan administration: The California Public Employees Retirement System (CalPERS) administers the San Diego County Office of Education Retiree Benefits Plan (Plan) through the California Employers' Retiree Benefit Trust (CERBT). The Plan is a single-employer defined benefit plan that is used to provide postemployment benefits other than pensions (OPEB) for employee groups as follows:

Certificated (Teachers Only) Employees

The County Office provides retiree medical (including prescription drug, mental health and chiropractic benefits), dental and vision benefits to eligible retirees and their dependents. The County Office'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 the County Office shall not exceed the amount being contributed by the County Office for current active employees. The retiree pays for any amounts above the County Office's contribution for the cost of covering eligible dependents. The retiree also pays for the cost of dental and vision coverage for themselves and eligible dependentsb.

The County Office does not provide any retiree health benefits beyond the retiree's attainment of medicare eligibility 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, the County Office will contribute the specified amounts towards a plan which provides comparable benefits as those for a similarly situated current active or retired employee.

SAN DIEGO COUNTY OFFICE OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017

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

The County Office 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. The County Office'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 the County Office shall not exceed the amount being contributed by the County Office for current active employees. The retiree pays for any amounts above the County Office's contribution for the cost of covering eligible dependents. The retiree also pays for the cost of dental and vision coverage for themselves and eligible dependents.

The County Office 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 the County Office service. Full-time employees who have worked in this capacity for 30 years with the County Office are eligible on or after age 50.

Board Members

The County Office 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, the County Office will pay 100% of the cost for medical, dental and vision coverage for the retiree and any eligible dependents for the retiree's lifetime.

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, the County Office 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.

Plan Membership

At June 30, 2017, Plan membership consisted of the following:

Inactive plan members or beneficiaries currently receiving benefit payments	122
Inactive plan members entitled to but not yet receiving benefit payments	-
Active plan members	1,101
Total plan membership	<u>1,223</u>

Contributions

The County Office commenced funding through the California Employers' Retiree Benefit Trust (CERBT) in 2014 and elected the CERBT investment allocation strategy 1, which has a CERBT published median yield of 7.28% for invested funds. The County Office made an initial contribution equal to \$7,400,000 in October 2014 to offset its accumulated net OPEB obligation. Additional pre-funding may be done in future fiscal periods as determined through the budgeting process. The actuarial value of assets for the Plan as of June 30, 2014 is \$7,400,000 reflecting the contribution as a receivable. In addition, the district makes pay-as-you-go contributions for premiums due on current retirees receiving benefits.

SAN DIEGO COUNTY OFFICE OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017

2. Investments

Investment Policy

The Plan's policy in regard to the allocation of invested assets is established and may be amended by the CalPERS Board by a majority vote of its members. It is the policy of CalPERS Board to pursue an investment strategy that reduces risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. The CERBT provides participating employers with the choice of three investment allocation strategies. The expected rate of return of assets is dependent on the funding strategy of a participating employer and which investment allocation strategy is selected. For employers fully funding their annual required contribution, Strategy 1 has a CERBT published median yield of 7.28%, Strategy 2 has a published median yield of 6.73% and Strategy 3 has a published median yield of 6.12%. The District has elected to participate in CERBT Strategy 1. The Objective of CERBT Strategy 1 portfolio is to seek returns that reflect the broad investment performance of the financial markets through capital appreciation and investment income. There is no guarantee that the portfolio will achieve its investment objective.

Investment Strategy

The CERBT Strategy 1 portfolio is invested in various asset classes in percentages approved by the CalPERS Board. Generally, equities are intended to help build the value of the Plans portfolio over the long term while bonds are intended to help provide income and stability of principal. Also, strategies invested in a higher percentage of equities seek higher investment returns (but assume more risk) compared with strategies invested in a higher percentage of bonds.

The CERBT Strategy 1 portfolio consists of the following asset classes and corresponding benchmarks:

Asset Class	Target Allocation*	Target Range	Benchmark
Global Equity	57%	+ or - 2%	MSCI All Country World Index IMI (net)
Fixed Income	27%	+ or - 2%	Bloomberg Barclays Long Liability Index
Treasury Inflation-Protected Securities (TIPS)	5%	+ or - 2%	Bloomberg Barclays U.S. TIPS Index, Series L
Real Estate Investment Trusts	8%	+ or - 2%	FTSE EPRA/NAREIT Developed Liquid Index
Commodities	3%	+ or - 2%	S&P GSCI Total return Index

*Allocations were approved by the CalPERS Board at the October 2014 Investment Committee meeting

Concentrations

The Plan holds investments explicitly in the CERBT Strategy 1 portfolio which represents an amount greater than 5% of the Plan's fiduciary net position.

SAN DIEGO COUNTY OFFICE OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017

Rate of Return

For the year ended June 30, 2017, the time weighted investment rates of return for CERBT Strategy 1 were:

Category	1 Year Return	3 Year Return	5 Year Return
Total Fund	10.60%	3.70%	8.10%
Global Equity	19.40%	5.20%	11.10%
Global Fixed Income	0.30%	4.30%	3.90%
TIPS	-0.60%	0.60%	0.20%
REITS	-0.10%	3.90%	7.60%
Commodities	-8.90%	-24.80%	-14.00%

Index	1 Year Return	3 Year Return	5 Year Return
CERBT Strategy 1 Policy Index	9.90%	3.20%	7.70%
CERBT S1 Global Equity Benchmark	19.00%	4.90%	10.80%
CalPERS Custom Long Liability (Daily)	-0.90%	3.50%	2.90%
CalPERS TIPS (Daily)	-0.60%	0.60%	0.30%
PERS FTSE EPRA NAREIT Developed Liquid	-0.90%	3.10%	7.00%
GSCI Total Return (Daily)	-9.00%	-24.80%	-13.70%

For the year ended June 30, 2017, the money-weighted rate of return, net of investment expense, was 10.0%.

3. Net OPEB Liability of the County Office and the Plan

Annual Required Contribution (Expense)

Under GASB 45, the County Office 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 the County Office's 2016-17 fiscal year, the annual required contribution is \$3,216,583. 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, 2014. 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 the County Office during the period.

	Governmental Activities	Private Purpose Trusts	Total
Annual Required Contribution (ARC)	\$ 3,088,363	\$ 128,220	\$ 3,216,583
Interest on OPEB Obligation	77,195	3,205	80,400
Adjustment to ARC	(679,262)	(28,201)	(707,463)
Annual OPEB Cost	2,486,296	103,224	2,589,520
Actual Employer Contributions	(2,154,726)	(55,906)	(2,210,632)
Increase in Net OPEB Obligation	331,570	47,318	378,888
Net OPEB Obligation, Beginning of Year	7,690,722	160,827	7,851,549
Net OPEB Obligation, End of Year	\$ 8,022,292	\$ 208,145	\$ 8,230,437

SAN DIEGO COUNTY OFFICE OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017

The County Office'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, 2015, 2016 and 2017 are as follows:

Fiscal Year Ended June 30,	Net Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2015	\$ 1,153,056	69.65%	\$ 7,604,886
2016	1,203,308	79.50%	7,851,549
2017	2,589,471	85.37%	8,230,437

Beginning in the 2007-08 fiscal year, the County Office 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, the County Office's expense for the fiscal year ended June 30, 2017 is \$2,589,471.

The components of the net OPEB liability of the Plan at June 30, 2017, calculated under GASB 74, were as follows:

Total OPEB Liability	\$ 25,721,844
Plan fiduciary net position	(8,287,041)
Plan's net OPEB liability	<u>\$ 17,434,803</u>

Plan fiduciary net position as a percentage of total OPEB liability	32.22%
--	--------

Actuarial Assumptions

The total OPEB liability was determined by an actuarial valuation as of June 30, 2015, revised April 2017, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Fiscal Year:	July 1st to June 30th
Measurement Date:	June 30, 2015
Funding Policy:	Pay-as-you-go
Discount Rate:	7.00% per annum. This discount rate assumes the County Office continues to fully fund for its retiree health benefits through the CERBT under investment allocation Strategy 1.
Inflation:	2.75% per annum
Payroll Increases:	3.25% per annum, in aggregate

SAN DIEGO COUNTY OFFICE OF EDUCATION

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2017

Pre-retirement turnover: According to the Crocker-Sarason T-5 turnover table less mortality. Sample rates are as follows:

Age	Males	Females
20	7.9%	7.9%
25	7.7%	7.7%
30	7.2%	7.2%
35	6.3%	6.3%
40	5.2%	5.2%
45	4.0%	4.0%
50	2.6%	2.6%
55	0.9%	0.9%

Mortality Rates: Mortality rates are based on the most recent rates used by CalPERS and CalSTRS for the pension valuations. Sample rates are as follows:

CalPERS				
Age	Actives		Retirees	
	Males	Females	Males	Females
25	0.040%	0.023%		
30	0.049%	0.025%		
35	0.057%	0.035%		
40	0.075%	0.050%		
45	0.106%	0.071%		
50	0.155%	0.100%		
55	0.228%	0.138%	0.599%	0.416%
60	0.308%	0.182%	0.710%	0.436%
65	0.400%	0.257%	0.829%	0.588%
70			1.305%	0.993%
75			2.205%	1.722%
80			3.899%	2.902%

The CalPERS mortality rates have been updated to reflect those used in the most recent CalPERS pension valuation which reflect additional mortality improvement experience.

CalSTRS				
Age	Actives		Retirees*	
	Males	Females	Males	Females
25	0.023%	0.013%		
30	0.033%	0.014%		
35	0.034%	0.018%		
40	0.057%	0.034%		
45	0.076%	0.041%		
50	0.103%	0.063%		
55	0.143%	0.093%	0.164%	0.118%
60	0.238%	0.179%	0.300%	0.254%
65	0.435%	0.368%	0.596%	0.468%
70			1.095%	0.864%
75			1.866%	1.451%
80			3.772%	2.759%

*Rates applicable to future retirees include a 2 year setback.

SAN DIEGO COUNTY OFFICE OF EDUCATION

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2017

Retirement Rates:

Age	Percent Retiring*	
	CalSTRS Employees	CalPERS Employees
50-54	0%	2%
55	25%	25%
56	15%	15%
57	10%	10%
58	10%	10%
59	10%	10%
60	50%	50%
61	35%	35%
62	50%	50%
63	25%	25%
64	25%	25%
65	100%	100%

*Of those having met eligibility to receive County Office paid benefits. The percentage refers to the probability that an active employee who has reached the stated age will retire within the following year.

Retirement Eligibility Age:

The earliest retirement age assumed for employees who participate in CalSTRS is age 55. The earliest retirement age assumed for employees who participate in CalPERS is age 50.

Participation Rates:

85% of future active employees are assumed to elect retiree health coverage at retirement. Approximately 70% are assumed to elect the Kaiser HMO 10 Plan, 25% the Anthem Blue Cross Select HMO Network and 5% the Anthem Blue Cross PPO.

Spouse Coverage:

15% of future retirees electing coverage are assumed to elect coverage for their spouse. Spouses are assumed to be the same age as retiree.

Average Claim Costs:

The valuation was based on the premiums and funding rates furnished by the County Office. These costs include medical and prescription drug for both active and retired employees. a claim cost curve was developed using an assumption for aging. This results in an expected claim cost at every age. The average annual pre-65 costs (including both employer and employee portions) used in the valuation are provided the following table:

Expected Cost	Expected Premium
\$9,575	\$6,200

Medical Trend Rates:

Medical costs are adjusted in future years by the following trends:

Year	Trend
2016	7.0%
2017	6.5%
2018	6.0%
2019	5.5%
2020+	5.0%

Future Increases on

County Office's Maximum:

No future increases are assumed in the current maximum.

SAN DIEGO COUNTY OFFICE OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017

Actuarial Cost Method: The actuarial cost method used was Projected Unit Credit with service prorate. Under this method, the Actuarial Accrued Liability is the present value of projected benefits multiplied by the ratio of benefit service as of the valuation date to the projected benefit service at retirement, termination disability or death. The Normal Cost for a plan year is the expected increase in the Accrued Liability during the plan year.

All employees eligible as of the measurement date in accordance with the provisions of the Plan listed in the data provided by the County Office were included in the valuation.

Actuarial Value of Assets: Any assets of the Plan will be valued on a market value basis.

Amortization of UAAL: The unfunded actuarial accrued liability (UAAL) is being amortized over an initial 30 years using a level-dollar amortization method on a closed basis. The remaining amortization period at June 30, 2015 is 21 years.

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period June 30, 1997 through June 30, 2011 which was completed and adopted by the CalPERS Board in April 2014.

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation as of June 30, 2017 (see the discussion of the Plan's investment policy) is dependent on the funding strategy of a participating employer and which investment allocation strategy is selected. For employers fully funding their annual required contribution, as defined by GASB 45, the following published long-term expected rate of return are summarized in the following table:

CERBT Strategy	Long Term Expected Real Rate of Return
Strategy 1	7.28%
Strategy 2	6.73%
Strategy 3	6.12%

Discount rate

The Discount rate used to measure the total OPEB liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that District contributions will be made at rates equal to actuarially determined contribution rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

SAN DIEGO COUNTY OFFICE OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017

Sensitivity of the net OPEB liability to changes in the Discount Rate

The following presents the net OPEB liability of the County Office, as well as what the County Office's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.00%) or 1-percentage point higher (8.00%) than the current discount rate:

	1% Decrease (6.00%)	Discount Rate (7.00%)	1% Increase (8.00%)
Net OPEB Liability	\$ 19,340,031	\$ 17,434,803	\$ 15,697,119

Sensitivity of the net OPEB liability to changes in the health care cost trend rates

The following presents the net OPEB liability of the County Office, as well as what the County Office's net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage point lower (6% decreasing to 4%) or 1-percentage point higher (8% decreasing to 6%) than the current healthcare cost trend rates:

	1% Decrease 6% decreasing to 4%	Healthcare Cost Trend Rates 7% decreasing to 5%	1% Increase 8% decreasing to 6%
Net OPEB Liability	\$ 15,303,515	\$ 17,434,803	\$ 19,882,524

T. 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 view 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.

U. 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. San Diego County Association of Educators (SDCAE)/California Teachers Association (CTA)-representative for teachers of the County Office. The contractual agreement with the CTA expires on June 30, 2018.
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, 2018.

SAN DIEGO COUNTY OFFICE OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017

V. Subsequent Events

Implementation of New Accounting Guidance

The County Office has adopted accounting policies compliant with new pronouncements issued by the Government Accounting Standards Board (GASB) that are effective for the fiscal year ended June 30, 2018. Those newly implemented pronouncements are as follows:

GASB Statement No. 75 - Accounting and Financial Reporting for Postemployment Benefits Other than Pensions

The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities.

This Statement replaces the requirements of Statements No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, as amended, and No. 57, OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans, for OPEB. Statement No. 74, Financial Reporting for Postemployment- Benefit Plans Other Than Pension Plans, establishes new accounting and financial reporting requirements OPEB plans.

The scope of this Statement addresses accounting and financial reporting for OPEB that is provided to employees of state and local governmental employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed.

In addition, this Statement details the recognition and disclosure requirements for employers with payables to defined benefit OPEB plans that are administered through trusts that meet the specified criteria and for employers whose employees are provided with defined contribution OPEB. This Statement also addresses certain circumstances in which a nonemployer entity provides financial support for OPEB of employees of another entity.

Financial impact of implementing GASB Statement No. 75 is expected to increase the Net OPEB Obligation significantly. The County Office is currently in contact with an actuary to determine the complete fiscal impact.

GASB Statement No. 81 - Irrevocable Split-Interest Agreements

The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement.

Split-interest agreements are a type of giving agreement used by donors to provide resources to two or more beneficiaries, including governments. Split-interest agreements can be created through trusts --- or other legally enforceable agreements with characteristics that are equivalent to split-interest agreements --- in which a donor transfers resources to an intermediary to hold and administer for the benefit of a government and at least one other beneficiary. Examples of these types of agreements include charitable lead trusts, charitable remainder trusts, and life-interests in real estate.

This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize

SAN DIEGO COUNTY OFFICE OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017

revenue when the resources become applicable to the reporting period.

As of the date this audit report is issued, the County Office does not have any split-interest agreements. Consequently, implementation of GASB No 81 is not expected to have a financial or reporting impact on the County Office.

GASB Statement No. 85 - Omnibus 2017

The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and OPEB). Specifically, this Statement addresses the following topics:

1. Blending a component unit in circumstances in which the primary government is a business-type activity that reports in a single column for financial statement presentation.
2. Reporting amounts previously reported as goodwill and "negative" goodwill.
3. Classifying real estate held by insurance entities.
4. Measuring certain money market investments and participating interest-earning investment contracts at amortized cost.
5. Timing of the measurement of pension or OPEB liabilities and expenditures recognized in financial statements prepared using the current financial resources measurement focus.
6. Recognizing on-behalf payments for pensions or OPEB in employer financial statements.
7. Presenting payroll-related measures in required supplementary information for purposes of reporting by OPEB plans and employers that provide OPEB.
8. Classifying employer-paid member contributions for OPEB.
9. Simplifying certain aspects of the alternative measurement method for OPEB.
10. Accounting and financial reporting for OPEB provided through certain multiple-employer defined benefit OPEB plans.

Financial impact of implementing GASB Statement No. 85 has not yet been determined.

GASB Statement No. 86 - Certain Debt Extinguishment Issues

The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources other than the proceeds of refunding debt--- are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes financial statements for debt that is defeased in substance.

SAN DIEGO COUNTY OFFICE OF EDUCATION
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017

Statement No. 7, Advance Refundings Resulting in Defeasance of Debt, requires that debt be considered defeased in substance when the debtor irrevocably places cash or other monetary assets acquired with refunding debt proceeds in a trust to be used solely for satisfying scheduled payments of both principal and interest of the defeased debt. The trust also is required to meet certain conditions for the transaction to qualify as an in-substance defeasance. This Statement establishes essentially the same requirements for when a government places cash and other monetary assets acquired with only existing resources in an irrevocable trust to extinguish the debt. However, in financial statements using the economic resources measurement focus, governments should recognize any difference between the reacquisition price (the amount required to be placed in the trust) and the net carrying amount of the debt defeased in substance using only existing resources as a separately identified in the period of the defeasance.

Governments that defease debt using only existing resources should provide a general description of the transaction in the notes to financial statements in the period of the defeasance. In all periods following an in-substance defeasance of debt using only existing resources, the amount of that debt that remains outstanding at period-end should be disclosed.

For governments that extinguish debt, whether through a legal extinguishment or through an in-substance defeasance, this Statement requires that any remaining prepaid insurance related to the extinguished debt be included in the net carrying amount of that debt for the purpose of calculating the difference between the reacquisition price and the net carrying amount of the debt.

One of the criteria for determining an in-substance defeasance is that the trust hold only monetary assets that are essentially risk-free. If the substitution of essentially risk-free monetary assets with monetary assets that are not essentially risk-free is not prohibited, governments should disclose that fact in the period in which the debt is defeased in substance. In subsequent periods, governments should disclose the amount of debt defeased in substance that remains outstanding for which that risk of substitution exists.

As of the date this audit report was issued, the County Office did not have any defeasance of debt. Consequently, the implementation of GASB Statement No. 86 is not expected to have a fiscal impact on the County Office.

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, 2017

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
LCFF Sources:				
State Apportionment or State Aid	\$ 34,697,863	\$ 35,109,606	\$ 35,109,606	\$ -
Education Protection Account Funds	380,000	315,336	315,336	-
Local Sources	68,089,447	73,887,130	73,887,128	(2)
Federal Revenue	27,254,383	29,656,311	24,771,957	(4,884,354)
Other State Revenue	63,316,148	63,466,369	59,428,184	(4,038,185)
Other Local Revenue	67,756,499	57,946,790	55,931,410	(2,015,380)
Total Revenues	<u>261,494,340</u>	<u>260,381,542</u>	<u>249,443,621</u>	<u>(10,937,921)</u>
Expenditures:				
Current:				
Certificated Salaries	45,157,073	46,292,872	44,432,200	1,860,672
Classified Salaries	47,632,372	47,570,982	46,389,675	1,181,307
Employee Benefits	42,337,821	39,964,929	38,248,354	1,716,575
Books And Supplies	5,833,047	6,887,400	4,316,575	2,570,825
Services And Other Operating Expenditures	106,184,207	113,309,055	77,969,582	35,339,473
Other Outgo	8,346,945	10,105,844	10,064,903	40,941
Direct Support/Indirect Costs	(499,102)	1,558,392	(292,170)	1,850,562
Capital Outlay	6,057,458	6,731,122	4,900,804	1,830,318
Debt Service:				
Principal	357,483	376,177	376,177	-
Interest	7,179	7,640	7,639	1
Total Expenditures	<u>261,414,483</u>	<u>272,804,413</u>	<u>226,413,739</u>	<u>46,390,674</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>79,857</u>	<u>(12,422,871)</u>	<u>23,029,882</u>	<u>35,452,753</u>
Other Financing Sources (Uses):				
Transfers In	268,744	268,743	268,743	-
Transfers Out	(1,225,000)	(1,772,323)	(1,772,323)	-
Other Sources	-	63,335	63,335	-
Total Other Financing Sources (Uses)	<u>(956,256)</u>	<u>(1,440,245)</u>	<u>(1,440,245)</u>	<u>-</u>
Net Change in Fund Balance	(876,399)	(13,863,116)	21,589,637	35,452,753
Fund Balance, July 1	120,834,279	120,834,279	120,834,279	-
Fund Balance, June 30	<u>\$ 119,957,880</u>	<u>\$ 106,971,163</u>	<u>\$ 142,423,916</u>	<u>\$ 35,452,753</u>

SAN DIEGO COUNTY OFFICE OF EDUCATION

SPECIAL EDUCATION PASS-THROUGH FUND
 BUDGETARY COMPARISON SCHEDULE
 FOR THE YEAR ENDED JUNE 30, 2017

EXHIBIT B-2

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Federal Revenue	\$ 61,395,295	\$ 79,262,194	\$ 77,513,611	\$ (1,748,583)
Other State Revenue	158,181,422	159,200,589	159,153,377	(47,212)
Total Revenues	<u>219,576,717</u>	<u>238,462,783</u>	<u>236,666,988</u>	<u>(1,795,795)</u>
Expenditures:				
Other Outgo	<u>219,576,717</u>	<u>238,462,783</u>	<u>236,666,988</u>	<u>1,795,795</u>
Total Expenditures	<u>219,576,717</u>	<u>238,462,783</u>	<u>236,666,988</u>	<u>1,795,795</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Other Financing Sources (Uses):				
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balance	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balance, July 1	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
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

OTHER POST EMPLOYMENT BENEFITS PLAN

YEAR ENDED JUNE 30, 2017

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%
7/1/2014	7,400,000	16,039,048	8,639,048	46.1%	76,819,000	11.2%
7/1/2016	8,287,041	25,721,844	17,434,803	32.2%	88,940,000	19.6%

SAN DIEGO COUNTY OFFICE OF EDUCATION
 SCHEDULE OF THE COUNTY OFFICE'S PROPORTIONATE
 SHARE OF THE NET PENSION LIABILITY
 CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM
 LAST TEN FISCAL YEARS *

	Fiscal Year									
	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
County Office's proportion of the net pension liability (asset)	0.0800%	0.0811%	0.0871%	N/A	N/A	N/A	N/A	N/A	N/A	N/A
County Office's proportionate share of the net pension liability (asset)	\$ 64,731,851	\$ 54,601,404	\$ 50,873,537	\$ N/A	\$ N/A	\$ N/A	\$ N/A	\$ N/A	\$ N/A	\$ N/A
State's proportionate share of the net pension liability (asset) associated with the County Office	41,734,701	36,422,236	31,906,508	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Total	<u>\$ 106,466,552</u>	<u>\$ 91,023,640</u>	<u>\$ 82,780,045</u>	<u>\$ N/A</u>	<u>\$ N/A</u>	<u>\$ N/A</u>	<u>\$ N/A</u>	<u>\$ N/A</u>	<u>\$ N/A</u>	<u>\$ N/A</u>
County Office's covered-employee payroll	\$ 42,789,841	\$ 39,763,364	\$ 37,478,973	\$ N/A	\$ N/A	\$ N/A	\$ N/A	\$ N/A	\$ N/A	\$ N/A
County Office's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	151.28%	137.32%	135.74%	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Plan fiduciary net position as a percentage of the total pension liability	70.04%	74.02%	76.52%	N/A	N/A	N/A	N/A	N/A	N/A	N/A

* This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, this schedule provides the information only for those years for which information is available.

N/A - 2014-15 was the first year of implementation, no years previous to implementation are being presented in this schedule.

See Accompanying Notes to Required Supplementary Information

SAN DIEGO COUNTY OFFICE OF EDUCATION
 SCHEDULE OF COUNTY OFFICE CONTRIBUTIONS
 CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM
 LAST TEN FISCAL YEARS *

	Fiscal Year									
	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Contractually required contribution	\$ 5,382,962	\$ 4,266,609	\$ 3,328,133	\$ N/A	\$ N/A	\$ N/A	\$ N/A	\$ N/A	\$ N/A	\$ N/A
Contributions in relation to the contractually required contribution	(5,382,962)	(4,266,609)	(3,328,133)	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ N/A	\$ N/A	\$ N/A	\$ N/A	\$ N/A	\$ N/A	\$ N/A
County Office's covered-employee payroll	\$ 42,789,841	\$ 39,763,364	\$ 37,478,973	\$ N/A	\$ N/A	\$ N/A	\$ N/A	\$ N/A	\$ N/A	\$ N/A
Contributions as a percentage of covered-employee payroll	12.58%	10.73%	8.88%	N/A	N/A	N/A	N/A	N/A	N/A	N/A

* This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, this schedule provides the information only for those years for which information is available.

N/A - 2014-15 was the first year of implementation, no years previous to implementation are being presented in this schedule.

See Accompanying Notes to Required Supplementary Information

SAN DIEGO COUNTY OFFICE OF EDUCATION

EXHIBIT B-5

SCHEDULE OF CHANGES IN THE COUNTY OFFICE'S NET PENSION LIABILITY AND RELATED RATIOS CALPERS - SDCOE MISCELLANEOUS PLAN LAST TEN FISCAL YEARS *

	Fiscal Year									
	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Total pension liability:										
Service cost	\$ 6,924,369	\$ 6,205,483	\$ 6,537,055	\$ N/A	\$ N/A	\$ N/A	\$ N/A	\$ N/A	\$ N/A	\$ N/A
Interest	20,840,038	19,446,404	18,550,327	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Changes of benefit terms	-	-	-	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Differences between expected and actual experience	3,305,561	(3,511,467)	-	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Changes of assumptions	-	(4,884,842)	-	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Benefit payments, including refunds of employee contributions	(12,114,878)	(10,083,980)	(9,239,275)	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Net change in total pension liability	18,955,090	7,171,598	15,848,107	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Total pension liability - beginning	271,708,500	264,536,902	248,688,795	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Total pension liability - ending (a)	<u>\$ 290,663,590</u>	<u>\$ 271,708,500</u>	<u>\$ 264,536,902</u>	<u>\$ N/A</u>	<u>\$ N/A</u>	<u>\$ N/A</u>	<u>\$ N/A</u>	<u>\$ N/A</u>	<u>\$ N/A</u>	<u>\$ N/A</u>
Plan fiduciary net position:										
Contributions - employer	\$ 7,591,289	\$ 6,237,980	\$ 5,640,252	\$ N/A	\$ N/A	\$ N/A	\$ N/A	\$ N/A	\$ N/A	\$ N/A
Contributions - employee	3,189,961	2,825,329	2,592,242	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Net investment income	1,197,862	4,873,114	31,860,716	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Administrative expense	(132,630)	(244,919)	-	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Benefit payments, including refunds of employee contributions	(12,114,878)	(10,083,980)	(9,239,275)	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Net change in plan fiduciary net position	(268,396)	3,607,524	30,853,935	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Plan fiduciary net position - beginning	217,623,091	214,015,567	183,161,632	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Plan fiduciary net position - ending (b)	<u>\$ 217,354,695</u>	<u>\$ 217,623,091</u>	<u>\$ 214,015,567</u>	<u>\$ N/A</u>	<u>\$ N/A</u>	<u>\$ N/A</u>	<u>\$ N/A</u>	<u>\$ N/A</u>	<u>\$ N/A</u>	<u>\$ N/A</u>
County Office's net pension liability - ending (a) - (b)	<u>\$ 73,308,895</u>	<u>\$ 54,085,409</u>	<u>\$ 50,521,335</u>	<u>\$ N/A</u>	<u>\$ N/A</u>	<u>\$ N/A</u>	<u>\$ N/A</u>	<u>\$ N/A</u>	<u>\$ N/A</u>	<u>\$ N/A</u>
Plan fiduciary net position as a percentage of the total pension liability	74.78%	80.09%	80.90%	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Covered-employee payroll	\$ 43,064,675	\$ 39,069,966	\$ 39,048,179	\$ N/A	\$ N/A	\$ N/A	\$ N/A	\$ N/A	\$ N/A	\$ N/A
County Office's net pension liability as a percentage of covered-employee payroll	170.23%	138.43%	129.38%	N/A	N/A	N/A	N/A	N/A	N/A	N/A

* This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, this schedule provides the information only for those years for which information is available.

Each fiscal year is presented based on measurement period from one year prior.

See Accompanying Notes to Required Supplementary Information

SAN DIEGO COUNTY OFFICE OF EDUCATION

SCHEDULE OF COUNTY OFFICE CONTRIBUTIONS

CALPERS - SDCOE MISCELLANEOUS PLAN

LAST TEN FISCAL YEARS *

	Fiscal Year									
	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Actuarially determined contribution	\$ 8,707,555	\$ 7,591,289	\$ 6,237,980	\$ N/A	\$ N/A	\$ N/A	\$ N/A	\$ N/A	\$ N/A	\$ N/A
Contributions in relation to the actuarially determined contribution	(8,707,555)	(7,591,289)	(6,237,980)	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ N/A</u>	<u>\$ N/A</u>	<u>\$ N/A</u>	<u>\$ N/A</u>	<u>\$ N/A</u>	<u>\$ N/A</u>	<u>\$ N/A</u>
Covered-employee payroll	\$ 47,245,239	\$ 43,064,675	\$ 39,069,966	\$ N/A	\$ N/A	\$ N/A	\$ N/A	\$ N/A	\$ N/A	\$ N/A
Contributions as a percentage of covered-employee payroll	18.431%	17.628%	15.966%	N/A	N/A	N/A	N/A	N/A	N/A	N/A

* This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, this schedule provides the information only for those years for which information is available.

See Accompanying Notes to Required Supplementary Information

SAN DIEGO COUNTY OFFICE OF EDUCATION
 SCHEDULE OF CHANGES IN THE COUNTY OFFICE'S
 NET OPEB LIABILITY AND RELATED RATIOS
 SAN DIEGO COUNTY OFFICE OF EDUCATION OPEB PLAN
 LAST TEN FISCAL YEARS *

	Fiscal Year									
	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Total pension liability:										
Service cost	\$ 1,152,214	\$ N/A	\$ N/A	\$ N/A	\$ N/A	\$ N/A	\$ N/A	\$ N/A	\$ N/A	\$ N/A
Interest	1,751,532	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Changes of benefit terms	-	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Differences between expected and actual experience	-	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Changes of assumptions	-	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Benefit payments, including refunds of employee contributions	(1,584,795)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Net change in total pension liability	1,318,951	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Total pension liability - beginning	24,921,236	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Total pension liability - ending (a)	\$ 26,240,187	\$ N/A	\$ N/A	\$ N/A	\$ N/A	\$ N/A	\$ N/A	\$ N/A	\$ N/A	\$ N/A
Plan fiduciary net position:										
Contributions - employer	\$ 1,584,795	\$ N/A	\$ N/A	\$ N/A	\$ N/A	\$ N/A	\$ N/A	\$ N/A	\$ N/A	\$ N/A
Contributions - employee	-	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Net investment income	792,406	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Benefit payments, including refunds of employee contributions	(1,584,795)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Administrative expense	(4,022)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Other	-	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Net change in plan fiduciary net position	788,384	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Plan fiduciary net position - beginning	7,498,657	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Plan fiduciary net position - ending (b)	\$ 8,287,041	\$ N/A	\$ N/A	\$ N/A	\$ N/A	\$ N/A	\$ N/A	\$ N/A	\$ N/A	\$ N/A
County Office's net pension liability - ending (a) - (b)	\$ 17,953,146	\$ N/A	\$ N/A	\$ N/A	\$ N/A	\$ N/A	\$ N/A	\$ N/A	\$ N/A	\$ N/A
Plan fiduciary net position as a percentage of the total pension liability	31.58%	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Covered-employee payroll	\$ 88,940,000	\$ N/A	\$ N/A	\$ N/A	\$ N/A	\$ N/A	\$ N/A	\$ N/A	\$ N/A	\$ N/A
County Office's net pension liability as a percentage of covered-employee payroll	20.19%	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

* This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, this schedule provides the information only for those years for which information is available.

See Accompanying Notes to Required Supplementary Information

SAN DIEGO COUNTY OFFICE OF EDUCATION
 SCHEDULE OF COUNTY OFFICE CONTRIBUTIONS
 SAN DIEGO COUNTY OFFICE OF EDUCATION OPEB PLAN
 LAST TEN FISCAL YEARS *

	Fiscal Year									
	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Actuarially determined contribution	\$ 3,216,583	\$ N/A	\$ N/A	\$ N/A	\$ N/A	\$ N/A	\$ N/A	\$ N/A	\$ N/A	\$ N/A
Contributions in relation to the actuarially determined contribution	(1,584,795)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Contribution deficiency (excess)	<u>\$ 1,631,788</u>	<u>\$ N/A</u>	<u>\$ N/A</u>	<u>\$ N/A</u>	<u>\$ N/A</u>	<u>\$ N/A</u>	<u>\$ N/A</u>	<u>\$ N/A</u>	<u>\$ N/A</u>	<u>\$ N/A</u>
Covered-employee payroll	\$ 88,940,000	\$ N/A	\$ N/A	\$ N/A	\$ N/A	\$ N/A	\$ N/A	\$ N/A	\$ N/A	\$ N/A
Contributions as a percentage of covered-employee payroll	1.78%	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

* This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, this schedule provides the information for those years for which information is available.

See Accompanying Notes To Required Supplementary Information.

SAN DIEGO COUNTY OFFICE OF EDUCATION**EXHIBIT B-9**

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF INVESTMENT RETURNS

SAN DIEGO COUNTY OFFICE OF EDUCATION OPEB PLAN

LAST TEN FISCAL YEARS*

<u>Year</u>	<u>Annual Money-Weighted Rate of Return, Net of Investment Expense</u>
2017	10.0%
2016	1.6%
2015	N/A
2014	N/A
2013	N/A
2012	N/A
2011	N/A
2010	N/A
2009	N/A
2008	N/A

*This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, OPEB plans should present information for those years for which information is available.

N/A - The money-weighted rate of return, net of investment expenses is not available for periods prior to 2016.

SAN DIEGO COUNTY OFFICE OF EDUCATION
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2017

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 County Office's Special Reserve Fund for Other Post Employment Benefits (Fund 20) were included with the General Fund. The Budgetary Comparison Schedule included in the Required Supplementary Information is based on the legally adopted budget for the General Fund only.

General Fund - Fund Financial Statements Ending Fund Balance	\$	142,683,341
Less Fund 20 Fund Balance		(259,425)
General Fund - Budgetary Comparison Schedule Ending Fund Balance	\$	<u>142,423,916</u>
General Fund - Fund Financial Statements Net Change in Fund Balance	\$	21,573,752
Change in Fund Balance attributed to Fund 20		15,885
General Fund - Budgetary Comparison Schedule Change in Fund Balance	\$	<u>21,589,637</u>

Schedule of County Office's Proportionate Share - California State Teachers Retirement System

- 1) Benefit Changes: In 2015, 2016 & 2017 there were no changes to benefits
- 2) Changes in Assumptions: In 2015, 2016 & 2017 there were no changes in assumptions

Schedule of County Office's Contributions - California State Teachers Retirement System

The total pension liability was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2014 & 2015, and rolling forward the total pension liability to June 30, 2015 & 2016. The financial reporting actuarial valuation as of June 30, 2014, June 30, 2015, and June 30, 2016 used the following actuarial methods and assumptions, applied to all prior periods included in the measurement:

Valuation Date	June 30, 2014	June 30, 2015	June 30, 2016
Experience Study	07/01/06 - 06/30/10	07/01/07 - 06/30/11	07/01/08 - 06/30/12
Actuarial Cost Method	Entry Age Normal	Entry Age Normal	Entry Age Normal
Investment Rate of Return	7.60%	7.60%	7.60%
Consumer Price Inflation	3.00%	3.00%	3.00%
Wage Growth (Average)	3.75%	3.75%	3.75%
Post-retirement Benefit Increases	2.00% Simple	2.00% Simple	2.00% Simple

CalSTRS uses custom mortality tables to best fit the patterns of mortality among its RP2000 series tables adjusted to fit CalSTRS experience. RP 2000 series tables are an industry standard of mortality rates published by the Society of Actuaries. See CalSTRS July 1, 2006 - June 30, 2010, July 1, 2007 - June 30, 2011 and July 1, 2008 - June 30, 2012 Experience Analysis for more information.

Schedule of County Office's Proportionate Share - California Public Employees Retirement System

- 1) Benefit Changes: In 2015, 2016 & 2017 there were no changes to benefits
- 2) Changes in Assumptions: In 2015 and 2017 there were no changes in assumptions. In 2016 the discount rate was changed from 7.5% to 7.65% to correct for an adjustment to exclude administrative expense.

Schedule of County Office's Contributions - California Public Employees' Retirement System

The total pension liability was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2014 & 2015, and rolling forward the total pension liability to June 30, 2015 & 2016. The financial reporting actuarial valuation as of June 30, 2014, June 30, 2015, and June 30, 2016 used the following actuarial methods and assumptions, applied to all prior periods included in the measurement:

Valuation Date	June 30, 2014	June 30, 2015	June 30, 2016
Experience Study	07/01/96 - 06/30/10	07/01/97 - 06/30/11	07/01/98 - 06/30/12
Actuarial Cost Method	Entry Age Normal	Entry Age Normal	Entry Age Normal
Investment Rate of Return	7.50%	7.50%	7.50%
Consumer Price Inflation	2.75%	2.75%	2.75%
Wage Growth (Average)	3.00%	3.00%	3.00%
Post-retirement Benefit Increases	2.00% Simple	2.00% Simple	2.00% Simple

The mortality table used was developed based on CalPERS specific data. The table includes 20 years of mortality improvements using the Society of Actuaries Scale BB. For more details on this table, please refer to the April 2013 experience study (based on demographic data from 1996 through 2010), the April 2014 experience study (based on demographic data from 1997 to 2011) and the April 2015 experience study

Schedule of Changes in the County Office's Net OPEB Liability and Related Ratios

- 1) Benefit Changes: In 2017 there were no changes to benefits
- 2) Changes in Assumptions: In 2017 there were no changes in assumptions.

Schedule of County Office's Contributions - California Public Employees' Retirement System

The total OPEB Obligation was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2016, and rolling forward the total pension liability to June 30, 2017. The financial reporting actuarial valuation as of June 30, 2017 used the following actuarial methods and assumptions, applied to all prior periods included in the measurement:

Valuation Date	June 30, 2017
Experience Study	07/01/97 - 06/30/11
Actuarial Cost Method	Entry Age Normal
Investment Rate of Return	7.00%
Consumer Price Inflation	2.75%
Wage Growth (Average)	3.25%
Healthcare cost trend rates	5.00 - 7.00%

Mortality rates were based on the CalPERS Mortality Table for Males or Females, as appropriate. Further information on mortality rates can be found at Note O in the Notes to the Financial Statements.

Combining Statements 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, 2017

	Special Revenue Funds	Capital Projects Funds	Total Nonmajor Governmental Funds (See Exhibit A-3)
ASSETS:			
Cash in County Treasury	\$ 7,655,820	\$ 28,075,467	\$ 35,731,287
Accounts Receivable	197,874	86,790	284,664
Due from Other Funds	1,307,534	4,562,536	5,870,070
Total Assets	<u>9,161,228</u>	<u>32,724,793</u>	<u>41,886,021</u>
LIABILITIES AND FUND BALANCE:			
Liabilities:			
Accounts Payable	\$ 138,152	\$ 6,961	\$ 145,113
Due to Other Funds	115,265	55,095	170,360
Unearned Revenue	329,234	-	329,234
Total Liabilities	<u>582,651</u>	<u>62,056</u>	<u>644,707</u>
Fund Balance:			
Restricted Fund Balances	37,445	7,871,889	7,909,334
Committed Fund Balances	8,540,668	-	8,540,668
Assigned Fund Balances	464	24,790,848	24,791,312
Total Fund Balance	<u>8,578,577</u>	<u>32,662,737</u>	<u>41,241,314</u>
Total Liabilities and Fund Balances	<u>\$ 9,161,228</u>	<u>\$ 32,724,793</u>	<u>\$ 41,886,021</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, 2017

	Special Revenue Funds	Capital Projects Funds	Total Nonmajor Governmental Funds (See Exhibit A-5)
Revenues:			
LCFF Sources:			
Local Sources	\$ 1,225,000	\$ -	\$ 1,225,000
Federal Revenue	300,951	-	300,951
Other State Revenue	5,835,345	-	5,835,345
Other Local Revenue	91,182	3,458,714	3,549,896
Total Revenues	<u>7,452,478</u>	<u>3,458,714</u>	<u>10,911,192</u>
Expenditures:			
Current:			
Instruction - Related Services	5,536,933	-	5,536,933
General Administration	292,170	-	292,170
Plant Services	85,026	612,491	697,517
Other Outgo	301,250	-	301,250
Capital Outlay	1,325,525	458,717	1,784,242
Debt Service:			
Principal	-	625,119	625,119
Interest	-	20,094	20,094
Total Expenditures	<u>7,540,904</u>	<u>1,716,421</u>	<u>9,257,325</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(88,426)</u>	<u>1,742,293</u>	<u>1,653,867</u>
Other Financing Sources (Uses):			
Transfers In	-	1,772,323	1,772,323
Transfers Out	-	(250,000)	(250,000)
Other Sources	-	408,007	408,007
Total Other Financing Sources (Uses)	<u>-</u>	<u>1,930,330</u>	<u>1,930,330</u>
Net Change in Fund Balance	(88,426)	3,672,623	3,584,197
Fund Balance, July 1	8,667,003	28,990,114	37,657,117
Fund Balance, June 30	<u>\$ 8,578,577</u>	<u>\$ 32,662,737</u>	<u>\$ 41,241,314</u>

SAN DIEGO COUNTY OFFICE OF EDUCATION

COMBINING BALANCE SHEET

NONMAJOR SPECIAL REVENUE FUNDS

JUNE 30, 2017

	Child Development Fund	Deferred Maintenance Fund	Forest Reserve Fund	Total Nonmajor Special Revenue Funds (See Exhibit C-1)
ASSETS:				
Cash in County Treasury	\$ 364,717	\$ 7,291,004	\$ 99	\$ 7,655,820
Accounts Receivable	175,675	21,834	365	197,874
Due from Other Funds	6	1,307,528	-	1,307,534
Total Assets	<u>540,398</u>	<u>8,620,366</u>	<u>464</u>	<u>9,161,228</u>
LIABILITIES AND FUND BALANCE:				
Liabilities:				
Accounts Payable	\$ 130,108	\$ 8,044	\$ -	\$ 138,152
Due to Other Funds	43,611	71,654	-	115,265
Unearned Revenue	329,234	-	-	329,234
Total Liabilities	<u>502,953</u>	<u>79,698</u>	<u>-</u>	<u>582,651</u>
Fund Balance:				
Restricted Fund Balances	37,445	-	-	37,445
Committed Fund Balances	-	8,540,668	-	8,540,668
Assigned Fund Balances	-	-	464	464
Total Fund Balance	<u>37,445</u>	<u>8,540,668</u>	<u>464</u>	<u>8,578,577</u>
Total Liabilities and Fund Balances	<u>\$ 540,398</u>	<u>\$ 8,620,366</u>	<u>\$ 464</u>	<u>\$ 9,161,228</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, 2017

	Child Development Fund	Deferred Maintenance Fund	Forest Reserve Fund	Total Nonmajor Special Revenue Funds (See Exhibit C-2)
Revenues:				
LCFF Sources:				
Local Sources	\$ -	\$ 1,225,000	\$ -	\$ 1,225,000
Federal Revenue	-	-	300,951	300,951
Other State Revenue	5,835,345	-	-	5,835,345
Other Local Revenue	15,774	74,943	465	91,182
Total Revenues	<u>5,851,119</u>	<u>1,299,943</u>	<u>301,416</u>	<u>7,452,478</u>
Expenditures:				
Current:				
Instruction - Related Services	5,536,933	-	-	5,536,933
General Administration	292,170	-	-	292,170
Plant Services	-	85,026	-	85,026
Other Outgo	-	-	301,250	301,250
Capital Outlay	-	1,325,525	-	1,325,525
Total Expenditures	<u>5,829,103</u>	<u>1,410,551</u>	<u>301,250</u>	<u>7,540,904</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>22,016</u>	<u>(110,608)</u>	<u>166</u>	<u>(88,426)</u>
Net Change in Fund Balance	22,016	(110,608)	166	(88,426)
Fund Balance, July 1	15,429	8,651,276	298	8,667,003
Fund Balance, June 30	<u>\$ 37,445</u>	<u>\$ 8,540,668</u>	<u>\$ 464</u>	<u>\$ 8,578,577</u>

SAN DIEGO COUNTY OFFICE OF EDUCATION

COMBINING BALANCE SHEET

NONMAJOR CAPITAL PROJECTS FUNDS

JUNE 30, 2017

	Building Fund	Capital Facilities Fund
ASSETS:		
Cash in County Treasury	\$ 2,558,856	\$ 6,983,354
Accounts Receivable	7,625	20,810
Due from Other Funds	-	1,810,067
Total Assets	<u>2,566,481</u>	<u>8,814,231</u>
LIABILITIES AND FUND BALANCE:		
Liabilities:		
Accounts Payable	\$ -	\$ -
Due to Other Funds	-	55,076
Total Liabilities	<u>-</u>	<u>55,076</u>
Fund Balance:		
Restricted Fund Balances	-	2,285,720
Assigned Fund Balances	2,566,481	6,473,435
Total Fund Balance	<u>2,566,481</u>	<u>8,759,155</u>
Total Liabilities and Fund Balances	<u>\$ 2,566,481</u>	<u>\$ 8,814,231</u>

County School Facilities Fund	Capital Outlay Projects Fund	Total Nonmajor Capital Projects Funds (See Exhibit C-1)
\$ 31,360	\$ 18,501,897	\$ 28,075,467
93	58,262	86,790
-	2,752,469	4,562,536
<u>31,453</u>	<u>21,312,628</u>	<u>32,724,793</u>
\$ -	\$ 6,961	\$ 6,961
-	19	55,095
<u>-</u>	<u>6,980</u>	<u>62,056</u>
31,453	5,554,716	7,871,889
-	15,750,932	24,790,848
<u>31,453</u>	<u>21,305,648</u>	<u>32,662,737</u>
\$ 31,453	\$ 21,312,628	\$ 32,724,793

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, 2017

	Building Fund	Capital Facilities Fund
Revenues:		
Other Local Revenue	\$ 186,000	\$ 3,075,142
Total Revenues	<u>186,000</u>	<u>3,075,142</u>
Expenditures:		
Current:		
Plant Services	-	-
Capital Outlay	-	-
Debt Service:		
Principal	500,000	-
Interest	16,238	-
Total Expenditures	<u>516,238</u>	<u>-</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(330,238)</u>	<u>3,075,142</u>
Other Financing Sources (Uses):		
Transfers In	-	-
Transfers Out	-	(250,000)
Other Sources	-	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>(250,000)</u>
Net Change in Fund Balance	(330,238)	2,825,142
Fund Balance, July 1	2,896,719	5,934,013
Fund Balance, June 30	<u>\$ 2,566,481</u>	<u>\$ 8,759,155</u>

County School Facilities Fund	Capital Outlay Projects Fund	Total Nonmajor Capital Projects Funds (See Exhibit C-2)
\$ 320	\$ 197,252	\$ 3,458,714
320	197,252	3,458,714
-	612,491	612,491
-	458,717	458,717
-	125,119	625,119
-	3,856	20,094
-	1,200,183	1,716,421
320	(1,002,931)	1,742,293
-	1,772,323	1,772,323
-	-	(250,000)
-	408,007	408,007
-	2,180,330	1,930,330
320	1,177,399	3,672,623
31,133	20,128,249	28,990,114
\$ 31,453	\$ 21,305,648	\$ 32,662,737

SAN DIEGO COUNTY OFFICE OF EDUCATION

COMBINING STATEMENT OF FIDUCIARY NET POSITION

PRIVATE-PURPOSE TRUST FUNDS

JUNE 30, 2017

	Employee Benefits Self-Insurance Trust Fund	Workers' Compensation Trust Fund	Property & Liability Self-Insurance Trust Fund
ASSETS:			
Cash in County Treasury	\$ 31,339,259	\$ 79,165,441	\$ 22,483,715
Cash on Hand and in Banks	100,000	500,000	150,000
Cash with a Fiscal Agent/Trustee	-	-	-
Accounts Receivable	2,405,255	470,168	297,119
Prepaid Expenditures/Expenses	-	530,084	-
Total Assets	<u>33,844,514</u>	<u>80,665,693</u>	<u>22,930,834</u>
DEFERRED OUTFLOWS OF RESOURCES:			
Deferred Outflows of Resources - Pension Related	658,603	362,909	538,389
Total Outflows of Resources	<u>\$ 658,603</u>	<u>\$ 362,909</u>	<u>\$ 538,389</u>
LIABILITIES:			
Current Liabilities:			
Accounts Payable	\$ 1,726,329	\$ 1,125,927	\$ 192,457
Unearned Revenue	2,131,898	-	-
Liability for Underground Storage Tanks	-	-	70,000
Unpaid Self-Insurance Claim Liabilities	3,350,648	43,487,852	12,616,586
Total Current Liabilities	<u>7,208,875</u>	<u>44,613,779</u>	<u>12,879,043</u>
Long-Term Liabilities:			
Compensated Absences Payable	106,941	111,503	33,464
Net OPEB Obligation	86,491	49,007	71,113
Net Pension Liability	1,573,151	854,237	1,264,251
Total Long Term Liabilities	<u>1,766,583</u>	<u>1,014,747</u>	<u>1,368,828</u>
Total Liabilities	<u>8,975,458</u>	<u>45,628,526</u>	<u>14,247,871</u>
DEFERRED INFLOWS OF RESOURCES:			
Deferred Inflows of Resources - Pension Related	363,334	192,941	326,148
Total Deferred Inflows of Resources	<u>363,334</u>	<u>192,941</u>	<u>326,148</u>
NET POSITION:			
Held in Trust	25,164,325	35,207,135	8,895,204
Total Net Position	<u>\$ 25,164,325</u>	<u>\$ 35,207,135</u>	<u>\$ 8,895,204</u>

EXHIBIT C-7

Miscellaneous Property Self-Insurance Trust Fund	Joint Facilities Authority Trust Fund	Joint Public Energy Authority Trust Fund	Total Private- Purpose Trust Funds (See Exhibit A-10)
\$ 1,464,533	\$ -	\$ -	\$ 134,452,948
-	-	-	750,000
-	2,121,580	92,411	2,213,991
4,507	-	-	3,177,049
-	-	-	530,084
<u>1,469,040</u>	<u>2,121,580</u>	<u>92,411</u>	<u>141,124,072</u>
11,621	-	-	1,571,522
<u>\$ 11,621</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,571,522</u>
\$ 3,010	\$ -	\$ -	\$ 3,047,723
-	-	-	2,131,898
-	-	-	70,000
112,220	-	-	59,567,306
<u>115,230</u>	<u>-</u>	<u>-</u>	<u>64,816,927</u>
-	-	-	251,908
1,534	-	-	208,145
27,118	-	-	3,718,757
<u>28,652</u>	<u>-</u>	<u>-</u>	<u>4,178,810</u>
<u>143,882</u>	<u>-</u>	<u>-</u>	<u>68,995,737</u>
11,081	-	-	893,504
<u>11,081</u>	<u>-</u>	<u>-</u>	<u>893,504</u>
1,325,698	2,121,580	92,411	72,806,353
<u>\$ 1,325,698</u>	<u>\$ 2,121,580</u>	<u>\$ 92,411</u>	<u>\$ 72,806,353</u>

SAN DIEGO COUNTY OFFICE OF EDUCATION
COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
ALL PRIVATE-PURPOSE TRUST FUNDS
FOR THE YEAR ENDED JUNE 30, 2017

	Employee Benefits Self-Insurance Trust Fund	Workers' Compensation Trust Fund	Property & Liability Self-Insurance Trust Fund
Additions:			
Investment Income	\$ 304,156	\$ 756,101	\$ 255,528
Participant Fees	45,900,508	29,379,450	11,035,456
Commissions and Refunds	1,138,048	-	-
Total Additions	<u>47,342,712</u>	<u>30,135,551</u>	<u>11,290,984</u>
Deductions:			
Claims Paid, Net of Recoveries	33,529,571	12,169,008	5,980,878
Insurance Premiums	6,891,042	10,750,845	6,237,970
Administrative Expenses	3,927,653	810,057	1,474,144
Construction Projects	-	-	-
Other Expenses	99,735	3,524,271	616,990
Total Deductions	<u>44,448,001</u>	<u>27,254,181</u>	<u>14,309,982</u>
Change in Net Position	2,894,711	2,881,370	(3,018,998)
Net Position-Beginning of the Year	22,269,614	32,325,765	11,914,202
Net Position-End of the Year	<u>\$ 25,164,325</u>	<u>\$ 35,207,135</u>	<u>\$ 8,895,204</u>

Miscellaneous Property Trust Fund	Joint Facilities Authority Trust Fund	Joint Energy Authority Trust Fund	Total Private-Purpose Trust Funds (See Exhibit A-11)
\$ 15,781	\$ 1,269	\$ 34	\$ 1,332,869
601,157	5,210,408	1,164,850	93,291,829
-	-	-	1,138,048
<u>616,938</u>	<u>5,211,677</u>	<u>1,164,884</u>	<u>95,762,746</u>
283,846	-	-	51,963,303
381,584	-	-	24,261,441
26,204	6,230	1,535	6,245,823
-	6,472,311	1,091,910	7,564,221
-	-	-	4,240,996
<u>691,634</u>	<u>6,478,541</u>	<u>1,093,445</u>	<u>94,275,784</u>
(74,696)	(1,266,864)	71,439	1,486,962
1,400,394	3,388,444	20,972	71,319,391
<u>\$ 1,325,698</u>	<u>\$ 2,121,580</u>	<u>\$ 92,411</u>	<u>\$ 72,806,353</u>

SAN DIEGO COUNTY OFFICE OF EDUCATION

COMBINING STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES

AGENCY FUNDS

JUNE 30, 2017

	Warrant/ Pass-through Fund	Student Body Fund	Total Agency Funds (See Exhibit A-10)
ASSETS:			
Cash in County Treasury	\$ 38,855,736	\$ -	\$ 38,855,736
Cash on Hand and in Banks	-	4,342	4,342
Total Assets	<u>38,855,736</u>	<u>4,342</u>	<u>38,860,078</u>
LIABILITIES:			
Due to Student Groups/Other Groups	\$ 38,855,736	\$ 4,342	\$ 38,860,078
Total Liabilities	<u>38,855,736</u>	<u>4,342</u>	<u>38,860,078</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, 2017

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, special education program, migrant education program, and outdoor education facilities.

Governing Board		
Name	Office	Term and Term Expiration
Rick Shea	President	Two Year Term Expires January 2019
Alicia Munoz	Vice President	Four Year Term Expires January 2019
Mark Powell	Member	Four Year Term Expires January 2021
Guadalupe Gonzalez	Member	Four Year Term Expires January 2021
Paulette Donnellon	Member	Four Year Term Expires January 2021

Administration
Paul Gothold, Ed.D. Superintendent
Lora Duzyk Assistant Superintendent Business Services Division
Pamela Gilles Executive Director Internal Business Services

SAN DIEGO COUNTY OFFICE OF EDUCATION**SCHEDULE OF AVERAGE DAILY ATTENDANCE**

YEAR ENDED JUNE 30, 2017

TABLE D-1

	Second Period Report		Annual Report	
	Original	Revised	Original	Revised
Elementary				
Juvenile Halls, Homes and Camp	22.88	N/A	30.35	N/A
Probation Referred, On Probation or				
Parole, Expelled Pursuant to EC 48915	231.34	N/A	244.03	N/A
Elementary Totals	254.22	N/A	274.38	N/A
High School				
Juvenile Halls, Homes and Camp	628.80	N/A	634.95	N/A
Probation Referred, On Probation or				
Parole, Expelled Pursuant to EC 48915	637.19	N/A	667.35	N/A
High School Totals	1,265.99	N/A	1,302.30	N/A
ADA Totals	1,520.21	N/A	1,576.68	N/A

N/A - There were no audit findings which resulted in necessary revisions to 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 of education. 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, 2017

TABLE D-2

Grade Level	Ed. Code 46207 Minutes Requirement	2016-17 Actual Minutes	Number of Days Traditional Calendar	Number of Days Multitrack Calendar	Status
Kindergarten	N/A	N/A	N/A	N/A	N/A
Grade 1	N/A	N/A	N/A	N/A	N/A
Grade 2	N/A	N/A	N/A	N/A	N/A
Grade 3	N/A	N/A	N/A	N/A	N/A
Grade 4	N/A	N/A	N/A	N/A	N/A
Grade 5	N/A	N/A	N/A	N/A	N/A
Grade 6	N/A	N/A	N/A	N/A	N/A
Grade 7	N/A	N/A	N/A	N/A	N/A
Grade 8	N/A	N/A	N/A	N/A	N/A
Grade 9	N/A	N/A	N/A	N/A	N/A
Grade 10	N/A	N/A	N/A	N/A	N/A
Grade 11	N/A	N/A	N/A	N/A	N/A
Grade 12	N/A	N/A	N/A	N/A	N/A

N/A - Not applicable for County Offices of Education in the 2016-17 Fiscal Year.

This schedule presents information on the amount of instruction time offered by the County Office and whether the County Office complied with the provisions of Education Code Sections 46200 through 46207. The County Office neither met nor exceeded its target funding.

SAN DIEGO COUNTY OFFICE OF EDUCATION
SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
YEAR ENDED JUNE 30, 2017

TABLE D-3

General Fund	Budget 2018 (See Note 1)	2017	2016	2015
Revenues and other financial sources	\$ 256,118,757	\$ 249,775,699	\$ 250,326,091	\$ 249,436,903
Expenditures, other uses and transfers out	250,071,092	228,186,062	227,316,465	225,827,738
Change in fund balance (deficit)	6,047,665	21,589,637	23,009,626	23,609,165
Ending fund balance	\$ 148,471,581	\$ 142,423,916	\$ 120,834,279	\$ 97,824,653
Available reserves (See Note 2)	\$ 39,426,695	\$ 32,693,972	\$ 17,192,035	\$ 19,327,747
Available reserves as a percentage of total outgo (See Note 3)	15.8%	14.5%	7.7%	8.6%
Total long-term debt	\$ 149,951,295	\$ 150,051,143	\$ 119,726,866	\$ 121,292,515
Average daily attendance at P-2	1,600	1,520	1,714	2,234

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 fund balance of the general fund has increased by \$44,599,263 (45.59%) over the past two years. The fiscal year 2017-18 budget projects an increase of \$6,047,665 (4.25%). 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 increased by \$28,758,628 over the past two years.

Average daily attendance has decreased by 714 over the past two years.

Notes:

- 1 Budget 2018 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 On behalf payments of \$2,631,772, \$2,675,086, and \$2,200,031, have been excluded from the calculation of available reserves for the fiscal years ending June 30, 2017, 2016 and 2015.
- 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, 2017

TABLE D-4

	General Fund	Special Reserve Fund for OPEB (Fund 20)
June 30, 2017, annual financial and budget report fund balances	\$ 142,423,916	\$ 259,425
Adjustments and reclassifications:		
Increasing (decreasing) the fund balance:		
Incorporation of fund in accordance with GASB 54	259,425	(259,425)
Net adjustments and reclassifications	259,425	(259,425)
June 30, 2017, audited financial statement fund balances	\$ 142,683,341	\$ -

	Self Insurance Fund
June 30, 2017, annual financial and budget report net position	\$ (4,972,722)
Adjustments and reclassifications:	
Increasing (decreasing) the net position:	
Overstatement of OPEB liability	1,262,465
Net adjustments and reclassifications	1,262,465
June 30, 2017, audited financial statement net position	\$ (3,710,257)

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.

The following charter schools are chartered by San Diego County Office of Education.

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

SAN DIEGO COUNTY OFFICE OF EDUCATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2017

TABLE D-6
Page 1 of 2

Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass- Through Entity Identifying Number	Passed Through to Subrecipients	Federal Expenditures
CCDF CLUSTER:				
<u>U. S. Department of Health and Human Services</u>				
Passed Through San Diego County Department of Health and Human Services:				
Child Care Development	93.575	519835	\$ -	\$ 55,762
Total U. S. Department of Health and Human Services			-	55,762
Total CCDF Cluster			-	55,762
CHILD NUTRITION CLUSTER:				
<u>U. S. Department of Agriculture</u>				
Passed Through State Department of Education:				
School Breakfast Program	10.553	13525	61,180	82,235
National School Lunch Program	10.555	13396	156,818	210,785
National School Lunch Program - Noncash Commodities	10.555	13396	-	58,246
Total Passed Through State Department of Education			217,998	351,266
Total U. S. Department of Agriculture			217,998	351,266
Total Child Nutrition Cluster			217,998	351,266
FOREST SERVICE SCHOOLS AND ROADS CLUSTER:				
<u>U. S. Department of Agriculture</u>				
Passed Through State Department of Education:				
Forest Reserve Funds	10.665	10044	-	300,951
Total U. S. Department of Agriculture			-	300,951
Total Forest Service Schools and Roads Cluster			-	300,951
MEDICAID CLUSTER:				
<u>U. S. Department of Health and Human Services</u>				
Direct Program:				
Medi-Cal	93.778	-	-	54,929
Total U. S. Department of Health and Human Services			-	54,929
Total Medicaid Cluster			-	54,929
SPECIAL EDUCATION (IDEA) CLUSTER:				
<u>U. S. Department of Education</u>				
Passed Through State Department of Education:				
IDEA Alternate Dispute Resolution	84.027	10019	-	71,613
IDEA Basic Local Assistance	84.027	13379	64,478,024	64,980,971
IDEA Preschool Local	84.027	13682	6,125,044	6,155,729
IDEA Mental Health	84.027	14468	4,473,265	4,507,254
IDEA Preschool	84.173	13430	2,340,028	2,351,835
IDEA Preschool Staff Development	84.173	13431	19,494	19,619
Total Passed Through State Department of Education			77,435,855	78,087,021
Total U. S. Department of Education			77,435,855	78,087,021
Total Special Education (IDEA) Cluster			77,435,855	78,087,021

SAN DIEGO COUNTY OFFICE OF EDUCATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2017

TABLE D-6
Page 2 of 2

Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass- Through Entity Identifying Number	Passed Through to Subrecipients	Federal Expenditures
OTHER PROGRAMS:				
<u>U. S. Department of the Interior</u>				
Direct Program:				
Wild Life Reserve Funds	15.663	-	-	1,734
Total U. S. Department of the Interior			-	1,734
<u>U. S. Department of Labor</u>				
Direct Program:				
Pathway to Justice Careers	17.270		-	210,050
Total U. S. Department of Labor			-	210,050
<u>U. S. Department of Justice</u>				
Direct Program:				
Second Chance Act	16.812	-	-	203,989
Total U. S. Department of Justice			-	203,989
<u>U. S. Department of Health and Human Services</u>				
Passed Through San Diego County Department of Health and Human Services:				
Child Welfare Services Program	93.645	525896	-	18,046
Foster Care	93.658	525896	-	195,265
Friday Night Live	93.959	521100	-	310,000
Total Passed Through San Diego County Department of Health and Human Services			-	523,311
Passed Through State Department of Education:				
Project Cal-Well	93.243	15289	171,054	884,833
Total U. S. Department of Health and Human Services			171,054	1,408,144
<u>U. S. Department of Education</u>				
Passed Through State Department of Education:				
Native American Grant	84.299	15293	-	110,709
Title I Basic	84.010	14329	-	1,089,976
Title I Local Delinquent	84.010	14357	-	2,401,925
Migrant Education	84.011	14838	767,307	7,533,238
IDEA Early Intervention	84.181	23761	123,686	668,746
Title X McKinney Vento	84.196	14332	-	281,547
21st Century Learning	84.287	14535	8,914,839	9,319,999
Title III	84.365	14967	121,823	430,100
Title II Math & Science	84.366	14512	497,104	821,707
Title II Teacher Quality	84.367	14341	-	19,728
Total Passed Through State Department of Education			10,424,759	22,566,966
Total U. S. Department of Education			10,424,759	22,677,675
<u>U. S. Department of Agriculture</u>				
Passed Through State Department of Education:				
Child & Adult Care Food Program	10.558	13666	8,062	8,062
Total U. S. Department of Agriculture			8,062	8,062
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 88,257,728	\$ 103,359,583

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, 2017

Basis of Presentation

The accompanying schedule of expenditures of federal awards ("the Schedule") includes the federal grant activity of San Diego County Office of Education. The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200 *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Therefore, some amounts may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. These expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule, if any, represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

Indirect Cost Rate

Indirect costs were calculated in accordance with 2 CFR §200.412 Direct and Indirect Costs. The County Office used an indirect cost rate of 9.37% based on the rate approved by the California Department of Education for each program which did not have a pre-defined allowable indirect cost rate. The County Office did not elect to use the 10% de minimis cost rate as covered in 2 CFR §200.414 Indirect Costs. The following programs utilized a lower indirect cost rate based on program restrictions or other factors determined by the County Office:

Program	CFDA #	Indirect Cost Rate
IDEA - Preschool	84.173	5.47%
IDEA - Preschool Local	84.027	5.41%
IDEA - Mental Health	84.027	9.32%
IDEA - Preschool Staff Development	84.173	4.70%
IDEA - Alternate Dispute Resolution	84.027	4.00%
21st Century	84.287	5.00%
Title III - Limited English Proficiency	84.365	2.00%
Child Nutrition Cluster	10.553, 10.555	4.92%

Schoolwide Program

The County Office operates "schoolwide programs" at four school sites. Using federal funding, schoolwide programs are designed to upgrade an entire educational program within a school for all students, rather than limiting services to certain targeted students. The following federal program amounts were expended by the County Office in its schoolwide programs:

Program	CFDA #	Amount Expended
Title I	84.010	\$477,273

Other Independent Auditor's Reports

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

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, 2017, 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 March 9, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 the San Diego County Office of Education's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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) 2017-001.

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
March 9, 2018

Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance

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 the San Diego County Office of Education's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the San Diego County Office of Education's major federal programs for the year ended June 30, 2017. 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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of 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 the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the 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 the San Diego County Office of Education's compliance.

Opinion on Each Major Federal Program

In our opinion, the 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 for the year ended June 30, 2017.

Report on Internal Control Over Compliance

Management of the 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 the 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 the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the 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.

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

Wilkinson Hadley King & Co. LLP

El Cajon, California
March 9, 2018

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 County Office's compliance with the types of compliance requirements described in the *2016-17 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, prescribed in Title 5, *California Code of Regulations*, Section 19810 that could have a direct and material effect on each of the County Office's state programs identified below for the fiscal year ended June 30, 2017.

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, *2016-17 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* prescribed in Title 5, *California Code of Regulations*, Section 19810. 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, *2016-17 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, prescribed in Title 5, *California Code of Regulations*, Section 19810. 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 County Office'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 County Office's compliance with those requirements.

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

<u>Compliance Requirements</u>	<u>Procedures in Audit Guide Performed?</u>
LOCAL EDUCATION AGENCIES OTHER THAN CHARTER SCHOOLS:	
Attendance Accounting:	
Attendance Reporting	Yes
Teacher Certification and Misassignments	Yes
Kindergarten Continuance	N/A
Independent Study	Yes
Continuation Education	N/A
Instructional Time	Yes
Instructional Materials.....	Yes
Ratio of Administrative Employees to Teachers	N/A
Classroom Teacher Salaries	N/A
Early Retirement Incentive	N/A
GANN Limit Calculation	Yes
School Accountability Report Card	Yes
Juvenile Court Schools	Yes
Middle or Early College High Schools	N/A
K-3 Grade Span Adjustment	N/A
Transportation Maintenance of Effort	N/A
Mental Health Expenditures	Yes
SCHOOL County OfficeS, COUNTY OFFICES OF EDUCATION, AND CHARTER SCHOOLS:	
Educator Effectiveness	Yes
California Clean Energy Jobs Act	Yes
After School Education and Safety Program:	
After School	Yes
Before School	Yes
General Requirements	Yes
Proper Expenditure of Education Protection Account Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control and Accountability Plan	Yes
Independent Study-Course Based	N/A
Immunizations	Yes
CHARTER SCHOOLS:	
Attendance	N/A
Mode of Instruction	N/A
Nonclassroom-Based Instruction/Independent Study	N/A
Determination of Funding for Nonclassroom-Based Instruction	N/A
Annual Instructional Minutes - Classroom Based	N/A
Charter School Facility Grant Program	N/A

The term "N/A" is used above to mean either the County Office 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, 2017.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance with the statutory requirements for programs noted above, which are required to be reported in accordance with the State's audit guide, *2016-17 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* prescribed in Title 5, *California Code of Regulations*, Section 19810 and which is described in the accompanying Schedule of Findings and Questioned Costs as item 2017-001.

San Diego County Office of Education's Response to Findings

San Diego County Office of Education's response to the finding 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 compliance and the results of that testing, and not to provide an opinion of 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 the *2016-17 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* prescribed in Title 5, *California Code of Regulations*, Section 19810 in considering the entity's compliance. Accordingly, this communication is not suitable for any other purpose.

Wilkinson Hadley King & Co. LLP

El Cajon, California
March 9, 2018

Findings and Recommendations Section

SAN DIEGO COUNTY OFFICE OF EDUCATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2017

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? Yes X No

One or more significant deficiencies identified that are not considered to be material weaknesses? Yes X 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? Yes X No

One or more significant deficiencies identified that are not considered to be material weaknesses? Yes X 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 Title 2 U.S. Code of Federal Regulations (CFR) Part 200? Yes X No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.027, 84.173	Special Education Cluster
84.366	Title II Math and Science

Dollar threshold used to distinguish between type A and type B programs: \$3,000,000

Auditee qualified as low-risk auditee? X Yes No

3. State Awards

Any audit findings disclosed that are required to be reported in accordance with the state's Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting? X Yes No

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

SAN DIEGO COUNTY OFFICE OF EDUCATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2017

B. Financial Statement Findings

None

C. Federal Award Findings and Questioned Costs

None

D. State Award Findings and Questioned Costs

Finding 2017-001 (70000)
Instructional Materials

Criteria or Specific Requirement

Education Code Section 60119(b) requires that the governing board of a local education agency hold a public hearing or hearings at which the governing board encourages the participation of parents, teachers, members of the community, and bargaining unit leaders as to whether each pupil in each school has sufficient textbooks or instructional materials, or both that are aligned to the content standards adopted pursuant to Section 60605. The hearing may not take place during or immediately following school hours.

Condition

In our review of the public hearing held by the County Office to determine the sufficiency of textbooks and instructional materials, we noted that the hearing was held at 4:00 PM which is at a time that does not encourage the participation of parents, teachers, members of the community, or bargaining unit leaders.

Questioned Costs

None, there is no longer funding connected with this compliance requirement.

Context

The public hearing was held at the regular board meeting on August 10, 2016. The County Board of Education holds their meetings at an earlier time during the months of June, July and August each year.

Cause

The governing board moved up the time of the board meeting in which the public hearing was held. The governing board was unaware of the requirement to hold the hearing at a time that encouraged the participation of parents, teachers, members of the community, and bargaining unit leaders.

Effect

The County Office was not in compliance with Education Code Section 60119(b).

Recommendation

Implement procedures to ensure the public hearing held to determine the sufficiency of instructional materials is held at a time that encourages the participation of parents, teachers, members of the community, and bargaining unit leaders.

LEA's Response

The board meeting will be scheduled for later in the day.

SAN DIEGO COUNTY OFFICE OF EDUCATION
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2017

<u>Finding/Recommendation</u>	<u>Current Status</u>	<u>Management's Explanation If Not Implemented</u>
<p>Finding 2016-001 (10000) Attendance</p> <p>When preparing the P2 report of attendance the County Office inadvertently left out an entire month of attendance days in the calculation. This resulted in an understatement of ADA as the County Office used the correct divisor based on the attendance calendar.</p> <p>Evaluate current procedures and make necessary changes to review procedures to ensure any errors are detected timely enough to submit accurate reports to the California Department of Education.</p>	Implemented	
<p>Finding 2016-002 (10000) Independent Study</p> <p>In review of the written agreements for students in the independent study program, the agreements did not contain all of the elements required by Education Code Section 51747(c). Specifically, 29 out of 60 tested did not include manner, time, frequency & place for submitting work and 12 out of 60 tested did not include all of the required signatures prior to claiming attendance for those students.</p> <p>Attend an independent study compliance training to gain a complete understanding of the items which are conditions of apportionment for the program. Modify independent study agreements to ensure all required elements are included in the agreement. Establish a monitoring system to ensure all independent study agreements are complete and meet all requirements prior to claiming attendance for students in the non-classroom based program.</p>	Implemented	
<p>Finding 2016-003 (70000) Instructional Materials</p> <p>In our review of the public hearing held by the County Office to determine the sufficiency of textbooks and instructional materials, we noted that the hearing was held at 4:00 PM which is a time that does not encourage the participation of parents, teachers, members of the community, or bargaining unit leaders.</p> <p>Implement procedures to ensure the public hearing held to determine the sufficiency of instructional materials is held at a time that encourages the participation of parents, teachers, members of the community, and bargaining unit leaders.</p>	Not Implemented	See Current Year Finding.