

SACRAMENTO COUNTY OFFICE OF EDUCATION

SACRAMENTO, CALIFORNIA

**FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITOR'S REPORT**

FOR THE FISCAL YEAR ENDED JUNE 30, 2016

SACRAMENTO COUNTY OFFICE OF EDUCATION

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James Marta & Company LLP
Certified Public Accountants

Accounting, Auditing, Consulting, and Tax

INDEPENDENT AUDITOR'S REPORT

Board of Education
Sacramento County Office of Education
Sacramento, 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 Sacramento County Office of Education (the "County Office"), as of and for the year ended June 30, 2016, 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 an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

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 the Sacramento County Office of Education, as of June 30, 2016, 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, the Statement of Revenues, Expenditures and Changes in Fund Balance-Budget (Non-GAAP) and Actual – County School Service Fund, Statement of Revenues, Expenditures and Changes in Fund Balance-Budget (Non-GAAP) and Actual – Special Education Pass-through Fund, Schedule of Other Postemployment Benefit (OPEB) Funding Progress, Schedule of Proportionate Share of the Net Pension Liability and Schedule of Pension Contributions 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 County Office's basic financial statements. The accompanying supplementary information as listed in the table of contents, including the schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements of Federal Awards (Uniform Guidance), Audits of States, Local Governments, and Non-Profit Organizations, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2016 on our consideration of the County Office'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 the County Office's internal control over financial reporting and compliance.

James Marta & Company LLP

James Marta & Company LLP
Certified Public Accountants
Sacramento, California
December 14, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

SACRAMENTO COUNTY OFFICE OF EDUCATION

MANAGEMENT’S DISCUSSION AND ANALYSIS

JUNE 30, 2016

The Management’s Discussion and Analysis section of the audit report is management’s view of the Sacramento County Office of Education’s (“County Office”) financial condition and provides an opportunity to present important fiscal information to the County Board of Education and the public. This document is designed to enhance the understandability and usefulness of the audited financial statements for all users.

FINANCIAL REPORTS

At specific reporting periods during the year, the County Office prepares and presents budget revisions and interim financial reports for County Board of Education and public review. These documents represent changes to the County Office’s budgeted receipts and expenditures since the July 1st adoption of the County School Services Fund budget and present the most accurate information available at the time.

Alternatively, the Management’s Discussion and Analysis and annual audit report includes several financial reports that present actual receipts and expenditures and year-end balances at the close of the fiscal year using the accrual basis of accounting. In addition to the basic fund financial statements that are included in the Unaudited Actuals report, two government-wide financial statements are included in the audit report; the Government-Wide Statement of Net Position, which reports financial condition at the end of the year and the Government-Wide Statement of Activities, which reports activity during the year. These two statements present a longer-term view of the County Office’s finances as described below.

Government-Wide Statement of Net Position

The County Office’s Government-Wide Statement of Net Position includes the following information that the Governmental Funds Balance Sheet does not present: capital assets, net of accumulated depreciation; long-term liabilities, including Net Pension Liability; and Deferred Outflows and Inflows related to pensions. Further, amounts due to or from another County Office governmental fund are eliminated. Detail is provided in the supporting footnotes, as required.

The following table summarizes Governmental activity for the past two years:

	Balance at June 30, 2016	Balance at June 30, 2015
Total Assets	\$117,129,708	\$101,508,342
Deferred Outflows	\$8,857,929	\$5,717,788
Total Liabilities	\$94,533,212	\$79,057,849
Deferred Inflows	\$7,557,974	\$15,223,972
Total Net Position	\$23,896,451	\$12,944,309

As required by GASB 68, the County Office used annual CalSTRS and CalPERS actuarial valuation reports to calculate our proportional share of Net Pension Liability, Deferred Outflow/Deferred Inflow of resources, and Pension Expense related to our defined benefit pension plan. This resulted in an increase to Net Pension Liability of \$7,984,806 bringing the current balance to \$59,758,732 and is reflected in Total Liabilities above. Net Pension Liability represents the County Office’s unfunded pension obligation as of June 30th. Deferred Outflows and Deferred Inflows of resources, which represents pension expense to be recognized in future years, are recorded as additions and deductions, respectively, to Net Position and separately stated above.

Other than the effects of GASB 68, while there were timing differences in the receipts of revenues and the payment of expenditures that affect assets and liabilities, net position continues to steadily increase.

SACRAMENTO COUNTY OFFICE OF EDUCATION

MANAGEMENT’S DISCUSSION AND ANALYSIS

JUNE 30, 2016

Government-Wide Statement of Activities

The County Office’s Government-Wide Statement of Activities differs from the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance because the Statement of Activities reports all expenses by their function rather than by their expense category. The function represents the general operational area within the County Office and groups related activities together. In addition, the Statement of Activities is adjusted for debt repayment, payments of post-employment benefits to retirees, difference between actuarially determined pension costs and actual employer contributions, change in compensated absences and net capital outlay expenditures.

The following table summarizes Governmental activity during the past two years:

	For the Year Ended June 30, 2016	For the Year Ended June 30, 2015
Program Revenues	\$94,982,020	\$83,296,628
General Revenues	\$58,156,915	\$52,654,043
Expenses	(\$142,186,793)	(\$128,584,133)
Change in Net Position	\$10,952,142	\$7,366,538
Net Position, Beginning as originally reported	\$12,944,309	\$69,690,092
Prior Period Restatement		(\$64,112,321)
Net Position, Beginning as Restated	\$12,944,309	\$5,577,771
Net Position, Ending	\$23,896,451	\$12,944,309

The County Office recorded several new grants during the year resulting in an increase to the Revenue categories above and the expenses directly related to those grants. However, the activity in the Expenses category above does not reflect the same increase as Revenues because certain funds received represent state entitlements and fees from local sources that will be spent in future years. Further, payments made to districts for CTE and CARE programs decreased from the previous year in accordance with agreements we have in place with the districts.

Governmental Funds

The County Office’s fund financial statements report operations about our most significant funds using the modified accrual basis of accounting. Effective this year, the County Office is operating the Adult Education Fund. It is used to report activity for the Capital Adult Education Regional Consortium (CAERC) that works with LEAs in the Sacramento area to serve the educational needs of adults. This activity is recorded separately as a governmental fund on the County Office’s financial system. As of 6/30/16, the County Office reported combined fund balances of \$64,494,291 in all governmental funds, which represents an increase of \$8,726,704 from prior year.

PROGRAM HIGHLIGHTS

The County Office provides direct instruction to students in the community through a variety of programs. These programs comprise approximately 25% of the County Office budget. The following represents the highlights of these programs:

SACRAMENTO COUNTY OFFICE OF EDUCATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2016

- The Special Education department provides direct instructional programs and services to approximately 465 students, ages 3-22, who have physical, communicative, learning, emotional, and/or severe challenges. Programs are located on 33 campuses throughout Sacramento County (including Juvenile Court and Community School) and within local school districts. Specialized services (RSP, speech, vision, nurse, mobility) are also provided to students within the County Office's programs and specific district programs. The County Office's Special Education programs focus on providing quality services including academics, daily living skills, mobility, transition skills, and career preparation.
- The Infant Development program provides early intervention services to approximately 230 infants and toddlers, birth to age 3, and their families each year. Services are provided within the context of the families' daily living and include service coordination, nursing, occupational therapy, physical therapy, child development, social emotional development, self-help, speech, language, hearing, and vision services.
- The Juvenile Court School program provides academic and career technical educational services, including academic intervention services, to approximately 1,200 students who are detained at the Youth Detention Facility operated by the Sacramento County Probation Department. The Juvenile Court School program enrolls students to prepare them for transition back to their school of residence, employment, or post-secondary education.
- The Community School program provides direct educational alternatives for approximately 450 students who have been expelled or who are not currently enrolled in local school districts. Programs are located at four campuses throughout Sacramento County. Students are enrolled in LINKS programming which provides them with academic and career technical education and behavior modification services to prepare them for return to their school of residency, graduation, HiSet (High School Equivalency) completion and/or postsecondary transition.
- The Community Action for Responsive Education (CARE) intervention program is a partnership between the County Office and ten local secondary schools that provide support tailored to the students' educational and behavioral needs. CARE students receive their core instruction from one teacher in a small classroom environment focusing on English, Mathematics, Science, Social Studies and study skills. CARE students are eligible to participate in elective courses, physical education, and extracurricular activities according to each school's participation guidelines. The County Office also provides enrichment opportunities, parenting support, mentors, tutors, and other services for CARE students on an as-needed basis. Through participation in the CARE intervention program, students will gain the academic, behavioral and/or social skills necessary to be successful in a traditional school setting. Over 150 students were served during the year.
- The Capital Region Academies for the Next Economy (CRANE) Consortium is a six county regional partnership that comprises of 22 school districts and county offices of education. Our County Office serves as fiscal agent and, operating the California Career Pathways Trust (CCPT) grant, enables CRANE to reach 45 high schools to provide career paths for students to prepare them for various careers and for college.

SACRAMENTO COUNTY OFFICE OF EDUCATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2016

- Sly Park Center is a residential outdoor science program that provides educational experiences in environmental education to elementary students from Sacramento and surrounding counties. Students may attend 5-day, 4-day or 3-day programs during the school year. The Sly Park Center also accommodates various student and adult conference groups during the summer. Over 7,000 students were served during the year.

In addition to the above-mentioned services and programs, the County Office administers over 200 special programs, services and grants that serve the adults and students in Sacramento County, neighboring counties and in some cases throughout the state of California. Adults and students are served in many capacities such as through technology support, training and evaluation services, pupil services and instructional support. Many of these programs are administered in conjunction with the state and federal governments and are subject to the fiscal requirements of these agencies. These special programs, services and grants comprise approximately 75% of the County Office's budget. The following represents the highlights of these programs:

- The K-12 Curriculum and Instruction Department provides a wide variety of instructional support services to the County Office's districts and schools. Workshops are provided to administrators and teachers that focus on the Common Core State Standards in English Language Arts & Literacy and Mathematics, the adopted English Language Development Standards, Next Generation Science Standards, High-Quality First Instruction, research-based instructional practice, and use of instructional materials. Instructional support is provided through customized, onsite services to meet individual needs of districts and schools, such as assistance with analyzing achievement data to improve instruction, helping district administrators plan programs to support their English learner students, building district capacity to deliver high quality initial instruction and working with principals to supervise and improve the quality of the curriculum and instruction at their sites. Finally, the K-12 Curriculum and Instruction Department facilitates several professional networks for teachers and administrators that enable them to meet periodically to share their successes and challenges in an on-going effort to improve student achievement.
- The Early Learning Department provides services and develops resources for early learning program directors and leaders from county offices of education, school districts, preschools, and private early care and education programs in Sacramento County, the broader ten-county Capital Service Region, and throughout California. The Department's scope of work focuses on preparing young children (birth to age 5) for success in elementary school and beyond. Department staff provides research-based professional development, on-site support, technical assistance, and resources to early childhood/school readiness administrators and staff. The Department also facilitates communication and collaboration among school readiness educators and providers.
- The Foster Youth Services Coordinating Program Department provides services throughout Sacramento County for elementary, middle and high school foster youth through educational case managers and provides transition support and credit recovery for foster youth in juvenile hall and Sacramento Office of Education community day schools. Additionally, the department created and maintains the Foster Focus database that is utilized by over 200 partners (school districts, county offices of education, child protective services, probation) and approximately 1,800 schools in 32 different counties and the School Connect database that is used by Sacramento Child Protective Services (CPS) and two other counties to assist in keeping students in their school of origin.

SACRAMENTO COUNTY OFFICE OF EDUCATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2016

- The Advancement via Individual Determination (AVID) Department provides professional development, technical assistance, curricular resources, and program certification oversight to school districts throughout the greater 10-county region. The AVID program targets “average” students in middle and high schools who have the potential, but not necessarily the support, to develop the academic and personal preparation to successfully attend college.
- The SCOE School of Education provides new teachers an alternative path to the classroom and existing administrators with on-going support. The SCOE School of Education is comprised of two divisions: Teaching and Leading.
The Teaching division operates the Intern and Teacher Induction (formerly BTSA) programs. The two-year Intern program is an alternative pathway to obtain either a single subject math/science credential or a multiple subject credential. Interns are placed in contracted positions within schools and provided support as they complete their teaching credentials. The Teacher Induction program assists participating teachers in creating successful early teaching experiences and earning a clear credential with the ultimate goal of increasing teacher retention. New teachers work with an experienced colleague to hone their skills, knowledge, and abilities related to their teaching practice. The participating teachers and support providers meet regularly to discuss classroom practice. Currently over 600 credential candidates and over 300 support providers from area school districts, charter, and private schools participate in the Teacher Induction Program.
The Leading division consists of the Preliminary Administrative Services Credential and Clear Administrative Services Credential programs. The one-year Preliminary program supports aspiring education leaders by offering a practical approach to leadership and allowing participants to engage in high-quality professional development. The two-year Clear Administrative Services Credential Program provides current administrators the opportunity to clear their credential through assessment, one-on-one coaching, and professional development. Both the Preliminary and Clear Programs are district supported and adhere to California Professional Standards for Educational Leaders (CPSELs).

The Support Services and Administration departments provide internal support to the County Office programs mentioned above and to the districts throughout Sacramento County.

CAPITAL ASSETS

The County Office accounts for the purchase value of capital assets and includes these values as part of the financial statements. In addition to purchasing equipment during the year, the County Office incurred costs for improvements and upgrades at the Leo A. Palmiter Jr./Sr. High School and Support Services sites. The total value of all assets, including land, is shown net of accumulated depreciation. Detail by asset category is provided in the supporting footnotes.

LONG-TERM DEBT

The County Office is reporting \$65,615,721 of Long-Term Debt. \$59,758,732 of this represents the balance of Net Pension Liability pertaining to our defined benefit plan as a result of implementing GASB 68 in 2014/2015. \$4,710,000 represents the balance of the 2013 Refunding Lease-Purchase and \$1,103,846 represents the balance in Compensated Absences. Finally, the balance in Other Post-Employment (Health) Benefits (OPEB) is \$43,143. The OPEB balance on the Long-Term Debt schedule is reported net of the asset balance in the Retiree Benefits Fund.

SACRAMENTO COUNTY OFFICE OF EDUCATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2016

COUNTY SCHOOL SERVICE FUND BUDGETARY HIGHLIGHTS

The County Office's budget is prepared in accordance with California law and is based on the modified accrual basis of accounting. As indicated earlier in this document under "Financial Reports", the original budget is adopted by July 1 and the County Office revises its budget at First and Second Interim and one more time in the Spring in order to establish beginning balances for the following year.

ECONOMIC FACTORS BEARING ON THE COUNTY OFFICE'S FUTURE

- The County Office has always taken an entrepreneurial approach in pursuing grants and contracts for our agency. We work with various entities in our region and throughout the State of California to secure funding for programs that benefit our unique population.
- At the same time, we follow a conservative budgeting approach. We will only budget for and spend under a grant or contract after we receive confirmation of funding. Once funding is secured, we are prudent in our hiring and spending.
- Each funding source is self-supporting and most departments maintain adequate reserves for the future. In our general programs, we maintain a fund balance well in excess of the required minimum.
- All of these sound budgeting practices keep the County Office on solid footing at all times and allow us to be prepared for the next economic downturn.

CONTACTING THE COUNTY OFFICE'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, parents, and creditors with a general overview of the County Office 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, please contact Tamara J. Sanchez, Assistant Superintendent Business Services, Sacramento County Office of Education.

BASIC FINANCIAL STATEMENTS

SACRAMENTO COUNTY OFFICE OF EDUCATION

STATEMENT OF NET POSITION

JUNE 30, 2016

	<u>Governmental Activities</u>
ASSETS	
Cash and cash equivalents (note 2)	\$ 69,581,588
Receivables	23,497,676
Prepaid expenses	277,568
Capital assets, net of accumulated depreciation (note 4)	<u>23,772,876</u>
Total Assets	<u>117,129,708</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows of resources relating to pensions (note 6)	<u>8,857,929</u>
LIABILITIES	
Accounts payable and other current liabilities	23,075,350
Unearned revenue	5,842,141
Long-term liabilities: (note 5)	
Due within one year	1,783,846
Due in more than one year	<u>63,831,875</u>
Total Liabilities	<u>94,533,212</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows of resources relating to pensions (note 6)	<u>7,557,974</u>
NET POSITION	
Net investment in capital assets	19,062,876
Restricted	9,892,466
Unrestricted	<u>(5,058,891)</u>
Total Net Position	<u><u>\$ 23,896,451</u></u>

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

SACRAMENTO COUNTY OFFICE OF EDUCATION

STATEMENT OF ACTIVITIES

FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	Program Revenues			Capital Grants and Contributions	Net (Expense) Revenues and Changes in Net Position
	Expenses	Charges for Services	Operating Grants and Contributions		
Governmental Activities					
Instruction	\$ 24,774,956	\$ 1,931,856	\$ 13,445,694	\$ (138,603)	\$ (9,536,009)
Instruction - related services:					
Instructional supervision and administration	29,461,660	3,739,022	19,569,545	-	(6,153,093)
Instructional library, media and technology	-	-	-	-	-
School site administration	1,814,837	22,165	214,670	-	(1,578,002)
Pupil Services:					
Home-to-school transportation	27,978	19	77	-	(27,882)
Food services	534,550	2,881	79,869	-	(451,800)
All other pupil services	14,105,259	1,852,757	8,309,842	-	(3,942,660)
General administration:					
Centralized data processing	1,266,532	-	4,386	-	(1,262,146)
All other general administration	10,253,321	593,804	3,179,467	-	(6,480,050)
Plant services	3,938,506	52,346	221,471	-	(3,664,689)
Ancillary services	134,203	-	118,083	-	(16,120)
Community services	603,070	73,765	547,022	-	17,717
Enterprise activities	1,360,142	-	136,156	-	(1,223,986)
Interest on long-term debt	180,250	-	-	-	(180,250)
Other outgo	53,731,529	3,917,459	37,108,267	-	(12,705,803)
Total governmental activities	<u>\$ 142,186,793</u>	<u>\$ 12,186,074</u>	<u>\$ 82,934,549</u>	<u>\$ (138,603)</u>	<u>(47,204,773)</u>
General Revenues					
Taxes and subventions:					
Taxes levied for general purposes					
					20,774,057
Taxes levied for other specific purposes					
					121,102
Federal and state aid not restricted to specific purposes					
					28,002,395
Interest and investment earnings					
					311,253
Interagency revenues					
					5,277,441
Miscellaneous					
					3,670,667
					<u>58,156,915</u>
					Change in Net Position
					10,952,142
					Net Position, July 1, 2016
					<u>12,944,309</u>
					Net Position, June 30, 2016
					<u>\$ 23,896,451</u>

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

SACRAMENTO COUNTY OFFICE OF EDUCATION

BALANCE SHEET

GOVERNMENTAL FUNDS

JUNE 30, 2016

	County School Service Fund	Special Education Pass-Through Fund	Non-Major Governmental Funds	Totals
ASSETS				
Cash and investments (note 2)				
Cash in County Treasury	\$ 66,080,012	\$ 679,728	\$ 2,715,386	\$ 69,475,126
Cash awaiting deposit	76,462	-	-	76,462
Cash in revolving fund	30,000	-	-	30,000
Receivables	11,715,545	9,673,023	2,152,756	23,541,324
Prepaid expenditures	277,568	-	-	277,568
Due from other funds (note 3)	<u>897,750</u>	<u>3,627,036</u>	<u>14,957</u>	<u>4,539,743</u>
Total Assets	<u>79,077,337</u>	<u>13,979,787</u>	<u>4,883,099</u>	<u>97,940,223</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	10,910,048	11,706,100	447,900	23,064,048
Unearned revenue	4,276,773	-	1,565,368	5,842,141
Due to other funds (note 3)	<u>3,673,958</u>	<u>393,167</u>	<u>472,618</u>	<u>4,539,743</u>
Total Liabilities	<u>18,860,779</u>	<u>12,099,267</u>	<u>2,485,886</u>	<u>33,445,932</u>
Fund balances (note 7)				
Nonspendable	307,568	-	-	307,568
Restricted	5,631,117	1,880,520	2,380,829	9,892,466
Assigned	24,900,282	-	16,384	24,916,666
Unassigned	<u>29,377,591</u>	<u>-</u>	<u>-</u>	<u>29,377,591</u>
Total Fund Balances	<u>60,216,558</u>	<u>1,880,520</u>	<u>2,397,213</u>	<u>64,494,291</u>
Total liabilities and fund balances	<u>\$ 79,077,337</u>	<u>\$ 13,979,787</u>	<u>\$ 4,883,099</u>	<u>\$ 97,940,223</u>

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

SACRAMENTO COUNTY OFFICE OF EDUCATION

**RECONCILIATION OF GOVERNEMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITON**

GOVERNMENTAL FUNDS

JUNE 30, 2016

Total fund balances - governmental funds	\$ 64,494,291
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Amounts reported for assets and liabilities for governmental activities in the statement of net position are different from amounts reported in governmental funds because:

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

Capital assets at historical cost:	\$ 46,482,934	
Accumulated depreciation:	<u>(22,710,058)</u>	
Net:		23,772,876

Unmatured interest on long-term debt: In governmental funds, interest on long-term debt is not recognized until the period in which it matures and is paid. In the government-wide statement of activities, it is recognized in the period that it is incurred. (54,950)

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

Net pension liability	59,758,732	
Net OPEB obligation	43,143	
Compensated absences payable	1,103,846	
Refunding lease-purchase payable	<u>4,710,000</u>	
		<u>(65,615,721)</u>

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		8,857,929
Deferred inflows of resources relating to pensions		<u>(7,557,974)</u>

Total net position, governmental activities:	<u><u>\$ 23,896,451</u></u>
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SACRAMENTO COUNTY OFFICE OF EDUCATION

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE**

GOVERNMENTAL FUNDS

JUNE 30, 2016

	County School Service Fund	Special Education Pass-Through Fund	All Non-Major Funds	Totals
REVENUES				
LCFF Sources	\$ 30,337,045	\$ 15,660,527	\$ -	\$ 45,997,572
Federal revenue	9,944,423	11,451,195	2,273,336	23,668,954
Other state revenues	23,401,858	16,230,863	11,512,730	51,145,451
Other local revenues	30,877,465	-	1,449,493	32,326,958
Total revenues	<u>94,560,791</u>	<u>43,342,585</u>	<u>15,235,559</u>	<u>153,138,935</u>
EXPENDITURES				
Certificated salaries	21,782,711	-	625,074	22,407,785
Classified salaries	24,772,016	-	1,870,722	26,642,738
Employee benefits	16,110,566	-	819,743	16,930,309
Books and supplies	2,534,485	-	291,294	2,825,779
Services and other operating expenditures	15,507,515	-	4,723,027	20,230,542
Capital outlay	795,596	-	-	795,596
Other outgo	5,579,572	43,260,980	4,890,980	53,731,532
Debt service:				
Principal retirement	660,000	-	-	660,000
Interest	-	-	187,950	187,950
Total expenditures	<u>87,742,461</u>	<u>43,260,980</u>	<u>13,408,790</u>	<u>144,412,231</u>
Excess (deficiency) of revenues over expenditures	6,818,330	81,605	1,826,769	8,726,704
OTHER FINANCING SOURCES (USES)				
Operating transfers in	-	-	10,869	10,869
Operating transfers out	(10,869)	-	-	(10,869)
Total other financing sources (uses)	<u>(10,869)</u>	<u>-</u>	<u>10,869</u>	<u>-</u>
Net change in fund balances	6,807,461	81,605	1,837,638	8,726,704
Fund balances, July 1, 2015	<u>53,409,097</u>	<u>1,798,915</u>	<u>559,575</u>	<u>55,767,587</u>
Fund balances, June 30, 2016	<u>\$ 60,216,558</u>	<u>\$ 1,880,520</u>	<u>\$ 2,397,213</u>	<u>\$ 64,494,291</u>

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

SACRAMENTO COUNTY OFFICE OF EDUCATION

**RECONCILIATION OF GOVERNEMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES**

GOVERNMENTAL FUNDS

JUNE 30, 2016

Total net change in fund balances - governmental funds \$ 8,726,704

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:	\$ 795,600	
Depreciation expense:	<u>(1,456,686)</u>	
Net:		(661,086)

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:

660,000

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:

(28,353)

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:

7,700

Pensions: In government 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:

2,821,333

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

(461,294)

Compensated absences in governmental funds 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:

(112,862)

Total change in net position - governmental activities

\$ 10,952,142

SACRAMENTO COUNTY OFFICE OF EDUCATION

STATEMENT OF FIDUCIARY NET POSITION

JUNE 30, 2016

	Trust Fund	Agency Funds	
	Retiree Benefits	Student Body Funds	Total Fiduciary Funds
ASSETS			
Cash and cash equivalents (Note 2)			
Cash in County Treasury	\$ 38,576	\$ -	\$ 38,576
Cash on hand and in banks	-	11,214	11,214
Cash with Fiscal Agent	29,874,056	-	29,874,056
Accounts Receivable	36,309	-	36,309
Total assets	29,948,941	11,214	29,960,155
LIABILITIES			
Unearned Revenues	43,702	-	43,702
Due to Other Student Groups	-	11,214	11,214
Accounts Payable	10,094	-	10,094
Total liabilities	53,796	11,214	65,010
NET POSITION			
Restricted	29,895,145	-	29,895,145
Total net position	\$ 29,895,145	\$ -	\$ 29,895,145

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

SACRAMENTO COUNTY OFFICE OF EDUCATION
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	Retiree Benefits
Additions	
Other Local Sources	\$ 3,623,092
Net Investment Income	368,868
Total Additions	3,991,960
Deductions	
Contract Services and Operating Expenditures	2,478,589
Changes in Net Position	1,513,371
Net Position	
Net Position - July 1, 2015	28,381,774
Net Position - June 30, 2016	\$ 29,895,145

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

SACRAMENTO COUNTY OFFICE OF EDUCATION

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. HISTORY OF THE ORGANIZATION

The Sacramento County Office of Education (the "County Office") is a public educational agency operating under the applicable laws and regulations of the State of California. It is governed by a seven member Governing Board elected by registered voters of the County Office, which comprises an area in Sacramento County. The County Office serves students in kindergarten through grade twelve and adults, as well as infants in some Special Education programs.

B. REPORTING ENTITY

The County Superintendent of Schools and County Board of Education have governance responsibilities over the activities related to public school education conducted by the County Office. The Board is not included in any other governmental "reporting entity" as defined by the Governmental Accounting Standards Board since Board members have decision-making authority, the power to designate management, the responsibility to significantly influence operations and primary accountability for fiscal matters.

The County's Board of Education formed a non-profit public benefit corporation known as the Schools Projects Financing Corporation of Sacramento County ("Corporation"). The County Office and the Corporation have a financial and operational relationship which meet the reporting entity definition criteria of Codification of Governmental Accounting and Financial Reporting Standards, Section 2100, for inclusion of Corporation as a blended component unit of the County Office. Therefore, the financial activities of Corporation have been included in the financial statements of the County Office as a blended component unit.

The following are those aspects of the relationship between the County Office and Corporation which satisfy Codification of Governmental Accounting and Financial Reporting Standards, Section 2100, as amended by criteria:

Manifestations of Oversight

The Corporation's Board of Directors is the County's Board of Education.

The Corporation has no employees. The County Office's Superintendent and Assistant Superintendent, Business Services function as agents of the Corporation. The individuals did not receive additional compensation for work performed in this capacity.

The County Office exercises significant influence over operations of the Corporation as it is anticipated that the County Office will be the sole lessee of all facilities owned by the Corporation.

Accounting for Fiscal Matters

All major financing arrangements, contracts, and other transactions of the Corporation must have the consent of the County Office.

SACRAMENTO COUNTY OFFICE OF EDUCATION

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2016

B. REPORTING ENTITY (CONTINUED)

Accounting for Fiscal Matters (Continued)

Any deficits incurred by the Corporation will be reflected in the lease payments of the County Office. Any surpluses of the Corporation revert to the County Office at the end of the lease period.

It is anticipated that the County Office's lease payments will be the sole revenue source of the Corporation.

The County Office has assumed a "moral obligation," and potentially a legal obligation, for any debt incurred by the Corporation.

Scope of Public Service and Financial Presentation

The Corporation was created for the sole purpose of financially assisting the County Office.

The Corporation is a nonprofit, public benefit corporation incorporated under the laws of the State of California and recorded by the Secretary of State. The Corporation was formed to provide financing assistance to the County Office for construction and acquisition of major capital facilities. Upon completion, the County Office intends to occupy all Corporation facilities. When the Corporation's Refunding lease-purchase agreements have been paid, title to all Corporation property will pass to the County Office for no additional consideration.

The Corporation's financial activity is presented in the financial statements in the County School Service Fund. Refunding lease purchase agreements issued by the Corporation are included in the long-term liabilities.

C. ACCOUNTING POLICIES

The County Office accounts for its financial transactions in accordance with the policies and procedures of the California 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, as prescribed by the Governmental Accounting Standards Board. The following is a summary of the more significant policies:

D. BASIS OF PRESENTATION

Financial Statements

The basic financial statements include financial statements prepared using full accrual accounting for all of the County Office's activities, including infrastructure, and a focus on the major funds.

Government-Wide Financial Statements

The Statement of Net Position and the Statement of Activities displays information about the reporting government as a whole. Fiduciary funds are not included in the government-wide financial statements. Fiduciary funds are reported only in the Statement of Fiduciary Net Position and Statement of Change in Fiduciary Net Position at the fund financial statement level.

SACRAMENTO COUNTY OFFICE OF EDUCATION

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2016

D. BASIS OF PRESENTATION (CONTINUED)

The Statement of Net Position and the Statement of Activities are prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets and liabilities resulting from non-exchange transactions are recognized in accordance with the requirements of Governmental Accounting Standards Board Codification Section (GASB Cod. Sec.) N50.118-.121.

Program revenues: Program revenues included in the Statement of Activities derive directly from the program itself or from parties outside the County Office's taxpayers or citizenry, as a whole; program revenues reduce the cost of the function to be financed from the County Office's general revenues.

Allocation of indirect expenses: The County Office reports all direct expenses by function in the Statement of Activities. Direct expenses are those that are clearly identifiable with a function. Depreciation expense is specifically identified by function and is included the direct expense of each function. Interest on long-term liabilities is considered an indirect expense and is reported separately on the Statement of Activities.

The government-wide statement of activities presents a comparison between expenses, both direct and indirect, of the County Office and for each governmental function, and excludes fiduciary activity. Direct expenses are those that are specifically associated with a service, program, or department and are, therefore, clearly identifiable to a particular function. The County Office does not allocate indirect expenses to functions in the Statement of Activities. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program or business segment is self-financing or draws from the general revenues of the County Office. Eliminations have been made to minimize the double counting of internal activities.

Net position should be reported as restricted when constraints placed on net position use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The net position restricted for other activities results from special revenue funds and the restrictions on their net asset use.

Fund Financial Statements

Fund financial statements report detailed information about the County Office. The focus of governmental and proprietary fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column.

SACRAMENTO COUNTY OFFICE OF EDUCATION

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2016

D. BASIS OF PRESENTATION (CONTINUED)

Governmental Funds

All governmental funds are accounted for using the flow of current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures, and changes in fund balance reports on the sources (revenues and other financing sources) and uses (expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements, therefore, include reconciliations with brief explanations to better identify the relationship between the government-wide financial statements, prepared using the economic resources measurement focus and the accrual basis of accounting, and the governmental fund financial statements, prepared using the flow of current financial resources measurement focus and the modified accrual basis of accounting.

Fiduciary Funds

Fiduciary funds are accounted for using the flow of economic resources measurement focus and the accrual basis of accounting. Fiduciary funds are excluded from the government-wide financial statements because they do not represent resources of the County Office.

E. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements.

Accrual

Government -wide financial statements and the Fiduciary fund financial statements are prepared using the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

Modified Accrual

The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible when the current period or within 60 days after year end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general obligation long-term liabilities, if any, is recognized when due.

SACRAMENTO COUNTY OFFICE OF EDUCATION

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2016

E. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING (CONTINUED)

Revenues (Exchange and Non-Exchange Transactions)

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 fiscal year, or are 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 45 to 60 days. However, to achieve comparability of reporting among California districts and so as not to 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 districts as collectible within one year. The following revenue sources are considered to be both measurable and available at fiscal year-end: Local Control Funding Formula, interest, certain grants, and other local sources.

Non-exchange transactions, in which the County Office receives value without directly giving equal value in return, include 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.

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. Principal and interest on long-term obligations, which has not matured, are recognized when paid in the governmental funds. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds.

F. FUND ACCOUNTING

The accounts of the County Office are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. The County Office resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled.

SACRAMENTO COUNTY OFFICE OF EDUCATION

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2016

F. FUND ACCOUNTING (CONTINUED)

Major Governmental Funds

County School Service Fund:

The **County School Service Fund** is the general operating fund of the County Office and accounts for all revenues and expenditures of the County Office not encompassed within other funds. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures and the capital improvement expenditures that are not paid through other funds are paid from the County School Service Fund. For financial reporting purposes, the current year activity and year end balances of the Special Reserve for Other Than Capital Outlay Projects Fund and the Special Reserve for PostEmployment Benefits Fund are combined with the County School Service Fund.

Special Education Pass-Through Fund

The **Special Education Pass-Through Fund** is used to account for pass-through of revenues to member Local Educational Agencies of the Special Education Local Plan Area.

Non-major Governmental Funds

The **Adult Education Fund** is used to account for the used to account for revenues received and expenditures made to operate the County Office's adult education program.

The **Child Development Fund** is used to account for the proceeds of revenue sources that are legally restricted to expenditures related to early learning.

Capital Projects Funds are used to account for resources used for the acquisition or construction of major capital facilities and equipment. This includes the Capital Facilities and County School Facilities Funds.

The **Capital Facilities Fund** is used to account for proceeds from various redevelopment projects that fund facility-related projects serving the needs of the community.

The **County School Facilities Fund** is used to account for the proceeds of revenue sources that are legally restricted to expenditures related to school site modernization.

Fiduciary Funds

Fiduciary funds are used to account for assets for which the County Office acts as an agent. The County Office maintains one trust fund and one agency fund:

The **Retiree Benefits Fund (trust fund)** is used to account for assets held by the County Office as Trustee to pay for retiree benefits.

The **Student Body Funds (agency fund)** account for the receipt and disbursement of monies from the student body clubs and activities of schools within the County Office.

SACRAMENTO COUNTY OFFICE OF EDUCATION

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2016

G. BUDGETS AND BUDGETARY ACCOUNTING

By state law, the County Office must adopt a final budget by July 1. A public hearing is conducted to receive comments prior to adoption. The County Office's governing board satisfied these requirements.

H. CASH AND CASH EQUIVALENTS

The County Office's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Cash equivalents also include cash with county treasury balances for purposes of the statement of cash flows.

I. RECEIVABLES

Receivables are made up principally of amounts due from the State of California for Local Control Funding Formula and Categorical programs. The County Office has determined that no allowance for doubtful accounts was needed as of June 30, 2016.

J. PREPAID EXPENDITURES

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

K. CAPITAL ASSETS AND DEPRECIATION

Capital assets purchased or acquired, with an original cost of \$5,000 or more, are recorded at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements, and other capital outlay that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Capital assets are depreciated using the straight-line method over 5 - 30 years depending on asset types.

L. DEFERRED OUTFLOWS/INFLOWS OF RESOURCES

In addition to assets, the statement of net position includes a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s), and as such will not be recognized as an outflow of resources (expense/expenditures) until then.

In addition to liabilities, the statement of net position includes a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and as such, will not be recognized as an inflow of resources (revenue) until that time.

SACRAMENTO COUNTY OFFICE OF EDUCATION

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2016

M. INTERFUND BALANCES

Interfund activity is reported as either loans, services provided, reimbursements or transfers. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements are when one fund incurs at cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers.

N. COMPENSATED ABSENCES

Compensated absences benefits totaling \$1,103,846 are recorded as a liability of the County Office. The liability is for earned but unused benefits.

O. ACCUMULATED SICK LEAVE

Sick leave benefits are accumulated for each employee. The employees do not gain a vested right to accumulated sick leave. Accumulated employee sick leave benefits are not recognized as liabilities of the County Office since cash payment of such benefits is not probable. Therefore, sick leave benefits are recorded as expenditures in the period that sick leave is taken.

P. ACCRUED LIABILITIES AND LONG-TERM OBLIGATIONS

All payables, accrued liabilities, and long-term obligations are reported in the government-wide and/or governmental fund financial statements. Governmental fund payables and accrued liabilities that will be paid from current financial resources are reported as liabilities in the governmental funds balance sheet. In addition to these payables and accrued liabilities, the debt associated with compensated absences, lease-purchase agreements and other long-term obligations are reported as liabilities on the government-wide statement of net position.

Q. UNEARNED REVENUE

Revenue from federal, state and local special projects and programs is recognized when qualified expenditures have been incurred. Funds received but not earned are recorded as unearned revenue until earned.

R. FUND BALANCE – GOVERNMENTAL FUNDS

Governmental Accounting Standards Board Codification Sections 1300 and 1800, Fund Balance Reporting and Governmental Fund Type Definitions (GASB Cod. Sec. 1300 and 1800) implements a five-tier fund balance classification hierarchy that depicts the extent to which a government is bound by spending constraints imposed on the use of its resources. The five classifications, discussed in more detail below, are nonspendable, restricted, committed, assigned and unassigned.

Nonspendable Fund Balance reflects amounts that are not in spendable form, such as revolving fund cash and prepaid expenditures.

SACRAMENTO COUNTY OFFICE OF EDUCATION

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2016

R. FUND BALANCE – GOVERNMENTAL FUNDS (CONTINUED)

Restricted Fund Balance reflects amounts subject to externally imposed and legally enforceable constraints. Such constraints may be imposed by creditors, grantors, contributors, or laws or regulations of other governments, or may be imposed by law through constitutional provisions or enabling legislation. These are the same restrictions used to determine restricted net position as reported in the government-wide and fiduciary trust fund statements.

Committed Fund Balance classification reflects amounts subject to internal constraints self-imposed by formal action of the County Office. The constraints giving rise to committed fund balance must be imposed no later than the end of the reporting period. The actual amounts may be determined subsequent to that date but prior to the issuance of the financial statements. Formal action by the County Office is required to remove any commitment from any fund balance. At June 30, 2016, the County Office had no committed fund balances.

Assigned Fund Balance reflects amounts that the County Office has approved to be used for specific purposes, based on the County Office's intent related to those specific purposes. The County Office can designate personnel with the authority to assign fund balances. The Assistant Superintendent Business Services has the authority to assign fund balances as of June 30, 2016.

Unassigned Fund Balance represents the residual classification for the government's general fund and includes all spendable amounts not contained in the other classifications.

In the County School Service Fund only, the unassigned fund balance classification reflects the residual balance that has not been assigned to other funds and that is not restricted, committed, or assigned to specific purposes.

In any fund other than the County School Service Fund, a positive unassigned fund balance is never reported because amounts in any other fund are assumed to have been assigned, at least, to the purpose of that fund. However, deficits in any fund, including the County School Service Fund that cannot be eliminated by reducing or eliminating amounts assigned to other purposes are reported as negative unassigned fund balance.

Fund Balance Policy

The County Office has an expenditure policy relating to fund balances. For purposes of fund balance classifications, expenditures are to be spent from restricted fund balances first, followed in order by committed fund balances (if any), assigned fund balances and lastly unassigned fund balances.

While GASB Cod. Sec. 1300 and 1800 do not require county offices of education to establish a minimum fund balance policy or a stabilization arrangement, GASB Cod. Sec. 1300 and 1800 do require the disclosure of a minimum fund balance policy and stabilization arrangements, if they have been adopted by the County Office. At June 30, 2016, the County Office has not established a minimum fund balance policy nor has it established a stabilization arrangement.

SACRAMENTO COUNTY OFFICE OF EDUCATION

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2016

S. NET POSITION

Net position represents the difference between assets and liabilities. Net position is reported as restricted when there are limitations imposed on their use either through enabling legislation adopted by the County Office or through external restrictions imposed by creditors, grantors, or laws and regulations of other governments. The County Office first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

Restricted Net Position

Restrictions of the ending net position indicate the portions of net position not appropriate for expenditure or amounts legally segregated for a specific future use. The restriction for legally restricted program activities is restricted for expenditures only in those particular programs. These amounts are not available for appropriation and expenditure at the balance sheet date. The restrictions for capital projects represent the portions of net position the County Office plans to expend in the future on capital projects. The restriction for retiree benefits represents the portion of net position the County Office has set aside for future payment of retiree benefits. It is the County Office's policy to use restricted net position first when allowable expenditures are incurred.

T. PROPERTY TAX

Secured property taxes are attached as an enforceable lien on property as of March 1. Taxes are due in two installments on or before December 10 and April 10. Unsecured property taxes are due in one installment on or before August 31. The County of Sacramento bills and collects taxes for the County Office. Tax revenues are recognized by the County Office when received.

U. ELIMINATIONS AND RECLASSIFICATIONS

In the process of aggregating data for the Statement of Net Position and the Statement of Activities, some amounts reported as interfund activity and balances in the funds were eliminated or reclassified. Interfund receivables and payables were eliminated to minimize the "grossing up" effect on assets and liabilities within the governmental activities column.

V. 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 at June 30.

W. USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities and the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Accordingly, actual results may differ from those estimates.

SACRAMENTO COUNTY OFFICE OF EDUCATION

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2016

X. PENSIONS

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the County Office's California Public Employees' Retirement System (CalPERS) and California State Teachers Retirement System (CalSTRS) plans (Plans) and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by CalPERS and CalSTRS, respectively. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

2. CASH AND CASH EQUIVALENTS

Cash and investments as of June 30, 2016 consist of the following:

	Governmental Activities	Fiduciary Activities
	<u> </u>	<u> </u>
Pooled Funds:		
Cash in County Treasury	\$ 69,475,126	\$ 38,576
Deposits:		
Revolving cash fund	30,000	-
Cash on hand and in banks	-	11,214
Cash awaiting deposit	76,462	-
Cash with Fiscal Agent:		
Restricted for retiree benefits	<u> -</u>	<u>29,874,056</u>
	<u>\$ 69,581,588</u>	<u>\$ 29,923,846</u>

Investments, including derivative instruments that are not hedging derivatives, are measured at fair value on a recurring basis. Recurring fair value measurements are those that Governmental Accounting Standards Board (GASB) Statements require or permit in the statement of net position at the end of each reporting period. Fair value measurements are categorized based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments' fair value measurements at June 30, 2016 are as shown below:

Description	Level 1	Level 2	Level 3	Total
Cash in County Treasury	\$ 27,945,378	\$ 41,529,748	\$ -	\$ 69,475,126
Restricted for retiree benefits*	-	-	-	29,874,056
Total	<u>\$ 27,945,378</u>	<u>\$ 41,529,748</u>	<u>\$ -</u>	<u>\$ 99,349,182</u>

*Information needed to categorize based on valuation inputs is not available from PERS

SACRAMENTO COUNTY OFFICE OF EDUCATION

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2016

CASH AND CASH EQUIVALENTS (CONTINUED)

A. Cash in County Treasury

In accordance with Education Code Section 41001, the County Office maintains substantially all of its cash in the Sacramento County Treasury. The Sacramento County Treasury pools these funds with those of other districts and agencies within the County in the interest bearing Sacramento County Treasurer's Pooled Surplus Investment Fund. These pooled funds are recorded at cost which approximates fair value. Interest earned is deposited quarterly into participating funds. Any investment losses are proportionately shared by all funds in the pool.

Because the County Office's deposits are maintained in a recognized pooled investment fund under the care of a third party and the County Office's share of the pool does not consist of specific, identifiable investment securities owned by the County Office, no disclosure of the individual deposits and investments or related custodial credit risk classification is required.

In accordance with applicable state laws, the Sacramento County Treasurer may invest in derivative securities. However, at June 30, 2016, the Sacramento County Treasurer has indicated that the Treasurer's Pooled Surplus Investment Fund contained no derivatives or other investments with similar risk profiles.

Custodial Credit Risk The County Office limits custodial credit risk by ensuring uninsured balances are collateralized by the respective financial institution. Cash balances held in banks are insured up to \$250,000 by the Federal Deposit Insurance Corporation (FDIC) and are collateralized by the respective financial institution. At June 30, 2016, the carrying amount and the bank balance of the County Office's accounts were \$117,676, all of which was insured.

Cash with Fiscal Agent Cash with Fiscal Agent in the Retiree Benefits Fund of \$29,874,056 is deposited in an irrevocable trust with California Public Employees' Retirement System for pre-funding of health benefits promised employees when they retire.

Interest Rate Risk It is the County Office's policy to limit cash and investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. At June 30, 2016, the County Office had no significant interest rate risk related to cash and investments held.

Credit Risk It is the County Office's policy to limit its investment choices in addition to the limitations of state law.

Concentration of Credit Risk The County Office does not place limits on the amount it may invest in any one issuer. At June 30, 2016, the County Office had no concentration of credit risk.

SACRAMENTO COUNTY OFFICE OF EDUCATION

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2016

3. INTERFUND ACTIVITIES

Transactions between funds of the County Office are recorded as interfund transfers. The unpaid balances at year-end, as a result of such transactions, are shown as due to and due from other funds.

Due From/Due to Other Funds

Amounts Due From/Due To other funds, at June 30, 2016, were as follows:

Fund	Interfund Receivables	Interfund Payables
<u>Governmental Activities</u>		
<u>Major Funds:</u>		
County School Service	\$ 897,750	\$ 3,673,958
Special Education Pass-Through	3,627,036	393,167
<u>Non-Major Fund:</u>		
Adult Education Fund	-	40,708
Child Development	14,957	431,882
County School Facilities Fund	-	28
Total	\$ 4,539,743	\$ 4,539,743

Interfund Transfers

Amounts transferred, for the year ended June 30, 2016, were as follows:

Transfer from the County School Service Fund to the Child Development Fund to cover expenditures due to salary and benefit increases not covered by grants.	\$ 10,869
Total Transfers	\$ 10,869

SACRAMENTO COUNTY OFFICE OF EDUCATION

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2016

4. CAPITAL ASSETS

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

	Balance July 1, 2015	Additions and Transfers	Deductions and Transfers	Balance June 30, 2016
Non-depreciable assets:				
Land	\$ 2,725,573	\$ -	\$ -	\$ 2,725,573
Work in-process	-	520,129	-	520,129
	<u>2,725,573</u>	<u>520,129</u>	<u>-</u>	<u>3,245,702</u>
Depreciable assets:				
Improvements on sites	1,013,043	31,185	-	1,044,228
Building	35,786,156	-	165,907	35,620,249
Equipment	6,553,049	244,286	224,580	6,572,755
	<u>43,352,248</u>	<u>275,471</u>	<u>390,487</u>	<u>43,237,232</u>
Totals, at cost	<u>46,077,821</u>	<u>795,600</u>	<u>390,487</u>	<u>46,482,934</u>
Less accumulated depreciation:				
Improvement of sites	(298,470)	(50,566)	-	(349,036)
Building	(15,983,031)	(1,078,755)	(144,589)	(16,917,197)
Equipment	(5,334,005)	(327,365)	(217,545)	(5,443,825)
Total accumulated depreciation	<u>(21,615,506)</u>	<u>(1,456,686)</u>	<u>(362,134)</u>	<u>(22,710,058)</u>
Capital assets, net	<u>\$ 24,462,315</u>	<u>\$ (661,086)</u>	<u>\$ 28,353</u>	<u>\$ 23,772,876</u>

For the year ended June 30, 2016, depreciation expense was charged to governmental activities as follows:

Instruction	\$ 399,539
Supervision of instruction	28,195
School site administration	161,675
All other pupil services	19,933
Enterprise activities	47,485
Centralized data processing	98,816
Plant services	126,465
Other general administration	<u>574,578</u>
Total depreciation expense	<u>\$ 1,456,686</u>

SACRAMENTO COUNTY OFFICE OF EDUCATION

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2016

5. LONG-TERM LIABILITIES

Refunding Lease-Purchase

On March 1, 2013, the County Office entered into a lease purchase agreement with School Projects Financing Corporation of Sacramento County for current refunding of the 1999 Refunding Certificates of Participation and 2002 Certificates of Participation, Series A. The 2013 Refunding Lease-Purchase matures through 2027 with an effective interest rate of 3.50% as follows:

Year Ended June 30,	Principal	Interest	Total
2017	\$ 680,000	\$ 164,850	\$ 844,850
2018	705,000	141,050	846,050
2019	730,000	116,375	846,375
2020	285,000	90,825	375,825
2021	295,000	80,850	375,850
2022-2026	1,650,000	241,325	1,891,325
2027-2031	<u>365,000</u>	<u>12,775</u>	<u>377,775</u>
Totals	<u>\$ 4,710,000</u>	<u>\$ 848,050</u>	<u>\$5,558,050</u>

Schedule of Changes in Long-Term Liabilities

A schedule of changes in long-term liabilities for the fiscal year ended June 30, 2016 is shown below:

	Balance July 1, 2015	Additions	Deductions	Balance June 30, 2016	Due Within One Year
Refunding lease-purchase	\$ 5,370,000	\$ -	\$ 660,000	\$ 4,710,000	\$ 680,000
Net pension liability	51,773,926	7,984,806	-	59,758,732	-
Net OPEB obligation (asset)	(418,151)	4,510,586	4,049,292	43,143	-
Compensated absences	<u>990,984</u>	<u>112,862</u>	<u>-</u>	<u>1,103,846</u>	<u>1,103,846</u>
	<u>\$ 57,716,759</u>	<u>\$ 12,608,254</u>	<u>\$ 4,709,292</u>	<u>\$ 65,615,721</u>	<u>\$ 1,783,846</u>

Payments on the refunding lease-purchase agreements are made from the County School Service Fund and Capital Facilities Fund. Payments on the compensated absences and other postemployment benefits are made from the fund for which the related employee worked.

SACRAMENTO COUNTY OFFICE OF EDUCATION

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2016

6. EMPLOYEE RETIREMENT SYSTEMS

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

California Public Employees' Retirement System (CalPERS)

Plan Description

The County Office contributes to the School Employer Pool under the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by state statutes, as legislatively amended, within the Public Employees' Retirement Law. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, California 95814.

State Teachers' Retirement System (STRS)

Plan Description

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

The Plans' provisions and benefits in effect at June 30, 2016, are summarized as follows:

	CalPERS		STRS	
	Prior to January 1, 2013	On or after January 1, 2013	Prior to January 1, 2013	On or after January 1, 2013
Hire date				
Benefit formula	2% @ 55	2% @ 60	2% @60	2% @ 62
Benefit vesting schedule	5 years service	5 years service	5 years service	5 years service
Benefit payments	monthly for life	monthly for life	monthly for life	monthly for life
Retirement age	55	60	60	62
Monthly benefits, as a % of eligible compensation	2.0%	2.0%	2.0%	2.0%
Required employee contribution rates	7%	6%	8.15%	8.15%
Required employer contribution rates	11.847%	11.847%	10.73%	10.73%

SACRAMENTO COUNTY OFFICE OF EDUCATION

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2016

6. EMPLOYEE RETIREMENT SYSTEMS (CONTINUED)

Deferred Outflows/Inflows of Resources

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. Funding contributions for the Plans are determined annually on an actuarial basis as of June 30 by CalPERS. 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. Sacramento County Office of Education is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

STRS

Required member, employer and state contribution rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. Contribution rates are expressed as a level percentage of payroll using the entry age normal actuarial cost method.

For the year ended June 30, 2016, the contributions reported as deferred outflows of resources related to pensions recognized as part of pension expense for the Plan were:

	<u>CalPERS</u>	<u>STRS</u>	<u>Total Deferred Outflows</u>
Contributions -employer	\$ 2,883,518	\$ 2,277,301	\$ 5,160,819
On behalf contributions - state	-	1,433,998	1,433,998
Total	<u>\$ 2,883,518</u>	<u>\$ 3,711,299</u>	<u>\$ 6,594,817</u>

The amounts reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016.

Other amounts reported as deferred inflows and outflows of resources related to pensions will be recognized as pension expense as follows:

<u>Year Ended June 30</u>	<u>CalPERS</u>	<u>STRS</u>	<u>Total Deferred (Inflows)/Outflows of Resources</u>
2017	\$ (629,768)	\$ (693,947)	\$ (1,323,715)
2018	(629,768)	(693,947)	(1,323,715)
2019	(629,768)	(693,947)	(1,323,715)
2020	(629,768)	(693,947)	(1,323,715)
Total	<u>\$ (2,519,072)</u>	<u>\$ (2,775,788)</u>	<u>\$ (5,294,860)</u>

SACRAMENTO COUNTY OFFICE OF EDUCATION

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2016

6. EMPLOYEE RETIREMENT SYSTEMS (CONTINUED)

At June 30, 2016, the County Office reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>CalPERS</u>		<u>STRS</u>		<u>Total</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Pension contributions subsequent to measurement date	\$ 2,883,518	\$ -	\$ 3,711,299	\$ -	\$ 6,594,817	\$ -
Difference between proportionate share of aggregate employer contributions and actual contributions for 2014-15.	95,646	-	387,351	-	482,997	-
Change in employer's proportion and differences between proportionate share of contributions	-	3,328,323	-	1,397,345	-	4,725,668
Net differences between projected and actual earnings on plan investments	1,780,115	1,066,511	-	1,765,795	1,780,115	2,832,306
Total	<u>\$ 4,759,279</u>	<u>\$ 4,394,834</u>	<u>\$ 4,098,650</u>	<u>\$ 3,163,140</u>	<u>\$ 8,857,929</u>	<u>\$ 7,557,974</u>

Pension Liabilities

As of June 30, 2016, Sacramento County Office of Education reported net pension liabilities for its proportionate share of the net pension liability of the Plans' of:

	<u>Proportionate Share of Net Pension Liability</u>
CalPERS	\$ 31,147,323
STRS	28,611,409
Total Net Pension Liability	<u>\$ 59,758,732</u>

Sacramento County Office of Education's net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plan is measured as of June 30, 2015, and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014 rolled forward to June 30, 2015 using standard update procedures. Sacramento County Office of Education's proportion of the net pension liability was based on a projection of the County Office's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. The County Office's proportionate share of the net pension liability for the Plan as of June 30, 2014 and 2015 was as follows:

	<u>CalPERS</u>	<u>STRS</u>
Proportion - June 30, 2014	0.22390%	0.04510%
Proportion - June 30, 2015	0.21131%	0.04250%
Change - Increase (Decrease)	<u>-0.01259%</u>	<u>-0.00260%</u>

Pension Expenses

For the year ended June 30, 2016, the County Office recognized pension expense of \$614,351 and \$2,206,982 for CalPERS and STRS, respectively.

SACRAMENTO COUNTY OFFICE OF EDUCATION

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2016

6. EMPLOYEE RETIREMENT SYSTEMS (CONTINUED)

Actuarial Assumptions

The total pension liabilities in the June 30, 2014 actuarial valuations were determined using the following actuarial assumptions:

	<u>CalPERS</u>	<u>STRS</u>
Valuation Date	June 30, 2014	June 30, 2014
Measurement Date	June 30, 2015	June 30, 2015
Actuarial Cost Method	Entry-Age Normal Cost	Entry-Age Normal Cost
Actuarial Assumptions		
Discount Rate	7.65%	7.60%
Inflation	2.75%	3.00%
Payroll Growth Rate	3.00%	3.75%
Projected Salary Increase	Varies by Entry Age and Service	Varies by Entry Age and Service
Investment Rate of Return (1)	7.50%	7.60%
Mortality	Derived using CalPERS' Membership Data for all Funds	Derived using STRS' Membership Data for all Funds

(1) Net of pension plan investment expenses, including inflation

Discount Rate

CalPERS

The discount rate used to measure the total pension liability was 7.65% for the Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, 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 7.65 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.65 percent will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained from the CalPERS website under the GASB 68 section.

According to Paragraph 30 of Statement 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.50 percent investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65 percent. Using this lower discount rate has resulted in a slightly higher Total Pension Liability and Net Pension Liability. CalPERS checked the materiality threshold for the difference in calculation and did not find it to be a material difference.

SACRAMENTO COUNTY OFFICE OF EDUCATION

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2016

6. EMPLOYEE RETIREMENT SYSTEMS (CONTINUED)

Discount Rate

CalPERS

CalPERS is scheduled to review all actuarial assumptions as part of its 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, CalPERS expects to continue using a discount rate net of administrative expenses for GASB 67 and 68 calculations through at least the 2017-18 fiscal year. CalPERS will continue to check the materiality of the difference in calculation until such time as we have changed our 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, 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 the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects 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.

<u>Asset Class</u>	<u>CalPERS</u>		
	<u>New Strategic Allocation</u>	<u>Real Return Years 1 - 10(a)</u>	<u>Real Return Years 11+(b)</u>
Global Equity	47.0%	5.25%	5.71%
Global Fixed Income	19.0%	0.99%	2.43%
Inflation Sensitive	6.0%	0.45%	3.36%
Private Equity	12.0%	6.83%	6.95%
Real Estate	11.0%	4.50%	5.13%
Infrastructure and Forestland	3.0%	4.50%	5.09%
Liquidity	2.0%	-0.55%	-1.05%
	<u>100.0%</u>		

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

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

SACRAMENTO COUNTY OFFICE OF EDUCATION

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2016

6. EMPLOYEE RETIREMENT SYSTEMS (CONTINUED)

Discount Rate

STRS

The discount rate used to measure the total pension liability was 7.60 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at statutory contribution rates in accordance with the rate increase per AB 1469. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.60 percent) and assuming that contributions, benefit payments and administrative expense occur midyear. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

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.

<u>Asset Class</u>	<u>STRS</u>	
	<u>Assumed Asset Allocation</u>	<u>Long-Term Expected Real Rate of</u>
Global Equity	55.0%	4.50%
Private Equity	17.0%	6.20%
Real Estate	13.0%	4.35%
Inflation Sensitive	13.0%	3.20%
Fixed Income	1.0%	0.20%
Cash/Liquidity	1.0%	0.00%
Total	<u>100%</u>	

SACRAMENTO COUNTY OFFICE OF EDUCATION

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2016

6. EMPLOYEE RETIREMENT SYSTEMS (CONTINUED)

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

The following presents the County Office's proportionate share of the net pension liability 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:

CalPERS			
	Discount Rate - 1% (6.65%)	Current Discount Rate (7.65%)	Discount Rate + 1% (8.65%)
Plan's Net Pension Liability	\$ 50,694,863	\$ 31,147,323	\$ 14,892,237

STRS			
	Discount Rate - 1% (6.60%)	Current Discount Rate (7.60%)	Discount Rate + 1% (8.60%)
Plan's Net Pension Liability	\$ 43,201,001	\$ 28,611,409	\$ 16,486,281

Pension Plan Fiduciary Net Position

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

Payable to the Pension Plan

As of June 30, 2016, the County Office had no outstanding required contributions to the pension plans.

SACRAMENTO COUNTY OFFICE OF EDUCATION

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2016

7. FUND BALANCES

The County Office reports fund balances in accordance with Governmental Accounting Standards Board Statement No. 54. All fund balance categories are reported in the aggregate on the face of the balance sheet. All components of those fund balances and specific purposes are identified as follows:

Fund Balances, by category, consisted of the following at June 30, 2016:

	County School Service Fund	Special Education Pass- Through	Non-Major Funds	Total
Nonspendable:				
Revolving cash	\$ 30,000	\$ -	\$ -	\$ 30,000
Prepaid Expenditures	277,568	-	-	277,568
Subtotal Nonspendable	<u>307,568</u>	<u>-</u>	<u>-</u>	<u>307,568</u>
Restricted for:				
Adult Education Block Grant Program	-	-	2,025,001	2,025,001
Medi-Cal Billing Option	451,458	-	-	451,458
California Clean Energy Jobs Act	58,745	-	-	58,745
Educator Effectiveness	206,346	-	-	206,346
Lottery: Instructional Materials	342,240	-	-	342,240
Special Education	3,095,848	-	-	3,095,848
Special Ed: Early Ed Individuals with Exceptional Needs	702,882	-	-	702,882
Special Ed: Mental Health Services	345,557	1,880,520	-	2,226,077
Quality Education Investment Act	147,266	-	-	147,266
Other Restricted Local	280,775	-	355,828	636,603
Subtotal Restricted	<u>5,631,117</u>	<u>1,880,520</u>	<u>2,380,829</u>	<u>9,892,466</u>
Assigned:				
Other Assignments	24,900,282	-	16,384	24,916,666
	<u>24,900,282</u>	<u>-</u>	<u>16,384</u>	<u>24,916,666</u>
Unassigned:				
Economic uncertainties	1,980,000	-	-	1,980,000
Other unassigned	27,397,591	-	-	27,397,591
	<u>29,377,591</u>	<u>-</u>	<u>-</u>	<u>29,377,591</u>
Total	<u>\$ 60,216,558</u>	<u>\$ 1,880,520</u>	<u>\$ 2,397,213</u>	<u>\$ 64,494,291</u>

SACRAMENTO COUNTY OFFICE OF EDUCATION

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2016

8. OTHER POSTEMPLOYMENT BENEFITS

In addition to the pension benefits described in Note 6, the County Office participates in an agent multiple-employer retiree benefit plan that provides postemployment health insurance benefits to eligible employees. This plan is California Employers' Retiree Benefit Trust (CERBT), administered by CalPERS. Currently the plan provides for monthly health benefits to eligible retirees. Benefit provisions are established by labor agreements and may be amended by such for current active employees and are approved by the Sacramento County Superintendent of Schools. In the fiscal year June 30, 2008, the County signed an irrevocable trust agreement and began accumulating funds in a Trust Fund, presented as the Retiree Benefits Trust Fund. Separate financial statements are prepared for the Plan and may be obtained by contacting CalPERS.

The County Office's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Cod. Sec. P50.108-109. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The following table shows the components of the County Office's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the County Office's net OPEB obligation:

Annual Required Contribution (ARC)	\$4,233,734
Interest on Net OPEB Obligation	(30,441)
Adjustment to annual required contribution	<u>307,293</u>
Annual OPEB cost	4,510,586
Contributions made	<u>(4,049,292)</u>
Change in Net OPEB obligation	461,294
Net OPEB obligation (asset) - beginning of year	<u>(418,151)</u>
Net OPEB obligation (asset) - end of year	<u><u>\$ 43,143</u></u>

The County Office's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for June 30, 2016 and preceding two years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Employer Contribution	Percentage of Annual OPEB Cost Contributed	Net Ending OPEB Obligation/ (Asset)
June 30, 2014	\$ 2,395,997	\$ 2,815,817	117.5%	\$ 264,466
June 30, 2015	\$ 2,444,810	\$ 3,127,427	127.9%	\$ (418,151)
June 30, 2016	\$ 4,510,586	\$ 4,049,292	89.8%	\$ 43,143

SACRAMENTO COUNTY OFFICE OF EDUCATION

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2016

8. OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

As of July 1, 2015, the most recent actuarial valuation date, the plan was 41 percent funded. The actuarial accrued liability for benefits was \$68,297,772, and the actuarial value of assets was \$28,330,970, resulting in an unfunded actuarial accrued liability (UAAL) of \$39,966,802. The covered payroll (annual payroll of active employees covered by the Plan) was \$38,076,985, and the ratio of the UAAL to the covered payroll was 105 percent.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2015, actuarial valuation, the entry age normal actuarial cost method was used. The actuarial assumptions included a 7.28 percent investment rate (net of administrative expenses), which is based on assumed long-term investment returns on plan assets or the employer's assets, and an annual healthcare cost trend rate of 8 percent initially, reduced by increments of .50 percent until 4.64 percent is reached in year 2025. Both rates included a 2.75 percent inflation assumption. The UAAL is being amortized as a level percentage of projected payroll. The remaining amortization period at June 30, 2016, was 22 years.

See required supplementary information following the notes to the basic financial statements, which presents multi-year trend information on whether assets are increasing or decreasing over time relative to plan liabilities.

SACRAMENTO COUNTY OFFICE OF EDUCATION

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2016

9. JOINT VENTURES

Schools Insurance Authority

The County Office is a member of a Joint Powers Authority, Schools Insurance Authority for the operation of a common risk management and insurance program for property, liability and workers' compensation coverage. The following is a summary of financial information for Schools Insurance Authority for the year ended June 30, 2015:

Total assets	\$	121,132,593
Deferred outflow of resources	\$	590,244
Total liabilities	\$	58,450,882
Deferred inflow of resources	\$	1,112,114
Total net position	\$	62,159,841
Total revenues	\$	49,370,021
Total expenses	\$	48,719,900

(June 30, 2015 financial information was the latest available information.)

The relationship between the County Office and the Joint Powers Authority is such that the joint powers authority is not a component unit of the County Office for financial reporting purposes. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

10. COMMITMENTS AND CONTINGENCIES

The County Office is subject to legal proceedings and claims which arise in the ordinary course of business. In the opinion of management, the amount of ultimate liability with respect to these actions will not materially affect the financial position or results of operations of the County Office.

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

11. SUBSEQUENT EVENTS

The County Office's management evaluated its June 30, 2016 financial statements for subsequent events through December 14, 2016, the date the financial statements were available to be issued. Management is not aware of any subsequent events that would require recognition or disclosure in the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

SACRAMENTO COUNTY OFFICE OF EDUCATION
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE – BUDGET (NON-GAAP) AND ACTUAL
COUNTY SCHOOL SERVICE FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	<u>Budget</u>		<u>Actual</u>	Variance with Final Budget Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>		
REVENUES				
LCFF sources	\$ 31,037,620	\$ 30,337,052	\$ 30,337,045	\$ (7)
Federal revenue	9,625,134	9,944,437	9,944,423	(14)
Other state revenues	17,874,182	23,401,869	23,401,858	(11)
Other local revenues	31,091,292	30,877,536	30,877,465	(71)
Total revenues	<u>89,628,228</u>	<u>94,560,894</u>	<u>94,560,791</u>	<u>(103)</u>
EXPENDITURES				
Certificated salaries	21,914,830	21,782,756	21,782,711	45
Classified salaries	25,903,289	24,772,091	24,772,016	75
Employee benefits	15,207,760	16,111,041	16,110,566	475
Books and supplies	2,422,170	2,534,566	2,534,485	81
Services and other operating expenditures	14,475,727	15,507,627	15,507,515	112
Capital outlay	179,642	795,603	795,596	7
Other outgo	4,635,235	5,579,572	5,579,572	-
Debt service:				
Principal retirement	<u>660,000</u>	<u>660,000</u>	<u>660,000</u>	<u>-</u>
Total expenditures	<u>85,398,653</u>	<u>87,743,256</u>	<u>87,742,461</u>	<u>795</u>
Excess (deficiency) of revenues over expenditures	4,229,575	6,817,638	6,818,330	692
OTHER FINANCING SOURCES (USES)				
Operating transfers in	14,000	-	-	-
Operating transfers out	<u>(126,930)</u>	<u>(10,871)</u>	<u>(10,869)</u>	<u>2</u>
Total other financing sources (uses)	<u>(112,930)</u>	<u>(10,871)</u>	<u>(10,869)</u>	<u>2</u>
Net change in fund balances	4,116,645	6,806,767	6,807,461	694
Fund balances, July 1, 2015	<u>53,409,097</u>	<u>53,409,097</u>	<u>53,409,097</u>	<u>-</u>
Fund balances, June 30, 2016	<u>\$ 57,525,742</u>	<u>\$ 60,215,864</u>	<u>\$ 60,216,558</u>	<u>\$ 694</u>

SACRAMENTO COUNTY OFFICE OF EDUCATION
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE – BUDGET (NON-GAAP) AND ACTUAL
SPECIAL EDUCATION PASS-THROUGH FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	<u>Budget</u>		<u>Actual</u>	Variance with Final Budget Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>		
REVENUES				
LCFF sources	\$ 11,558,104	\$ 15,660,527	\$ 15,660,527	\$ -
Federal revenue	-	11,451,195	11,451,195	-
Other state revenues	<u>18,740,671</u>	<u>16,230,863</u>	<u>16,230,863</u>	<u>-</u>
Total revenues	30,298,775	43,342,585	43,342,585	-
EXPENDITURES				
Other outgo	<u>30,298,775</u>	<u>43,260,981</u>	<u>43,260,980</u>	<u>1</u>
Net change in fund balances	-	81,604	81,605	(1)
Fund balances, July 1, 2015	<u>1,798,915</u>	<u>1,798,915</u>	<u>1,798,915</u>	<u>-</u>
Fund balances, June 30, 2016	<u>\$ 1,798,915</u>	<u>\$ 1,880,519</u>	<u>\$ 1,880,520</u>	<u>\$ 1</u>

SACRAMENTO COUNTY OFFICE OF EDUCATION
SCHEDULE OF OTHER POSTEMPLOYMENT BENEFITS (OPEB)
FUNDING PROGRESS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

Actuarial Valuation Date	Actuarial Accrued Liability (AAL) Entry Age (a)	Actuarial Value of Assets (b)	Unfunded Liability (UAAL) (a-b)	Funded Status (b/a)	Annual Covered Payroll (c)	UAAL as a % of payroll ([a-b]/c)
July 1, 2011	\$ 41,484,928	\$ 18,848,794	\$ 22,636,134	45%	\$ 41,010,790	55%
July 1, 2013	\$ 43,499,428	\$ 22,174,043	\$ 21,325,385	51%	\$ 42,068,999	51%
July 1, 2015	\$ 68,297,772	\$ 28,330,970	\$ 39,966,802	41%	\$ 38,076,985	105%

SACRAMENTO COUNTY OFFICE OF EDUCATION

SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

FOR THE FISCAL YEAR ENDED JUNE 30, 2016

CalPERS		
	June 30, 2014	June 30, 2015 ⁽¹⁾
Proportion of the net pension liability	0.22390%	0.21131%
Proportionate share of the net pension liability	\$ 25,417,637	\$ 31,147,323
Covered-employee payroll ⁽²⁾	\$ 23,505,541	\$ 23,243,969
Proportionate Share of the net pension liability as percentage of covered-employee payroll	108.13%	134.00%
Plans fiduciary net position as a percentage of the total pension liability	83.38%	79.43%
Proportionate share of aggregate employer contributions ⁽³⁾	\$ 2,689,269	\$ 2,753,713
STRS		
	June 30, 2014	June 30, 2015 ⁽¹⁾
Proportion of the net pension liability	0.04510%	0.04250%
Proportionate share of the net pension liability	\$ 26,356,289	\$ 28,611,409
Covered-employee payroll ⁽²⁾	\$ 20,088,582	\$ 16,324,427
Proportionate Share of the net pension liability as percentage of covered-employee payroll	131.20%	175.27%
Plans fiduciary net position as a percentage of the total pension liability	76.52%	74.02%
Proportionate share of aggregate employer contributions ⁽³⁾	\$ 1,657,308	\$ 1,751,611

⁽¹⁾ Historical information is required only for measurement periods for which GASB 68 is applicable.

⁽²⁾ Covered-Employee Payroll represented above is based on pensionable earnings provided by the employer.

⁽³⁾ The plan's proportionate share of aggregate contributions may not match the actual contributions made by the employer during the measurement period. The plan's proportionate share of aggregate contributions is based on the plan's proportion of fiduciary net position shown on line 5 of the table above as well as any additional side fund (or unfunded liability) contributions made by the employer during the measurement period.

SACRAMENTO COUNTY OFFICE OF EDUCATION

SCHEDULE OF PENSION CONTRIBUTIONS

FOR THE FISCAL YEAR ENDED JUNE 30, 2016

<u>CalPERS</u>		
	<u>Fiscal Year 2013-14</u>	<u>Fiscal Year 2014-15⁽¹⁾</u>
Actuarially Determined Contribution (2)	\$ 2,689,269	\$ 2,753,713
Contributions in relation to the actuarially determined contributions	<u>(2,505,252)</u>	<u>(2,883,518)</u>
Contribution deficiency (excess)	<u>\$ 184,017</u>	<u>\$ (129,805)</u>
Covered-employee payroll (3)	\$ 23,505,541	\$ 23,243,969
Contributions as a percentage of covered-employee payroll(3)	11.441%	11.847%
<u>STRS</u>		
	<u>Fiscal Year 2013-14⁽¹⁾</u>	<u>Fiscal Year 2014-15⁽¹⁾</u>
Actuarially Determined Contribution (2)	\$ 1,657,308	\$ 1,751,611
Contributions in relation to the actuarially determined contributions	<u>(1,660,213)</u>	<u>(2,277,301)</u>
Contribution deficiency (excess)	<u>\$ (2,905)</u>	<u>\$ (525,690)</u>
Covered-employee payroll (3)	\$ 20,088,582	\$ 16,324,427
Contributions as a percentage of covered-employee payroll(3)	8.250%	10.730%

⁽¹⁾ Historical information is required only for measurement periods for which GASB 68 is applicable.

⁽²⁾ Employers are assumed to make contributions equal to the actuarially determined contributions (which is the actuarially determined contribution). However, some employers may choose to make additional contributions towards their side fund or their unfunded liability. Employer contributions for such plans exceed the actuarially determined contributions. CalPERS has determined that employer obligations referred to as "side funds" do not conform to the circumstances described in paragraph 120 of GASB 68, therefore are not considered separately financed specific liabilities.

⁽³⁾ Covered-Employee Payroll represented above is based on pensionable earnings provided by the employer.

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

1. PURPOSE OF SCHEDULES

A - Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual

The County Office employs budget control by object codes and by individual appropriation accounts. Budgets are prepared on the modified accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board. The budgets are revised during the year by the Board of Education to provide for revised priorities. Expenditures cannot legally exceed appropriations by major object code. The originally adopted and final revised budgets for the County School Service and Special Education Pass-Through Funds are presented as Required Supplementary Information. The basis of budgeting is the same as GAAP.

B - Schedule of Other Postemployment Benefits (OPEB) Funding Progress

The Schedule of Other Postemployment Benefits Funding Progress presents multi-year trend information which compares, over time, the actuarially accrued liability for benefits with the actuarial value of accumulated plan assets.

C - Schedule of Proportionate Share of the Net Pension Liability

Because of actuary changes in assumptions, in 2016, amounts reported resulted primarily from adjustments to expected retirement ages of general employees.

Fiscal year 2015 was the 1st year of implementation, therefore only two years are shown.

D - Schedule of Pension Contributions

If an employer's contributions to the plan are actuarially determined or based on statutory or contractual requirements, the employer's actuarially determined contribution to the pension plan (or, if applicable, its statutorily or contractually required contribution), the employer's actual contributions, the difference between the actual and actuarially determined contributions (or statutorily or contractually required), and a ratio of the actual contributions divided by covered-employee payroll.

	<u>CalPERS</u>	<u>STRS</u>
Valuation Date	June 30, 2014	June 30, 2014
Measurement Date	June 30, 2015	June 30, 2015
Actuarial Cost Method	Entry-Age Normal Cost	Entry-Age Normal Cost
Actuarial Assumptions		
Discount Rate	7.65%	7.60%
Inflation	2.75%	3.00%
Payroll Growth Rate	3.00%	3.75%
Projected Salary Increase	Varies by Entry Age and Service	Varies by Entry Age and Service
Investment Rate of Return (1)	7.50%	7.60%
Mortality	Derived using CalPERS' Membership Data for all Funds	Derived using STRS' Membership Data for all Funds

(1) Net of pension plan investment expenses, including inflation

SUPPLEMENTARY INFORMATION

SACRAMENTO COUNTY OFFICE OF EDUCATION

COMBINING BALANCE SHEET

NON-MAJOR FUNDS

JUNE 30, 2016

	Adult Education Fund	Child Development Fund	Capital Facilities Fund	County School Facilities Fund	Total
ASSETS					
Cash and cash equivalents	\$ 2,094,827	\$ 266,435	\$ 354,124	\$ -	\$ 2,715,386
Accounts receivable	6,078	2,144,946	1,704	28	2,152,756
Due from other funds	<u>-</u>	<u>14,957</u>	<u>-</u>	<u>-</u>	<u>14,957</u>
Total Assets	<u>\$ 2,100,905</u>	<u>\$ 2,426,338</u>	<u>\$ 355,828</u>	<u>\$ 28</u>	<u>\$ 4,883,099</u>
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable	\$ 29,342	\$ 418,558	\$ -	\$ -	\$ 447,900
Unearned revenue	-	1,565,368	-	-	1,565,368
Due to other funds	<u>40,708</u>	<u>431,882</u>	<u>-</u>	<u>28</u>	<u>472,618</u>
Total Liabilities	<u>70,050</u>	<u>2,415,808</u>	<u>-</u>	<u>28</u>	<u>2,485,886</u>
Fund balances					
Restricted	2,025,001	-	355,828	-	2,380,829
Assigned	<u>5,854</u>	<u>10,530</u>	<u>-</u>	<u>-</u>	<u>16,384</u>
Total Fund Balances	<u>2,030,855</u>	<u>10,530</u>	<u>355,828</u>	<u>-</u>	<u>2,397,213</u>
Total Liabilities and Fund Balances	<u>\$ 2,100,905</u>	<u>\$ 2,426,338</u>	<u>\$ 355,828</u>	<u>\$ 28</u>	<u>\$ 4,883,099</u>

SACRAMENTO COUNTY OFFICE OF EDUCATION

**COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES**

NON-MAJOR FUNDS

JUNE 30, 2016

	Adult Education Fund	Child Development Fund	Capital Facilities Fund	County School Facilities Fund	Totals
REVENUES					
Federal revenue	\$ -	\$ 2,273,336	\$ -	\$ -	\$ 2,273,336
Other state revenues	6,907,301	4,744,060	-	(138,631)	11,512,730
Other local revenues	5,854	1,320,805	122,806	28	1,449,493
Total revenues	<u>6,913,155</u>	<u>8,338,201</u>	<u>122,806</u>	<u>(138,603)</u>	<u>15,235,559</u>
EXPENDITURES					
Certificated salaries	131,312	493,762	-	-	625,074
Classified salaries	54,515	1,816,207	-	-	1,870,722
Employee benefits	57,822	761,921	-	-	819,743
Books and supplies	18,195	273,099	-	-	291,294
Services and other operating expenditures	160,268	4,562,759	-	-	4,723,027
Capital outlay	-	-	-	-	-
Other outgo	4,460,188	430,792	-	-	4,890,980
Debt service expenditures	-	-	187,950	-	187,950
Total expenditures	<u>4,882,300</u>	<u>8,338,540</u>	<u>187,950</u>	<u>-</u>	<u>13,408,790</u>
Excess (deficiency) of revenues over expenditures	2,030,855	(339)	(65,144)	(138,603)	1,826,769
OTHER FINANCING SOURCES (USES)					
Operating transfers in	-	10,869	-	-	10,869
Total other financing sources (uses)	<u>-</u>	<u>10,869</u>	<u>-</u>	<u>-</u>	<u>10,869</u>
Net change in fund balances	2,030,855	10,530	(65,144)	(138,603)	1,837,638
Fund balances, July 1, 2015	<u>-</u>	<u>-</u>	<u>420,972</u>	<u>138,603</u>	<u>559,575</u>
Fund balances, June 30, 2016	<u>\$ 2,030,855</u>	<u>\$ 10,530</u>	<u>\$ 355,828</u>	<u>\$ -</u>	<u>\$ 2,397,213</u>

SACRAMENTO COUNTY OFFICE OF EDUCATION

ORGANIZATION

JUNE 30, 2016

The Sacramento County Office of Education operates a variety of programs for children, youth, and families and also supports schools throughout Sacramento County with academic, business, consulting and vocational services. The County Office educates children with special needs, children who have been referred by other public agencies, and youth who are wards of the Juvenile Court. Through specific programs and grants, the County Office provides educational services to preschool children, youth and adults. As the intermediary between the California Department of Education and local school districts, the County Office represents the districts on matters before the State government, and carries out responsibilities mandated by statutes and regulations.

GOVERNING BOARD

<u>Name</u>	<u>Office</u>	<u>Term Expires December</u>
Eleanor L. Brown	President	2016
Thomaysa M. Glover	Vice President	2016
Harold Fong	Member	2016
Jacquelyn Levy	Member	2018
Greg Geeting	Member	2018
Brian M. Rivas	Member	2018
John C. Scribner	Member	2016

ADMINISTRATION

David W. Gordon
County Superintendent

Sue Stickel
Deputy Superintendent

Teresa Stinson
General Counsel

John Fleischman
Assistant Superintendent, Technology Services

Robin M. Pierson, Ed. D.,
Assistant Superintendent, Special Education

Tamara J. Sanchez
Assistant Superintendent, Business Services

Effie Crush
Chief Administrator, Human Resources

Matt Perry, Ed. D., Assistant Superintendent
Juvenile Court/Community Schools and Regional Occupational Program

Mark Vigario
Assistant Superintendent, Educational Services

SACRAMENTO COUNTY OFFICE OF EDUCATION
SCHEDULE OF AVERAGE DAILY ATTENDANCE
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	Second Period Report	Annual Report
Elementary:		
Juvenile Halls, Homes and Camps	9.27	10.69
Community Schools Pupils	71.64	74.27
Special Education	146.44	150.21
Total Elementary	227.35	235.17
Secondary:		
Juvenile Halls, Homes and Camps	217.33	211.67
Community Schools Pupils	179.05	195.05
Special Education	175.29	174.33
Total Secondary	571.67	581.05
	799.02	816.22

See the accompanying notes to the supplementary information.

SACRAMENTO COUNTY OFFICE OF EDUCATION

SCHEDULE OF CHARTER SCHOOLS

FOR FISCAL YEAR ENDED JUNE 30, 2016

Charter Schools Chartered by Office of Education

**Included in Office of Education
Financial Statements, or
Separate Report**

Fortune Charter School

Separate Report

SACRAMENTO COUNTY OFFICE OF EDUCATION
SCHEDULE OF FIRST 5 CALIFORNIA REVENUES AND EXPENDITURES
FOR FISCAL YEAR ENDED JUNE 30, 2016

Revenues:	
Other Local Revenue	<u>\$ 273,839</u>
Expenditures:	
Certificated salaries	3,421
Classified salaries	77,697
Employee benefits	25,771
Books and supplies	36,700
Contract services and operating expenditures	106,150
Other outgo	<u>24,100</u>
Total Expenditures	<u>273,839</u>
Net income	-
Net position, July 1, 2015	<u>-</u>
Net position, June 30, 2016	<u><u>\$ -</u></u>

* Revenues and expenditures for the Cares Plus Grant are reflected in the County Office's Child Development Fund. See pages 50 and 51 of the financial statements for a complete presentation of the Child Development Fund.

SACRAMENTO COUNTY OFFICE OF EDUCATION
RECONCILIATION OF UNAUDITED ACTUAL FINANCIAL REPORT TO
AUDITED FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

There were no adjustments made to any funds of the County Office.

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

Federal Catalog Number	Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Pass-Through Entity Identifying Number	Federal Expenditures
<u>U.S. Department of Education</u>			
<i>Passed through California Department of Education</i>			
Special Education Cluster:			
84.027	Special Education: IDEA Basic Local Assistance Entitlement, Part B, Section 611 (Formerly PL 94-142)	13379	* \$ 10,604,182
84.173	Supporting Early Education Delivery System (SEEDS)	-	* 418,002
84.173	Special Ed: IDEA Preschool Grants, Part B, Section 619 (Age 3-4-5)	13430	* 287,792
84.027A	Special Ed: IDEA Preschool Local Entitlement, Part B, Section 611 (AGE 3-4-5)	13682	* 562,565
84.027A	Special Ed: IDEA Mental Health Average Daily Attendance (ADA) Allocation, Part B, Sec 611	15197	* 735,489
84.173A	Special Ed: IDEA Preschool Accountability Grants, Part B, Sec 619	14688	* 61,437
84.173A	Special Ed: IDEA Preschool Staff Development, Part B, Sec 619	13431	* 2,753
84.173A	Early Education: California Preschool Instructional Network (CPIN) Special Education Leads	14530	* 322,925
84.181	Special Ed: IDEA Early Intervention Grants, Part C	23761	* 547,773
	Subtotal Special Education Cluster		<u>13,542,918</u>
NCLB: Title I Program Cluster			
84.010	NCLB: Title I, Part A, Basic Grants Low-Income and Neglected	14329	1,103,290
84.010A	NCLB: Title I, Basic School Support, Statewide System of School Support (S4)	14416	724,697
84.010	NCLB: Title I, Part D, Subpart 2, Local Delinquent Programs	14357	668,261
	Subtotal NCLB: Title I Program		<u>2,496,248</u>
Other:			
84.060	Indian Education (from Federal Government)	10011	46,136
84.287	NCLB: Title IV, 21st Century Community Learning Centers (CCLC) Technical Assistance	14350	160,860
84.002A	Adult Education: State Leadership Projects (Section 223)	13970	2,333,771
84.196	NCLB: Title X McKinney-Vento Homeless Children Assistance Grants	14332	238,581
84.365	NCLB: Title III, Technical Assistance	14917	174,081
84.366	NCLB: Title II, Part B, CA Mathematics and Science Partnerships (CaMSP)	14512	498,510
84.367	NCLB: Title II, Part A, Improving Teacher Quality Local Grants	14341	286,472
84.412A	CCDF Race to the Top - Early Learning Challenge (RTT-ELC)	15181	1,230,277
	Subtotal Other		<u>4,968,688</u>
	Total U.S. Department of Education		<u>21,007,854</u>
<u>U.S. Department of Rehabilitation</u>			
<i>Passed through California Department of Education</i>			
84.126	Department of Rehabilitation: Workability II, Transitions Partnership Program	10006	56,949
	Total U.S. Department of Rehabilitation		<u>56,949</u>
<u>U.S. Department of Agriculture</u>			
<i>Passed through California Department of Education</i>			
Child Nutrition Cluster			
10.560	Preschools Shaping Healthy Impressions through Nutrition and Exercise	01091	219,579
10.555	Child Care Food Program	13391	66,704
	Total Cash Assistance Subtotal		<u>286,283</u>
10.555	School Lunch Program - Nonmonetary Assistance	13391	22,039
	Total Non-Cash Assistance Subtotal		<u>22,039</u>
	Total U.S. Department of Agriculture		<u>308,322</u>

* Tested as major programs

(Continued)

See the accompanying notes to the supplementary information.

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

Federal Catalog Number	Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Pass-Through Entity Identifying Number	Federal Expenditures
<u>U.S. Department of Health and Human Services</u>			
<i>Passed through California Department of Education</i>			
CCDF Program:			
93.575	Early Education: Quality Improvement - Child Care Staff Retention Program (AB 212) (CRET)	14988 *	216,733
93.575	Early Education: Quality Improvement Activities	13979 *	150,108
93.575	Early Education: Quality Improvement Activities	14130 *	77,906
93.575	Child Development: Federal Local Planning Councils (Contract Prefix CLPC)	13946 *	55,810
	Subtotal CCDF Program		<u>500,557</u>
Medicaid Cluster			
93.959	Friday Night Live	-	330,000
93.959	Friday Night Live - Mentor	-	50,000
93.959	Prevention Coalition	-	90,000
93.243	Substance Abuse and Mental Health Services	-	97,503
93.600	SETA - Early Head Start	-	521,443
93.xxx	Medicare Part D	-	261,983
93.778	Medi-Cal Billing Option	10013	466,382
	Subtotal Medicaid Cluster		<u>1,817,311</u>
	Total U.S. Department of Health and Human Services		<u>2,317,868</u>
	Total Federal Programs		<u>\$ 23,690,993</u>

See the accompanying notes to the supplementary information.

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

	<u>Adopted Budget 2016/2017</u>	<u>Actuals 2015/2016</u>	<u>Actuals 2014/2015</u>	<u>Actuals 2013/2014</u>
<u>County School Service Fund</u>				
Revenues and Other Financial Sources	\$ 88,109,528	\$ 94,560,791	\$ 87,743,264	\$ 81,729,611
Expenditures	82,190,627	87,742,461	82,896,948	80,375,730
Other Uses and Transfers Out	-	10,869	105,955	40,206
Total Outgo	<u>82,190,627</u>	<u>87,753,330</u>	<u>83,002,903</u>	<u>80,415,936</u>
Change in Fund Balance	<u>5,918,901</u>	<u>6,807,461</u>	<u>4,740,361</u>	<u>1,313,675</u>
Ending Fund Balance	<u>\$ 66,135,459</u>	<u>\$ 60,216,558</u>	<u>\$ 53,409,097</u>	<u>\$ 48,668,736</u>
Available Reserves	<u>\$ 37,485,903</u>	<u>\$ 29,377,591</u>	<u>\$ 22,461,867</u>	<u>\$ 14,709,819</u>
Designated for Economic Uncertainties	<u>\$ 1,980,000</u>	<u>\$ 1,980,000</u>	<u>\$ 1,960,000</u>	<u>\$ 1,913,000</u>
Unassigned Fund Balance	<u>\$ 35,505,903</u>	<u>\$ 27,397,591</u>	<u>\$ 20,501,867</u>	<u>\$ 12,796,819</u>
Available Reserves as a Percentage of Total Outgo	45.6%	33.5%	27.1%	18.3%
<u>All Funds</u>				
Total Long-Term Debt	\$ 63,831,875	\$ 65,615,721	\$ 57,716,759	\$ 7,202,349
Actual Daily Attendance at Annual	779	816	891	864

This County School Service Fund fund balance has increased \$12,861,497 over the past three years. The fiscal year 2016-17 projects an increase of \$5,918,901. For a County Office this size, the state recommends available reserves of at least 2% of total general fund expenditures, transfers out, and other uses. The County Office has met this requirement for the fiscal year ended June 30, 2016.

The County School Service Fund had an operating surplus in the past three years, and anticipates incurring an operating surplus during the 2016-17 fiscal year.

Long-term debt increased over the past two years by \$58,413,372 due to addition to the net pension liability.

Average Daily Attendance decreased by 48 ADA over the past two years. A decrease of 37 ADA is anticipated for the 2016-17 fiscal year.

See the accompanying notes to the supplementary information.

SACRAMENTO COUNTY OFFICE OF EDUCATION

NOTES TO SUPPLEMENTARY INFORMATION

FOR THE FISCAL YEAR ENDED JUNE 30, 2016

1. Purpose of Schedules

A. Schedule of Average Daily Attendance

Average daily attendance (ADA) 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 Local Control Funding Formula fund payments are made to the County Office. This schedule provides information regarding the attendance of students at various grade levels and in different programs.

B. Schedule of Instructional Time

This schedule is not required for County Offices of Education for the year ended June 30, 2016.

C. Schedule of Charter Schools

This schedule provides information for the California Department of Education to monitor financial reporting by Charter Schools.

D. Schedule of First Five California Revenues and Expenditures

This schedule provides information about the First 5 California Program.

E. Reconciliation of Unaudited Actual Financial Report to Audited Financial Statements

This schedule provides information necessary to reconcile the Unaudited Actual Fund Financial Reports to the audited financial statements.

F. Schedule of Expenditures of Federal Awards

The accompanying schedule of expenditures of federal awards includes federal grant activity of the County Office and is presented under the modified accrual basis of accounting. Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements of Federal Awards (Uniform Guidance) requires a disclosure of the financial activities of all federally funded programs. This schedule was prepared to comply with the Uniform Guidance and state requirements. Therefore, some amounts presented in this schedule may differ from amounts used in the preparation of the general purpose financial statements.

The following schedule provides a reconciliation between revenues reported on the Statement of Revenues, Expenditures and Changes in Fund Balances, and the related expenditures reported on the Schedule of Expenditures of Federal Awards. The reconciling amount consists of the fair value of federal food commodities received from the California Department of Education as a pass-through grant from the U.S. Department of Agriculture that are not reflected in the financial statements.

SACRAMENTO COUNTY OFFICE OF EDUCATION
NOTES TO SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

F. Schedule of Expenditures of Federal Awards (Continued)

	<u>Federal Catalog Number</u>	<u>Amount</u>
Total Federal Revenues From the Statement of Revenues, Expenditures and Changes in Fund Balance		\$23,668,954
Reconciling items		
Food Distribution - Commodities	10.555	<u>22,039</u>
 Total Schedule of Expenditures of Federal Awards		 <u><u>\$ 23,690,993</u></u>

G. Schedule of Financial Trends And Analysis

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.

2. Early Retirement Incentive Program

Education Code Section 14502 requires certain disclosure in the financial statements of the County Offices which adopt Early Retirement Incentive Programs pursuant to Education Code Section 22714 and 44929. For the fiscal year ended June 30, 2016, the County Office did not adopt such a program.

OTHER INDEPENDENT AUDITOR'S REPORTS



James Marta & Company LLP

Certified Public Accountants

Accounting, Auditing, Consulting, and Tax

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
WITH STATE LAWS AND REGULATIONS**

County Superintendent of Schools and
Board of Education
Sacramento County Office of Education
Sacramento, California

Report on Compliance for Each State Program

We have audited the compliance of Sacramento County Office of Education (the "County Office") with the types of compliance requirements described in the State of California's 2015-16 Guide for Annual Audits of California K-12 Local Education Agencies and State Compliance Reporting (the "Audit Guide") to the state laws and regulations listed below for the year ended June 30, 2016.

Management's Responsibility

Management is responsible for compliance with the requirements of state laws and regulations.

Auditor's Responsibility

Our responsibility is to express an opinion on the County Office's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the 2015-16 Guide for Annual Audits of California K-12 Local Education Agencies and State Compliance Reporting. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the state laws and regulations listed 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.

<u>Description</u>	<u>Procedures Performed</u>
Attendance	Yes
Teacher Certification and Misassignments	Yes
Kindergarten Continuance	No, see below
Independent Study	Yes
Continuation Education	No, see below
Instructional Time for School Districts	No, see below
Instructional Materials	
General Requirements	Yes
Ratio of Administrative Employees to Teachers	No, see below
Classroom Teacher Salaries	No, see below
Early Retirement Incentive Program	No, see below
Gann Limit Calculation	Yes

Description	Procedures Performed
School Accountability Report Card	Yes
Juvenile Court Schools	Yes
Middle or Early College High Schools	No, see below
K-3 Grade Span Adjustment	No, see below
Transportation Maintenance of Effort	No, see below
Educator Effectiveness	Yes
California Clean Energy Jobs Act	No, see below
After Schools Education and Safety Program	
General requirements	No, see below
After School	No, see below
Before School	No, see below
Proper Expenditure of Education Protection Account Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control and Accountability Plan	Yes
Independent Study-Course Based	No, see below
Immunizations	No, see below
Charter Schools:	
Attendance	No, see below
Mode of Instruction	No, see below
Nonclassroom-Based Instruction/Independent Study	No, see below
Determination of Funding for Nonclassroom-Based Instruction	No, see below
Annual Instructional Minutes - Classroom Based	No, see below
Charter School Facility Grant Program	No, see below

We did not perform any procedures related to Kindergarten Continuation because the County Office does not report ADA for Kindergarten students.

We did not perform any procedures related to Instructional Time, Classroom Teacher Salaries, K-3 Grade Span Adjustment, and Ratio of Teachers to Administrators because these compliance requirements do not apply to County Offices of Education.

We did not perform any procedures related to Continuation Education, After School Education and Safety Program, Transportation Maintenance of Effort, Early Retirement Incentive Program, Independent Study-Course Based and Middle or Early College High School because the County Office did not offer these programs.

We did not perform any procedures related to Immunizations as the County Office submitted immunization assessment reports to the California Department of Public Health (CDPH).

We did not perform any procedures related to California Clean Energy Jobs Act because the County Office did not have any expenditures for this programs in the current year.

We did not perform any procedures related to Contemporaneous Records of Attendance for Charter Schools, Mode of Instruction for Charter Schools, Nonclassroom-Based Instruction/Independent Study for Charter Schools, Determination of Funding for Nonclassroom-Based Instruction for Charter Schools, Annual Instructional Minutes-Classroom-Based for Charter Schools, and Charter School Facility Grant Program because the County Office did not have any charter schools.

Opinion on Compliance with State Laws and Regulations

In our opinion, Sacramento County Office of Education complied, in all material respects, with the state laws and regulations referred to above for the year ended June 30, 2016.

James Marta & Company LLP

James Marta & Company LLP
Certified Public Accountants
Sacramento, California
December 14, 2016



James Marta & Company LLP
Certified Public Accountants

Accounting, Auditing, Consulting and Tax

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

INDEPENDENT AUDITOR'S REPORT

County Superintendent of Schools and
Board of Education
Sacramento County Office of Education
Sacramento, California

We have audited, 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, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Sacramento County Office of Education (the "County Office"), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the County Office's basic financial statements, and have issued our report thereon dated December 14, 2016.

Internal Control Over Financial Reporting

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

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

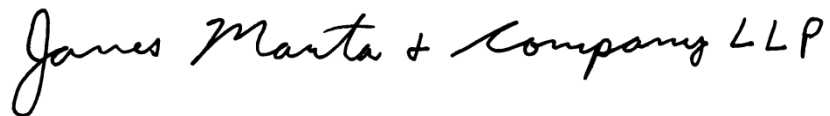
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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

Compliance and Other Matters

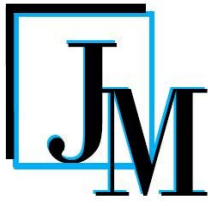
As part of obtaining reasonable assurance about whether the County Office's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

A handwritten signature in black ink that reads "James Marta & Company LLP". The signature is written in a cursive, flowing style.

James Marta & Company LLP
Certified Public Accountants
Sacramento, California
December 14, 2016



James Marta & Company LLP
Certified Public Accountants

Accounting, Auditing, Consulting and Tax

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

INDEPENDENT AUDITOR'S REPORT

County Superintendent of Schools and
Board of Education
Sacramento County Office of Education
Sacramento, California

Report on Compliance for Each Major Federal Program

We have audited Sacramento County Office of Education's (the "County Office") 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 County Office's major federal programs for the year ended June 30, 2016. The County Office's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the County Office'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 of Federal Awards (Uniform Guidance), *Audits of States, Local Governments, and Non-Profit Organizations*. 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 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the County Office's compliance.

Opinion on Each Major Federal Program

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

Internal Control Over Compliance

Management of the County Office 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 County Office'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 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 County Office's internal control over compliance.

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

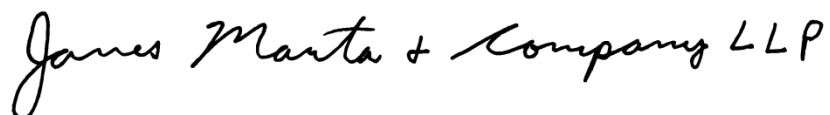
Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any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

Purpose of this Report

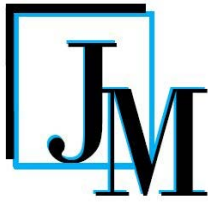
The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of Uniform Guidance. Accordingly, this report is not suitable for any other.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the County Office as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the County Office's basic financial statements. We issued our report thereon dated December 14, 2016, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the 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 schedule of expenditure of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

A handwritten signature in black ink that reads "James Marta & Company LLP". The signature is written in a cursive, flowing style.

James Marta & Company LLP
Certified Public Accountants
Sacramento, California
December 14, 2016



James Marta & Company LLP
Certified Public Accountants

Accounting, Auditing, Consulting and Tax

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO THE FIRST 5 CALIFORNIA PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH A PROGRAM-SPECIFIC AUDIT

INDEPENDENT AUDITOR'S REPORT

County Superintendent of Schools and
Board of Education
Sacramento County Office of Education
Sacramento, California

Report on Compliance with the First 5 California Program

We have audited Sacramento County Office of Education (the "County Office") compliance with the types of compliance requirements described in the Program Guidelines for the First 5 California Program that could have a direct and material effect on the First 5 California Program for the year ended June 30, 2016.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to the First 5 California Program.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance on the County Office's First 5 California Program 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the First 5 California Program 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 on compliance for the First 5 California Program. However, our audit does not provide a legal determination of the County Office's compliance.

Opinion on the First 5 California Program

In our opinion, the County Office 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 the First 5 California Program for the year ended June 30, 2016.

Internal Control Over Compliance

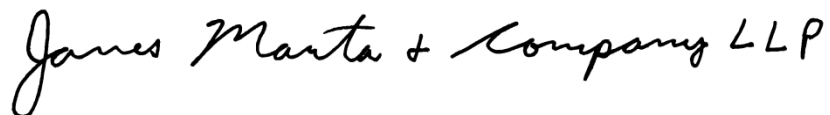
Management of the County Office is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the County Office's internal control over compliance with the types of requirements that could have a direct and material effect on the First 5 California 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 the First 5 California Program, 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 County Office'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 the First 5 California 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 the First 5 California 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 the First 5 California Program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the First 5 California Program. Accordingly, this report is not suitable for any other purpose.



James Marta & Company LLP
Certified Public Accountants
Sacramento, California
December 14, 2016

FINDINGS AND RECOMMENDATION

SACRAMENTO COUNTY OFFICE OF EDUCATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

Section I – Summary of Audit Results

Financial Statements

Type of auditor’s report issued: Unmodified

Internal control over financial reporting:
Material weakness(es) identified? _____ Yes X No
Significant deficiency(ies) identified? _____ Yes X None reported

Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

Internal control over major programs:
Material weakness(es) identified? _____ Yes X No
Significant deficiency(ies) identified? _____ 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 Uniform Guidance, Section 200.516(a)? _____ Yes X No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.027, 84.027A, 84.173A, 84.173, 84.181 93.575	Special Education Cluster Child Care Development Fund Cluster

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee? X Yes _____ No

State Awards

Internal control over state programs:
Material weakness(es) identified? _____ Yes X No
Significant deficiency(ies) identified? _____ Yes X None reported

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

SACRAMENTO COUNTY OFFICE OF EDUCATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

Section II – Financial Statement Findings

No matters were reported.

SACRAMENTO COUNTY OFFICE OF EDUCATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

Section III – Federal Award Findings and Questioned Costs

No matters were reported.

SACRAMENTO COUNTY OFFICE OF EDUCATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

Section IV – State Award Findings and Questioned Costs

No matters were reported.

SACRAMENTO COUNTY OFFICE OF EDUCATION
STATUS OF PRIOR YEAR RECOMMENDATIONS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

No matters were reported.