

**SANTA CLARA COUNTY
OFFICE OF EDUCATION**

ANNUAL FINANCIAL REPORT

JUNE 30, 2018

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SANTA CLARA COUNTY OFFICE OF EDUCATION

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FINANCIAL SECTION

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VAVRINEK, TRINE, DAY & CO., LLP
Certified Public Accountants

VALUE THE *difference*

INDEPENDENT AUDITOR'S REPORT

Government Board
Santa Clara County Office of Education
San Jose, 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 Santa Clara County Office of Education (County Office) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the County Office's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *2017-2018 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Santa Clara County Office of Education, as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter – Change in Accounting Principles

As discussed in Note 1 to the financial statements, in 2018 the County Office adopted new accounting guidance, GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison schedule, schedule of Changes in total OPEB liability and related ratios, schedule of the County Office's pension proportionate share of the net pension liability and related ratios 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 such as the combining and individual non-major fund financial statements and Schedule of Expenditures of Federal Awards, as required by *Title 2 U.S. Code of Federal Regulations (CFR), Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)* and the other supplementary information as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedule of expenditures of federal awards and the accompanying supplementary 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. 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 accompanying supplementary information including the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2018 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 solely 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 the effectiveness of the County Office's 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.



Palo Alto, California
December 14, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

This management discussion and analysis of Santa Clara County Office of Education's (the County Office) financial performance provides an overview of the County Office's financial activities for the fiscal year ended June 30, 2018. Please read it in conjunction with the County Office's financial statements, which immediately follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

FINANCIAL HIGHLIGHTS

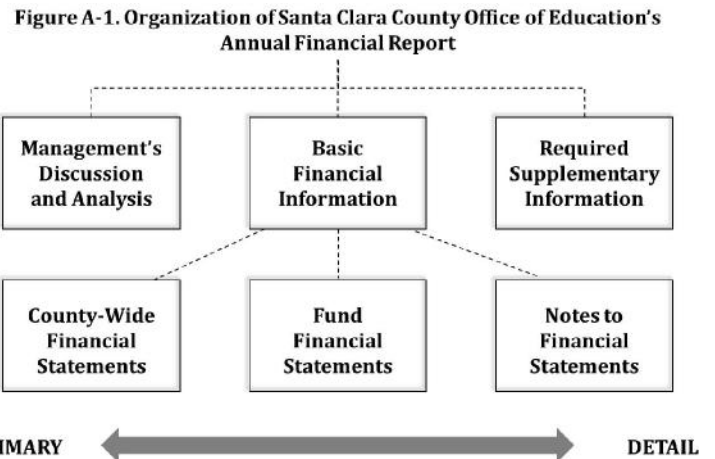
- The County Office's financial status increased overall as a result of this year's operations. Net position of governmental activities increased by \$19.8 million.
- Governmental expenses were about \$300.0 million. Revenues were about \$319.8 million.
- The County Office spent approximately \$5.6 million on new capital assets during the year.
- The County Office increased its outstanding long-term debt by \$38.1 million. This was primarily due to the net pension liability and other post-employment benefits.
- Average daily attendance (ADA) increased by 45, or 23% due to increased enrollments.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts – management discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the County Office:

- The first two statements are county-wide financial statements that provide both short-term and long-term information about the County Office's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the County Office, reporting the County Office's operations in more detail than the County-wide statements.
- The governmental funds statements tell how basic services like regular and special education were financed in the short term as well as what remains for future spending.
- Short and long-term financial information about the activities of the County that operate like businesses (self-insurance funds) are provided in the proprietary funds statements.
- Fiduciary funds statement provides information about the financial to whom the resources belong.

The financial statements also include *notes* that explain some of the information in the statements and provide more detailed data. Figure A-1 shows how the various parts of this annual report are arranged and related to one another.



SANTA CLARA COUNTY OFFICE OF EDUCATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

Figure A-2 summarizes the major features of the County Office's financial statements, including the portion of the County Office's activities they cover and the types of information they contain.

Figure A-2 Major Features of the County-Wide and Fund Financial Statements

Type of Statements	County-Wide	Governmental	Proprietary Funds	Fiduciary Funds
<i>Scope</i>	Entire County Office, except fiduciary activities	The activities of the County Office that are not proprietary or fiduciary, such as special education and building maintenance	Activities of the County Office that operate like a business, such as self-insurance funds	Instances in which the County Office administers resources on behalf of someone else, such as scholarship programs and student activities monies
<i>Required financial statements</i>	<ul style="list-style-type: none"> • Statement of Net Position • Statement of Activities 	<ul style="list-style-type: none"> • Balance Sheet • Statement of Revenues, Expenditures and Changes in Fund Balances 	<ul style="list-style-type: none"> • Statement of Net Position • Statement of Revenues, Expenses, and Changes in Fund Net Position • Statement of Cash Flows 	<ul style="list-style-type: none"> • Statement of Fiduciary Net Position
<i>Accounting basis and measurement focus</i>	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
<i>Type of asset/liability information</i>	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both short-term and long-term; The County Office's funds do not currently contain nonfinancial assets, though they	all assets and liabilities, both short-term and long-term; The County Office's funds do not currently contain nonfinancial assets, though they can
<i>Type of inflow/outflow information</i>	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon	All revenues and expenses during the year, regardless of when cash is received or paid	All revenues and expenses during the year, regardless of when cash is received or paid

SANTA CLARA COUNTY OFFICE OF EDUCATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

COUNTY-WIDE STATEMENTS

The County-wide statements report information about the County Office as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the County Office's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two county-wide statements report the County Office's net position and how it has changed. Net position – the difference between the County Office's assets and deferred outflows of resources and liabilities and deferred inflows of resources – is one way to measure the County Office's financial health, or position.

- Over time, increases and decreases in the County Office's net position are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the County Office, you need to consider additional nonfinancial factors such as changes in the County Office's demographics and the condition of school buildings and other facilities.
- In the County-wide financial statements, the County Office's activities are categorized as Governmental Activities. Most of the County Office's basic services are included here, such as regular and special education, transportation, and administration. Property taxes and state aid finance most of these activities.

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the County Office's most significant funds – not the County Office as a whole. Funds are accounting devices the County Office uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by State law and by debt covenants.
- The County Office establishes other funds to control and manage money for particular purposes (like repaying its long-term debt) or to show that is properly using certain revenues.

The County Office has three kinds of funds:

- 1) **Governmental funds** – Most of the County Office's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the County Office's programs. Because this information does not encompass the additional long-term focus of the County-wide statements, we provide additional information on a separate reconciliation page that explains the relationship (or differences) between them.

SANTA CLARA COUNTY OFFICE OF EDUCATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

- 2) **Proprietary funds** – When the County Office charges other County Office funds for the services it provides, these services are reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Position and Statement of Activities. In fact, the County Office's internal service fund is included within the governmental activities reported in the County-wide statements but provide more detail and additional information, such as cash flows. The County Office uses the internal service fund to report activities that relate to the County Office's self-insured program for workers compensation claims.
- 3) **Fiduciary funds** – The County Office is the trustee, or fiduciary, for assets that belong to others, such as the student activities funds. The County Office is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. All of the County Office's fiduciary activities are reported in a separate statement of fiduciary net position. We exclude these activities from the County-wide financial statements because the County Office cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE COUNTY AS A WHOLE

Net Position The County Office's combined net position was higher on June 30, 2018, than it was the year before – increasing by \$19.8 million or 67.4% (See Table A-1).

Table A-1

	Governmental Activities (In millions)		Variance Increase (Decreased)
	2018	2017	
Assets			
Current assets	\$ 136.0	\$ 147.4	\$ (11.4)
Capital assets	68.3	66.6	1.7
Total assets	204.3	214.0	(9.7)
Deferred outflows of resources			
Pensions	62.4	38.3	24.1
OPEB	24.0	-	24.0
Loss on refunding of debt	0.1	0.1	-
Total deferred outflows of resources	86.5	38.4	48.1
Liabilities			
Current liabilities	45.7	16.6	29.1
Long- term liabilities	245.3	232.3	13.0
Total liabilities	291.0	248.9	42.1
Deferred inflows of resources			
Pensions	9.4	11.8	(2.4)
Total deferred inflows of resources	9.4	11.8	(2.4)
Net position			
Net investment in capital assets	62.7	60.2	2.5
Restricted	33.3	25.2	8.1
Unrestricted	(105.6)	(114.8)	9.2
Total net position	\$ (9.6)	\$ (29.4)	\$ 19.8

SANTA CLARA COUNTY OFFICE OF EDUCATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

Changes in net position, governmental activities The County Office's total revenues increased by 10.5% to \$319.8 million (See Table A-2). The increase was mainly due to an increase in operating grants.

The total cost of all programs and services also increased 5.8% to \$300.0 million. The County Office's expenses are predominantly related to educating and caring for students, 60.8%. The administrative activities of the County Office accounted for just 12.1% of total costs. The increase in costs was due to the increase in personnel costs and capital expenditures.

Table A-2

	Governmental Activities (In millions)		Variance Increase (Decrease)
	2018	2017	
Total Revenues	\$ 319.8	\$ 289.4	\$ 30.4
Total Expenses	300.0	283.6	16.4
Increase (decrease) in net position	<u>19.8</u>	<u>5.8</u>	<u>14.0</u>

FINANCIAL ANALYSIS OF THE COUNTY OFFICE'S FUNDS

The financial performance of the County Office as a whole is reflected in its governmental funds as well. As the County Office completed this year, its governmental funds reported a combined fund balance of \$71.3 million, which is more than last year's ending fund balance of \$68.1 million.

County School Services Fund Budgetary Highlights

Over the course of the year, the County Office revised the annual operating budget several times. The major budget amendments fall into these categories:

- Revenues – increased by \$17.8 million primarily due to increase in property taxes and to reflect state budget actions.
- Salaries and benefits costs – increased \$4.4 million due to changes in staffing and collective bargaining agreements.
- Other non-personnel expenses – increased \$23.9 million to re-budget carryover funds and revise operational cost estimates.

While the County Office's final budget for the County School Service Fund anticipated that expenditures would exceed revenues by about \$24.3 million, the actual results for the year show that revenues exceeded expenditures by approximately \$3.3 million. Actual revenues were \$6.2 million less than anticipated, but expenditures were \$33.8 million less than budgeted. That amount consists primarily of categorical program dollars that were not spent as of June 30, 2018 that will be carried over into the 2018-19 budget, and the efforts of conservative spending.

SANTA CLARA COUNTY OFFICE OF EDUCATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of 2017-18, the County Office had invested approximately \$5.6 million in new capital assets. (More detailed information about capital assets can be found in Note 4 to the financial statements). Total depreciation expense for the year was approximately \$3.8 million.

Table A-3: Capital Assets at Year-End, Net of Depreciation

	Governmental Activities (In millions)		Variance Increase (Decrease)
	2018	2017	
Land	\$ 5.5	\$ 5.5	\$ -
Work in progress	0.7	1.2	(0.5)
Building and improvements	56.6	55.0	1.6
Furniture and Equipment	5.5	4.9	0.6
Total	<u>\$ 68.3</u>	<u>\$ 66.6</u>	<u>\$ 2.2</u>

Long-Term Debt

At year-end the County Office had approximately \$249.7 million in long term liabilities – an increase of 18.3% from last year – as shown in Table A-4. (More detailed information about the County Office's long-term liabilities is presented in Note 9 to the financial statements).

Table A-4: Outstanding Long-Term Debt at Year-End

	Governmental Activities (In millions)		Variance Increase (Decrease)
	2018	2017	
Certificates of participation	\$ 5.7	\$ 6.6	\$ (0.9)
Net pension liability	199.3	161.7	37.6
Compensated absences	6.0	6.2	(0.2)
Claims liability	12.7	13.0	(0.3)
Other postemployment benefits	26.0	23.5	2.5
Total	<u>\$ 249.7</u>	<u>\$ 211.0</u>	<u>\$ 38.7</u>

SANTA CLARA COUNTY OFFICE OF EDUCATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

FACTORS BEARING ON THE COUNTY OFFICE'S FUTURE

Budget Overview

The Governor signed the *2018-19 Budget Act* on June 27, 2018. The 2018-19 budget package assumes total state spending of \$201.4 billion, an increase of 5.7 percent over enacted totals for 2017-2018. This consists of \$138.7 billion from the General Fund, \$58.5 billion from special funds and \$4.2 billion from bond funds. The budget package assumes spending from federal funds to be \$107.5 billion, an increase of 9.5 percent over 2017-2018 enacted levels. Bond spending is expected to decrease 33.8 percent in 2018-2019.

Major 2018-2019 Budget Assumptions

In 2018-19, the state has fully funded its Rainy Day Fund, paid down its budgetary borrowing, continue to restore fiscal health to its retirement benefit plan, and made major improvements to the state's transportation and water systems through various one-time spending.

The 2018-19 Budget continues to focus on education, counteracting the effect of poverty, and strengthening transportation infrastructure. It also provides funding for supplemental payments to CalPERS through a loan from the Surplus Money Investment Fund that will reduce unfunded liabilities, stabilize state contribution rates, and save money in the future.

Fully Funds CalSTRS Pension Program

As of the end of 2012-13, the California State Teachers' Retirement System (CalSTRS) had a \$74 billion shortfall. In 2014, CalSTRS created a funding strategy to address its long-standing problem of unfunded liabilities. It is expected to fully fund the system's defined benefits by 2046. The 2018-19 budget includes \$3.1 billion General Fund for state contributions to CalSTRS. CalSTRS continues to report that the funding strategy is projected to achieve its goal.

Proposition 98

The 2018-19 budget includes Proposition 98 funding of \$78.4 billion, an increase of \$2.8 billion over the 2017-18 enacted budget. In 2018-19, the Proposition 98 budget has paid down debt owed to schools, fully implemented the Local Control Funding Formula (LCFF), and provided schools with discretionary funding to invest in local priorities.

Spending Changes

Funding for K-14 education continues to increase under the new budget package. In the sections that follow, we describe how the State is spending these funds.

Mandates

Pays Down in Outstanding Education Mandate Claims

The 2018-19 budget includes \$1 billion in one-time Proposition 98 General Fund. Funds will be distributed to schools and community colleges on a per-student basis. These funds will pay down the outstanding mandate debt, while providing schools, county offices of education, and charter schools with discretionary resources to support critical investments such as Common Core implementation.

K-12 Accountability

The adoption of LCFF redirected resources aimed at closing the achievement gap between the state's student subgroups and allowing local educational agencies (LEAs) greater authority to target spending to local needs. The Local Control and Accountability Plan (LCAP) is the foundation of the state's new accountability system. Purpose of the LCAP is to develop multi-year strategies and funding plans to continuously improve student achievement. The 2018-19 budget makes \$82.8 million in investments for this new accountability system and capacity-building within the statewide system of support.

SANTA CLARA COUNTY OFFICE OF EDUCATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

Career Technical Education

The budget includes \$248 million ongoing Proposition 98 funding to establish a K-12 specific component within the Strong Workforce Program. This is designed to encourage LEAs to offer high-quality career technical education programs, which is funded at \$248 million annually. The budget also includes \$150 million ongoing Proposition 98 funding to make permanent the Career Technical Education Incentive Grant Program.

Child Care and State Preschool

Subsidized child care allows low-income families to remain employed through a variety of programs. And the State Preschool program helps children to develop the skills needed for success in school. The 2018-19 budget makes the final augmentations for a multi-year funding agreement adopted in part of the 2016 budget by increasing the reimbursement rate for providers. The budget also provides the final of the three scheduled 2,959 full-day slot increases to the State Preschool program, totaling 8,877 slots over three years. Overall, the budget includes approximately \$1 billion in new child care investments for 2018-19 and 2019-20.

Operational Funding

LCFF Implementation

The budget plan provides \$3.7 billion in new funding for LCFF, which fully implements the school districts and charter school formula, with 2.71 percent Cost-of-Living-Adjustment (COLA) and an additional \$570 million above the COLA as an ongoing increase to the formula. The county office of education formula was fully implemented in 2014-15.

Local Reserves

Requires School Districts to Disclose and Justify Reserves

Chapter 32, Statutes of 2014 (SB 858, Committee on Budget and Fiscal Review), creates new disclosure requirements effective beginning in 2015-16 for districts that have reserves exceeding state-specified minimums. If a district's budget reserve exceeds the state minimum, Chapter 32 requires the district to identify the minimum reserve level applicable to the district, the amount of reserves that exceed the minimum, and explain why the higher reserve levels are necessary. The district must disclose this information in a public meeting and each time when it submits a budget to its County Office of Education.

Caps Local Reserves Some Years under Proposition 2

Proposition 2 on the November 2014 ballot set forth new constitutional provisions relating to state reserves, including provisions relating to a new state reserve for schools. With the voters approving Proposition 2, certain provisions of Chapter 32 go into effect. These provisions cap school districts' reserve levels the year after the state makes a deposit into the new state reserve for schools. The caps for most districts will range from 4 percent to 10 percent of a district's annual expenditures.

All of these factors were considered in preparing the Santa Clara County Office of Education's budget for the 2018-19 fiscal year.

CONTACTING THE COUNTY OFFICE'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the County Office's finances and to demonstrate the county Office's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Stephanie Gomez, Director of Internal Business Services via email at Stephanie_Gomez@sccoe.org.

SANTA CLARA COUNTY OFFICE OF EDUCATION

**STATEMENT OF NET POSITION
JUNE 30, 2018**

	Governmental Activities
ASSETS	
Deposits and investments	\$ 119,420,278
Receivables	16,218,533
Prepaid items	357,504
Capital assets not depreciated	6,226,821
Capital assets, net of accumulated depreciation	62,068,321
Total Assets	<u>204,291,457</u>
DEFERRED OUTFLOWS OF RESOURCES	
Related to refunding	116,674
Related to other post-employment benefits (OPEB)	24,000,000
Related to pensions	62,419,808
Total Deferred Outflows of Resources	<u>86,536,482</u>
LIABILITIES	
Overdrafts	96,112
Accounts payable	38,017,569
Interest payable	62,313
Unearned revenue	3,012,453
Current portion of claims liability	4,490,000
Long-term obligations other than OPEB and pensions:	
Current portion	850,344
Noncurrent portion	10,904,313
Noncurrent portion of claims liability	8,218,000
Total other post-employment benefits liability	26,026,472
Aggregate net pension liability	199,289,638
Total Liabilities	<u>290,967,214</u>
DEFERRED INFLOWS OF RESOURCES	
Related to pensions	9,441,253
Total Deferred Inflows of Resources	<u>9,441,253</u>
NET POSITION	
Net investment in capital assets	62,704,762
Restricted for:	
Capital projects	325,426
Educational programs	27,523,704
Self insurance	5,433,456
Unrestricted	<u>(105,567,876)</u>
Total Net Position	<u>\$ (9,580,528)</u>

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

SANTA CLARA COUNTY OFFICE OF EDUCATION

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018

Functions/Programs	Expenses	Program Revenues		Net (Expenses) Revenues and Changes in Net Position
		Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
Governmental Activities:				
Instruction	\$ 108,984,459	\$ 1,426,809	\$ 43,039,901	\$ (64,517,749)
Instruction-related activities:				
Supervision of instruction	24,004,444	2,518,293	10,840,496	(10,645,655)
Instructional library and technology	542,879	6,145	8,844	(527,890)
School site administration	11,487,603	324,876	3,960,541	(7,202,186)
Pupil services:				
Home-to-school transportation	1,711,667	2,235	23,663	(1,685,769)
Food services	1,956,778	80,603	1,399,058	(477,117)
All other pupil services	33,826,005	794,834	13,936,950	(19,094,221)
Administration:				
Data processing	10,705,615	128,801	72,970	(10,503,844)
All other administration	25,466,668	1,435,970	6,035,434	(17,995,264)
Plant services	7,945,389	96,979	3,059,502	(4,788,908)
Ancillary services	4,357,503	2,316,448	859,013	(1,182,042)
Community services	19,087	10,229	3,738	(5,120)
Enterprise services	22,369	13,003	4,752	(4,614)
Interest on long-term obligations	165,625	-	-	(165,625)
Interagency instructional services	68,769,708	680,097	39,646,340	(28,443,271)
Total Governmental Activities	<u>299,965,799</u>	<u>9,835,322</u>	<u>122,891,202</u>	<u>(167,239,275)</u>
General revenues and subventions:				
Property taxes, levied for general purposes				138,040,841
Taxes levied for other specific purposes				3,967,665
Federal and State aid not restricted to specific purposes				8,548,496
Interest and investment earnings				1,356,701
Interagency revenues				4,393,797
Miscellaneous				30,737,352
Subtotal, General Revenues				<u>187,044,852</u>
Change in Net Position				19,805,577
Net Position - Beginning, as restated				<u>(29,386,105)</u>
Net Position - Ending				<u>\$ (9,580,528)</u>

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

SANTA CLARA COUNTY OFFICE OF EDUCATION

**GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2018**

	County School Service Fund	Special Education Pass-Through Fund	Non-Major Fund	Total Governmental Funds
ASSETS				
Deposits and investments	\$ 96,149,623	\$ 31,648	\$ 1,666,089	\$ 97,847,360
Receivables	12,738,345	2,407,693	882,829	16,028,867
Due from other funds	15	542,690	40,853	583,558
Prepaid expenditures	2,522	-	-	2,522
Total Assets	<u>\$ 108,890,505</u>	<u>\$ 2,982,031</u>	<u>\$ 2,589,771</u>	<u>\$ 114,462,307</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Overdrafts	\$ 398	\$ -	\$ 95,714	\$ 96,112
Accounts payable	32,914,541	2,982,031	1,791,537	37,688,109
Due to other funds	2,320,466	-	8,267	2,328,733
Unearned revenue	2,665,237	-	347,216	3,012,453
Total Liabilities	<u>37,900,642</u>	<u>2,982,031</u>	<u>2,242,734</u>	<u>43,125,407</u>
Fund Balances:				
Nonspendable	27,522	-	-	27,522
Restricted	27,502,093	-	347,037	27,849,130
Assigned	25,555,646	-	-	25,555,646
Unassigned	17,904,602	-	-	17,904,602
Total Fund Balances	<u>70,989,863</u>	<u>-</u>	<u>347,037</u>	<u>71,336,900</u>
Total Liabilities and Fund Balances	<u>\$ 108,890,505</u>	<u>\$ 2,982,031</u>	<u>\$ 2,589,771</u>	<u>\$ 114,462,307</u>

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

SANTA CLARA COUNTY OFFICE OF EDUCATION

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JUNE 30, 2018**

Total Fund Balance - Governmental Funds **\$ 71,336,900**

Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used for governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.

The cost of capital assets is	\$ 108,316,954	
Accumulated depreciation is	(40,021,812)	
Net Capital Assets		68,295,142

In governmental funds, unmatured interest on long-term obligations is recognized in the period when it is due. On the government-wide financial statements, unmatured interest on long-term obligations is recognized when it is incurred. (62,313)

Deferred charges on refunding are capitalized and amortized over the remaining life of the new or old debt (whichever is greater) and are included with governmental activities. 116,674

Internal service funds are used to conduct certain activities for which costs are charged to other funds. Assets and liabilities are reported with governmental activities in the statement of net position. 10,825,281

Certain liabilities and deferred inflows and outflows of resources are not due and payable in the current period and, therefore, are not reported in the funds.

These liabilities at year-end consist of:

Certificates of Participation	(4,985,000)	
Premiums on issuance of debt	(722,054)	
Compensated absences	(6,047,603)	
Total OPEB liability and related inflows and outflows of resources	(2,026,472)	
Net pension liability and related inflows and outflows of resources	(146,311,083)	(160,092,212)
Total Net Position - Governmental Activities		\$ (9,580,528)

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

SANTA CLARA COUNTY OFFICE OF EDUCATION

**GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2018**

	County School Service Fund	Special Education Pass-Through Fund	Non-Major Fund	Total Governmental Funds
REVENUES				
Local control funding formula	\$ 144,469,823	\$ -	\$ -	\$ 144,469,823
Federal sources	45,678,433	27,401,806	1,696,828	74,777,067
Other State sources	13,415,966	8,992,081	5,472,906	27,880,953
Other local sources	45,476,732	1,369,919	184,013	47,030,664
Total Revenues	<u>249,040,954</u>	<u>37,763,806</u>	<u>7,353,747</u>	<u>294,158,507</u>
EXPENDITURES				
Current				
Instruction	96,999,104	-	3,476,217	100,475,321
Instruction-related activities:				
Supervision of instruction	19,551,471	-	2,578,786	22,130,257
Instructional library, media and technology	500,492	-	-	500,492
School site administration	10,277,440	-	313,250	10,590,690
Pupil services:				
Home-to-school transportation	1,578,027	-	-	1,578,027
Food services	657,243	-	1,146,757	1,804,000
All other pupil services	30,934,249	-	250,736	31,184,985
Administration:				
Data processing	9,869,756	-	-	9,869,756
All other administration	25,665,991	-	508,639	26,174,630
Plant services	8,024,976	-	289,360	8,314,336
Ancillary services	4,017,284	-	-	4,017,284
Community services	17,597	-	-	17,597
Transfer of pass-through revenues	28,819,132	37,677,526	-	66,496,658
Transfers to agencies for services	2,186,770	86,280	-	2,273,050
Enterprise services	22,369	-	-	22,369
Capital outlays	4,447,223	-	-	4,447,223
Debt service				
Principal	-	-	705,000	705,000
Interest and other	-	-	270,400	270,400
Total Expenditures	<u>243,569,124</u>	<u>37,763,806</u>	<u>9,539,145</u>	<u>290,872,075</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>5,471,830</u>	<u>-</u>	<u>(2,185,398)</u>	<u>3,286,432</u>
Other Financing Sources (Uses)				
Transfers in	-	-	2,159,721	2,159,721
Transfers out	(2,164,037)	-	-	(2,164,037)
Net Financing Sources (Uses)	<u>(2,164,037)</u>	<u>-</u>	<u>2,159,721</u>	<u>(4,316)</u>
NET CHANGE IN FUND BALANCES	3,307,793	-	(25,677)	3,282,116
Fund Balance - Beginning (restated)	67,682,070	-	372,714	68,054,784
Fund Balance - Ending	<u>\$ 70,989,863</u>	<u>\$ -</u>	<u>\$ 347,037</u>	<u>\$ 71,336,900</u>

SANTA CLARA COUNTY OFFICE OF EDUCATION

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2018

Total Net Change in Fund Balances - Governmental Funds **\$ 3,282,116**

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

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures; however, for governmental activities, those costs are shown in the statement of net position and allocated over their estimated useful lives as annual depreciation expenses in the statement of activities. Below is the amount by which capital outlays exceed depreciation in the period.

Capital outlays	\$ 5,592,782	
Depreciation expense	<u>(3,831,870)</u>	1,760,912

Loss on disposal of capital assets is reported in the government-wide statement of net position, but is not recorded in the governmental funds. (72,481)

Debt issue premiums are recognized as revenues in the period they are incurred. In government-wide statements, issue premiums are amortized over the life of the debt. 118,934

Losses on the refunding of debt are recognized as expenditures in the period they are incurred. In the government-wide statements, they are categorized as deferred outflows and are amortized over the shorter life of the refunded or refunding debt. (19,446)

In the statement of activities, certain expenses, such as compensated absences (vacations) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). Vacation used was more than the amounts earned by \$184,792. 184,792

In the governmental funds, pension costs are based on employer contributions made to pension plans during the year. However, in the statement of activities, pension expense is the net effect of all changes in the deferred outflows, deferred inflows and net pension liability during the year. (11,133,944)

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

SANTA CLARA COUNTY OFFICE OF EDUCATION

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES (Continued) FOR THE YEAR ENDED JUNE 30, 2018

In the governmental funds, OPEB costs are based on employer contributions made to OPEB plans during the year. However, in the statement of activities, OPEB expense is the net effect of all changes in the deferred outflows, deferred inflows, and net OPEB liability during the year.	(2,557,759)
Payment of principal on long-term obligations is an expenditure in the governmental funds, but it reduces long-term obligations in the Statement of Net Position and does not affect the statement of activities.	705,000
Interest on long-term obligations is recorded as an expenditure in the funds when it is due; however, in the statement of activities, interest expense is recognized as the interest accrues, regardless of when it is due.	5,287
An internal service fund is used by the County Office's management to charge the costs of the health insurance program to the individual funds. The net revenue of the Internal Service Fund is reported with governmental activities.	<u>3,532,166</u>
Change in Net Position of Governmental Activities	<u><u>\$ (4,194,423)</u></u>

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

SANTA CLARA COUNTY OFFICE OF EDUCATION

**PROPRIETARY FUNDS
STATEMENT OF NET POSITION
JUNE 30, 2018**

	Internal Services Funds
	<u> </u>
ASSETS	
Current Assets	
Deposits and investments	\$ 21,572,918
Receivables	189,666
Due from other funds	1,745,175
Prepaid items	354,982
Total Assets	<u>23,862,741</u>
 LIABILITIES	
Current Liabilities	
Claim liabilities	4,490,000
Accounts payable	329,460
Total Current Liabilities	<u>4,819,460</u>
Noncurrent Liabilities	
Claim liabilities	8,218,000
Total Liabilities	<u>13,037,460</u>
 NET POSITION	
Restricted	10,825,281
Total Net Position	<u>\$ 10,825,281</u>

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

SANTA CLARA COUNTY OFFICE OF EDUCATION

**PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET
POSITION
FOR THE YEAR ENDED JUNE 30, 2018**

	Internal Service Funds
	<u> </u>
OPERATING REVENUES	
Self-insurance premiums	\$ 7,636,442
Contributions to OPEB	29,221,104
Other local revenue	244,283
Total Operating Revenues	<u>37,101,829</u>
 OPERATING EXPENSES	
Classified salaries	239,197
Employee benefits	84,480
Supplies and materials	24,906
Contract services and other operating cost	5,687,765
Annual cost of OPEB	28,140,820
Total Operating Expenses	<u>34,177,168</u>
Operating Income	<u>2,924,661</u>
 NONOPERATING REVENUES (EXPENSES)	
Interest income	603,189
Transfers in	4,316
Total nonoperating Revenues	<u>607,505</u>
 Change in Net Position	3,532,166
Total Net Position - Beginning	7,293,115
Total Net Position - Ending	<u>\$ 10,825,281</u>

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

SANTA CLARA COUNTY OFFICE OF EDUCATION

**PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2018**

	Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash receipts from customers	\$ 7,850,252
Contributions to OPEB	29,168,893
Cash payments to other suppliers of goods or services	(24,906)
Cash payments to employees for services	(295,464)
Cash payments for claims	(5,960,765)
Cash payments for contributions	(48,485,564)
Net Cash Used for Operating Activities	<u>(17,747,554)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfers from other funds	437,118
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	603,189
Net Decrease in Cash and Cash Equivalents	<u>(16,707,247)</u>
Cash and Cash Equivalents - Beginning	38,280,165
Cash and Cash Equivalents - Ending	<u><u>\$ 21,572,918</u></u>
RECONCILIATION OF OPERATING INCOME TO NET CASH USED FOR OPERATING ACTIVITIES	
Operating income (loss)	\$ 2,924,661
Changes in assets and liabilities:	
Receivables	(82,684)
Claims liabilities	(273,000)
Other postemployment benefits	(20,344,744)
Accounts payable	28,213
Net Cash Used for Operating Activities	<u><u>\$ (17,747,554)</u></u>

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

SANTA CLARA COUNTY OFFICE OF EDUCATION

**FIDUCIARY FUNDS
STATEMENT OF NET POSITION
JUNE 30, 2018**

	Warrant Pass- Through Fund
ASSETS	
Deposits and investments	\$ 154,207,141
LIABILITIES	
Warrants payable	\$ 42,191,318
Salaries payable	110,380,425
Due to other agencies	1,635,398
Total Liabilities	<u>\$ 154,207,141</u>

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

SANTA CLARA COUNTY OFFICE OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Santa Clara County Office of Education (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:

Financial Reporting Entity

The Board of Education is the level of government that has governance responsibilities over all activities related to public school education as conducted by the County Office. The County Office and Santa Clara County Board of Education Finance Corporation (the “Corporation”) have a financial and operational relationship that meets the reporting entity definition criteria of the generally accepted accounting principal, for inclusion of the Corporation as a blended component unit of the County Office. Accordingly, the financial activity of the Corporation has been included in the basic financial statements of the County Office as the Debt Service Fund.

The following are those aspects of the relationship between the County Office and the Corporation:

A. Manifestations of Oversight

1. The Corporation’s Board of Directors were appointed by the County Office’s Board of Education.
2. The Corporation has no employees. The County Office’s Superintendent functions as an agent of the Corporation. This individual receives no additional compensation for work performed in this capacity.
3. 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.

B. Accountability for Fiscal Matters

1. All major financing arrangements, contracts, and other transactions of the Corporation must have the consent of the County Office.
2. Any deficits incurred by the Corporation will be reflected in the lease payment of the County Office. Any surpluses of the Corporation revert to the County Office at the end of the lease period.
3. It is anticipated that the County Office’s lease payments will be the sole revenue source of the Corporation.
4. The County Office has assumed a “Moral Obligation”, and potentially a legal obligation, for any debt incurred by the Corporation.

C. Scope of Public Service

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

Basis of Presentation - Fund Accounting

The accounting system is organized and operated on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. The County Office’s funds are grouped into three fund categories: governmental, proprietary and fiduciary.

SANTA CLARA COUNTY OFFICE OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Governmental Funds Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the County Office's major and non-major governmental funds:

Major Governmental Funds

County School Service Fund The County School Service Fund is the chief operating fund for the County Office. It is used to account for the ordinary operations of the County Office. All transactions except those accounted for in another fund are accounted for in this fund.

Special Education Pass-Through Fund The Special Education Pass-Through Fund is a special revenue fund that is used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for special education programs operated by various school districts within the county and the County Office.

Non-Major Governmental Funds

Special Revenue Funds The Special Revenue funds are used to account for the proceeds from specific revenue sources (other than trusts, major capital projects, or debt service) that are restricted or committed to the financing of particular activities, that compose a substantial portion of the inflows of the fund, and that are reasonably expected to continue. Additional resources that are restricted, committed, or assigned to the purpose of the fund may also be reported in the fund.

Cafeteria Fund The Cafeteria Fund is used to account separately for federal, state, and local resources to operate the food service program (*Education Code* Sections 38090-38093) and is used only for those expenditures authorized by the governing board as necessary for the operation of the County Office's food service program (*Education Code* Sections 38091 and 38100).

Child Development Fund The Child Development Fund is used to account separately for Federal, State, and local revenues to operate child development programs and is to be used only for expenditures the operation of child development programs.

Capital Project Funds The Capital Project funds are used to account for financial resources that are restricted, committed, or assigned to the acquisition or construction of major capital facilities and other capital assets (other than those financed by proprietary funds and trust funds).

County School Facilities Fund The County School Facilities Fund is a capital project fund used to account for resources used for the acquisition or construction of capital facilities and equipment by the County Office.

Debt Service Funds The Debt Service funds are used to account for the accumulation of restricted, committed, or assigned resources for and the payment of principal and interest on general long-term obligations.

Debt Service Fund The Debt Service Fund is used to account for the accumulation of resources for payment of principal and interest on the County Office's Certificates of Participation (COPs).

SANTA CLARA COUNTY OFFICE OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Proprietary Funds Proprietary funds are used to account for activities that are more business-like than government-like in nature. Business-type activities include those for which a fee is charged to external users or to other organizational units of the County Office, normally on a full cost-recovery basis. Proprietary funds are generally intended to be self-supporting and are classified as enterprise or internal service.

Internal Service Fund The Internal Service Fund is used to account for services related to self-insurance and other post employment benefits (OPEB).

Fiduciary Funds Fiduciary funds are used to account for assets held in trustee or agent capacity for others that cannot be used to support the County Office's own programs. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds, and agency funds. The key distinction between trust and agency funds is that trust funds are subject to a trust agreement that affects the degree of management involvement and the length of time that the resources are held.

Warrant-Pass Through Fund The Warrant Pass-Through Fund is an agency fund used to account for the activities for which the County Office has an agency relationship with the activity of the fund. This fund is a clearing account for warrants, payroll, taxes withheld and charter school activity for educational entities within the county.

Basis of Accounting - Measurement Focus

Government-Wide Financial Statements The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting, which differs from the manner in which governmental fund financial statements are prepared.

The government-wide statement of activities presents a comparison between expenses, both direct and indirect, for each governmental function of the County Office. Direct expenses are those that are specifically associated with a service, program, or department and are therefore, clearly identifiable to a particular function, and excludes fiduciary activity. 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 the asset 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 such as food services result from special revenue funds and the restrictions on their net position use.

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

SANTA CLARA COUNTY OFFICE OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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.

Proprietary Funds Proprietary funds are accounted for using the flow of economic resources measurement focus and the accrual basis of accounting. All assets and all liabilities associated with the operation of this fund are included in the statement of net position. The statement of changes in fund net position presents increases (revenues) and decreases (expenses) in net total position. The statement of cash flows provides information about how the County Office finances and meets the cash flow needs of its proprietary fund.

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.

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. For the County Office, available means expected to be received within 90 days of fiscal year-end.

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: State apportionments, 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.

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

SANTA CLARA COUNTY OFFICE OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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

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

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.

Investments

Investments held at June 30, 2018 with original maturities greater than one year with exception of cash in country treasury are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments that are not required to be reported at fair value are stated at cost or amortized cost. Fair values of investments in County Treasury are determined by the County.

Prepaid Items

Prepaid Items represent amounts paid in advance of receiving goods or services. The County Office has the option of reporting expenditure in governmental funds for prepaid items either when purchased or during the benefiting period. The County Office has chosen to report the expenditure in the benefiting period.

Capital Assets and Depreciation

The accounting and reporting treatment applied to the capital assets associated with a fund are determined by its measurement focus. General capital assets are long-lived assets of the County Office as a whole. The County Office maintains a capitalization threshold of \$5,000. The County Office does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized, but are expensed as incurred. When purchased, such assets are recorded as expenditures in the governmental funds. In the government-wide statement of net position and activities, such amounts are capitalized and their cost is amortized to operations over their useful lives by annual depreciation expense charge. The valuation basis for capital assets is historical cost, or where historical cost is not available, estimated historical cost based on replacement cost.

Capital assets are depreciated using the straight-line method over 4 - 30 years depending on asset types.

SANTA CLARA COUNTY OFFICE OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables". These amounts are eliminated in the governmental activities columns of the Statement of Net Position.

Compensated Absences

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

Sick leave is accumulated without limit for each employee at the rate of one day for each month worked. Leave with pay is provided when employees are absent for health reasons; however, the employees do not gain a vested right to accumulated sick leave. Employees are never paid for any sick leave balance at termination of employment or any other time. Therefore, the value of accumulated sick leave is not recognized as a liability in the County Office's financial statements. However, credit for unused sick leave is applicable to all classified school members who retire after January 1, 1999. At retirement, each member will receive .004 year of service credit for each day of unused sick leave. Credit for unused sick leave is applicable to all certificated employees and is determined by dividing the number of unused sick days by the number of base service days required to complete the last school year, if employed full-time.

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities, and long-term obligations are reported in the government-wide fund financial statements. In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the governmental funds.

However, claims and judgments, compensated absences, special termination benefits, and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the governmental fund financial statements only to the extent that they are due for payment during the current year. Bonds and other long-term obligations are recognized as liabilities in the governmental fund financial statements when paid.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position also reports deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an expense until then. The County Office reports deferred outflows of resources for deferred charges on refunding of debt, for pension related items, and for OPEB related items.

In addition to liabilities, the statement of financial position reports a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The County Office reports deferred inflows of resources related to its' OPEB and pension activities.

SANTA CLARA COUNTY OFFICE OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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 California State Teachers Retirement System (CalSTRS) and the California Public Employees' Retirement System (CalPERS) plan for schools (Plans) and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by CalSTRS and CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Member contributions are recognized in the period in which they are earned. Investments are reported at fair value.

Postemployment Benefits Other Than Pensions (OPEB)

For purposes of measuring the total OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the County Office Plan and additions to/deductions from the County Office Plan. For this purpose, the County Office Plan recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for money market investments and participating interest-earning investment contracts that have a maturity at the time of purchase of one year or less, which are reported at cost.

Fund Balances - Governmental Funds

As of June 30, 2018, fund balances of the governmental funds are classified as follows:

Nonspendable - amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted - amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Committed - amounts that can be used only for specific purposes determined by a formal action of the governing board. The governing board is the highest level of decision-making authority for the County Office. Commitments may be established, modified, or rescinded only through resolutions or other action as approved by the governing board.

Assigned - amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. Under the County Office's adopted policy, only the governing board or chief business officer/assistant superintendent of business services may assign amounts for specific purposes.

Unassigned - all other spendable amounts.

SANTA CLARA COUNTY OFFICE OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Spending Order Policy

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the County Office considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the County Office considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the governing board has provided otherwise in its commitment or assignment actions.

Net Position

Net position represents the difference between assets and liabilities. Net position - net of investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the County Office or through external restrictions imposed by creditors, grantors, or laws or 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 is available.

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the County Office, these revenues are self-insurance premiums. Operating expenses are necessary costs incurred to provide the good or service, that is the primary activity of the fund. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Interfund Activity

Transfers between government funds in the government-wide financial statements are eliminated.

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

Estimates

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

SANTA CLARA COUNTY OFFICE OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Budgetary Data

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

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

Property Tax

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

New Accounting Pronouncements Effective This Fiscal Year

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The primary objective of this Statement is to improve accounting and financial reporting by State and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by State and local governmental employers about financial support for OPEB that is provided by other entities. The County Office has implemented the provisions of this Statement as of June 30, 2018.

New Accounting Pronouncements Effective in Future Fiscal Years

In November 2016, the GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Early implementation is encouraged. The County Office has not determined the effect of the statement.

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Early implementation is encouraged. The County Office has not determined the effect of the statement.

SANTA CLARA COUNTY OFFICE OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

In June 2017, the GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this Statement are effective for the reporting periods beginning after December 15, 2019. Early implementation is encouraged. The County Office has not determined the effect of the statement.

In April 2018, the GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Early implementation is encouraged. The County Office has not determined the effect of the statement.

In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged. The requirements of this Statement should be applied prospectively. The County Office has not determined the effect of the statement.

In August 2018, the GASB issued Statement No. 90, *Majority Equity Interests – An Amendment of GASB statements No. 14 and No. 61*. The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. The requirements of this Statement is effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged. The County Office has not determined the effect of the statement.

SANTA CLARA COUNTY OFFICE OF EDUCATION

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 2 - DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2018, are classified in the accompanying financial statements as follows:

Governmental funds	\$ 97,847,360
Proprietary funds	21,572,918
Fiduciary fund	154,207,141
Total Deposits and Investments	<u>\$ 273,627,419</u>

Deposits and investments as of June 30, 2018, consist of the following:

Cash on hand and in banks	\$ 398
Cash in revolving	25,000
Investments	273,602,021
Total Deposits and Investments	<u>\$ 273,627,419</u>

Policies and Practices

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

Investments in County Treasury

The County Office is considered to be an involuntary participant in an external investment pool as the County Office is required to deposit all receipts and collections of monies with their County Treasurer (*Education Code* Section 41001). The County Office's investment in the pool is reported in the accounting financial statements at amounts based upon the County Office's pro-rata share of the amortized cost that approximate fair value provided by the County Treasurer for the entire portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by the County Treasurer, which is recorded on the amortized cost basis. The pool is not registered with the Security Exchange Commission.

SANTA CLARA COUNTY OFFICE OF EDUCATION

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

General Authorizations

The County Office's policy is to follow the requirements stipulated by the California government code related to investments. Limitations as they relate to interest rate risk and concentration of credit risk are indicated in the schedules below:

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

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The County Office manages its exposure to interest rate risk by depositing substantially all of its funds in the County Treasury Pool. The cost and fair value of the deposits with County Treasurer at June 30, 2018 approximate cost, and the weighted average maturity of the pool was 479 days.

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The County Office's investment in the County Pool is not rated as of June 30, 2018.

SANTA CLARA COUNTY OFFICE OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Custodial Credit Risk - Deposits

This is the risk that in the event of a bank failure, the County Office's deposits may not be returned to it. The County Office does not have a policy for custodial credit risk for deposits. However, the California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by public agencies. As of June 30, 2018, the County Office's bank balance was not exposed to custodial credit risk.

Fair Value Measurements

Generally accepted accounting principles provide guidance on how fair value should be determined when financial statement elements are required to be measured at fair value. Valuation techniques are ranked in three levels depending on the degree of objectivity of the inputs used with each level:

- Level 1 inputs – quoted prices in active markets for identical assets.
- Level 2 inputs – quoted prices in active or inactive for the same or similar assets.
- Level 3 inputs – estimates using the best information available when there is little or no market.

Uncategorized – Investment in the County Treasury Investment Pool are not measured using the input levels above because the County Office's transactions are based on a stable net asset value per share. All contributions and redemptions are transacted at \$1.00 net asset value per share. As of June 30, 2018, all of the County Office's investment is in the Santa Clara County Treasury and are reported as uncategorized.

NOTE 3 - RECEIVABLES

Receivables at June 30, 2018, consisted of intergovernmental grants, entitlements, interest and other local sources. All receivables are considered collectible in full.

	County School Service Fund	Special Education Pass Through Fund	Non-Major Governmental Funds	Total Governmental Funds	Internal Service Funds
Federal Government					
Categorical aid	\$ 6,249,555	\$ 9,871	\$ 435,880	\$ 6,695,306	\$ -
State Government					
Categorical aid	1,971,087	2,352,420	440,215	4,763,722	-
Lottery	70,061	-	-	70,061	-
Local Government					
Interest	454,244	45,402	6,734	506,380	185,326
Other Local Sources	3,993,398	-	-	3,993,398	4,340
Total	<u>\$ 12,738,345</u>	<u>\$ 2,407,693</u>	<u>\$ 882,829</u>	<u>\$ 16,028,867</u>	<u>\$ 189,666</u>

SANTA CLARA COUNTY OFFICE OF EDUCATION

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 4 - CAPITAL ASSETS

A schedule of changes in capital assets for the year ended June 30, 2018 is shown below:

	Balance June 30, 2017	Additions	Deductions	Balance June 30, 2018
Governmental Activities				
Capital Assets Not Being Depreciated:				
Land	\$ 5,533,399	\$ -	\$ -	\$ 5,533,399
Construction in Progress	1,151,771	3,969,330	4,427,679	693,422
Total Non-Depreciable Assets	<u>6,685,170</u>	<u>3,969,330</u>	<u>4,427,679</u>	<u>6,226,821</u>
Capital Assets Being Depreciated:				
Buildings and Improvements	80,413,970	4,427,679	-	84,841,649
Furniture and Equipment	16,422,481	1,623,452	797,449	17,248,484
Total Depreciable Assets	<u>96,836,451</u>	<u>6,051,131</u>	<u>797,449</u>	<u>102,090,133</u>
Total Capital Assets, at Cost	<u>103,521,621</u>	<u>10,020,461</u>	<u>5,225,128</u>	<u>108,316,954</u>
Less Accumulated Depreciation:				
Buildings and Improvements	25,432,979	2,860,398	-	28,293,377
Furniture and Equipment	11,481,931	971,472	724,968	11,728,435
Total Accumulated Depreciation	<u>36,914,910</u>	<u>3,831,870</u>	<u>724,968</u>	<u>40,021,812</u>
Capital Assets, Net	<u>\$ 66,606,711</u>	<u>\$ 6,188,591</u>	<u>\$ 4,500,160</u>	<u>\$ 68,295,142</u>

Depreciation expense was charged to governmental activities as follows:

Governmental Activities	
Instruction	\$ 1,777,038
Supervision of instruction	391,403
Instructional library, media, and technology	8,852
School site administration	187,310
Home-to-school transportation	27,909
Food services	31,906
All other pupil services	551,547
Anciliary services	71,051
Community services	311
Data processing	174,560
All other administration	462,933
Plant services	147,050
Total Depreciation Expenses All Activities	<u>\$ 3,831,870</u>

SANTA CLARA COUNTY OFFICE OF EDUCATION

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 5 - INTERFUND TRANSACTIONS

Interfund Receivables/Payables (Due To/Due From)

Interfund receivable and payable balances at June 30, 2018, are as follows:

Due To	Due From				Total
	County School Service	Special Education Pass Through	Non-Major Governmental	Internal Service Funds	
County School Service	\$ -	\$ 542,690	\$ 32,601	\$ 1,745,175	\$ 2,320,466
Non-Major Governmental	15	-	8,252	-	8,267
Total	\$ 15	\$ 542,690	\$ 40,853	\$ 1,745,175	\$ 2,328,733

All balances resulted from the time lag between the date that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Operating Transfers

Interfund transfers for the year ended June 30, 2018, consisted of the following:

The County School Service fund transferred to the Cafeteria fund for annual contributions.	\$ 152,933
The County School Service fund transferred to the Child Development fund for Child Care Enhancement Services.	1,031,388
The County School Service fund transferred to the Debt Service fund for COP principal and interest payments.	975,400
The County School Service fund transferred to the Self Insurance fund for support.	4,316
	<u>\$ 2,164,037</u>

SANTA CLARA COUNTY OFFICE OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

NOTE 6 - DEFERRED CHARGE ON REFUNDING

Deferred outflows of resources is a consumption of net position by the County Office that is applicable to a future reporting period. For governmental activities, the net investment in capital assets amount of \$62,704,762 includes the effect of deferring the recognition of loss from advance refunding. The \$116,674 balance of the deferred outflows of resources at June 30, 2018, will be recognized as an expense and as a decrease in net position over the remaining life of related bonds. During the year, \$19,446 was recognized as expense.

	Balance July 1, 2017	Additions	Deductions	Balance June 30, 2018
Deferred charges on refunding	\$ 136,120	\$ -	\$ 19,446	\$ 116,674

NOTE 7 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2018, consisted of the following:

	County School Service Fund	Special Education Pass Through Fund	Non-Major Governmental Funds	Total Governmental Funds	Internal Service Funds
Vendor payables	\$ 7,072,059	\$ 2,982,031	\$ 271,291	\$ 10,325,381	\$ 329,460
State apportionment	25,225,094	-	-	25,225,094	-
Salaries and benefits	617,388	-	1,520,246	2,137,634	-
Total	<u>\$ 32,914,541</u>	<u>\$ 2,982,031</u>	<u>\$ 1,791,537</u>	<u>\$ 37,688,109</u>	<u>\$ 329,460</u>

NOTE 8 - UNEARNED REVENUE

Unearned revenue at June 30, 2018, consists of the following:

	County School Service Fund	Non-Major Governmental Funds	Total Governmental Funds
Federal financial assistance	\$ 330,299	\$ -	\$ 330,299
State categorical aid	179,627	347,216	526,843
Other local	2,155,311	-	2,155,311
Total	<u>\$ 2,665,237</u>	<u>\$ 347,216</u>	<u>\$ 3,012,453</u>

SANTA CLARA COUNTY OFFICE OF EDUCATION

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 9 - LONG-TERM OBLIGATIONS OTHER THAN OPEB AND PENSIONS

Summary

The changes in the County Office's long-term obligations during the year consisted of the following:

	Balance July 1, 2017	Deductions	Balance June 30, 2018	Due in One Year
Certificates of Participation	\$ 5,690,000	\$ 705,000	\$ 4,985,000	\$ 730,000
Premiums on issuance of debt	840,988	118,934	722,054	120,344
Compensated absences	6,232,395	184,792	6,047,603	-
Totals	<u>\$ 12,763,383</u>	<u>\$ 1,008,726</u>	<u>\$ 11,754,657</u>	<u>\$ 850,344</u>

Payments on the Certificates of Participation were made from the Debt Service Fund. Payments on the compensated absences are made from various County Office funds.

In January 2016, the County Office issued 2016 Refunding Certificates of Participation (COPs) in the amount of \$7,240,000 to refund the remaining 2002 Refunding Certificates of Participation. The COPs mature during succeeding years through April 2024. The bonds accrue interest at a rate from 2.0 percent to 5.0 percent.

The following is a schedule of future payments for the 2016 Refunding Certificates of Participation:

Fiscal Year	Principal	Interest	Total
2019	\$ 730,000	\$ 249,250	\$ 979,250
2020	775,000	212,750	987,750
2021	810,000	174,000	984,000
2022	850,000	133,500	983,500
2023	885,000	91,000	976,000
2024	935,000	46,750	981,750
Total	<u>\$ 4,985,000</u>	<u>\$ 907,250</u>	<u>\$ 5,892,250</u>

SANTA CLARA COUNTY OFFICE OF EDUCATION

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 10 - FUND BALANCES

Fund balances are composed of the following elements:

	County School Service Fund	Non-Major Funds	Total Governmental Funds
Nonspendable			
Revolving cash	\$ 25,000	\$ -	\$ 25,000
Prepaid expenditures	2,522	-	2,522
Total Nonspendable	<u>27,522</u>	<u>-</u>	<u>27,522</u>
Restricted			
Educational programs	27,502,093	21,611	27,523,704
Capital projects	-	325,426	325,426
Total Restricted	<u>27,502,093</u>	<u>347,037</u>	<u>27,849,130</u>
Assigned			
Board designation (Legal)	176,000	-	176,000
Deferred maintenance (FMP)	3,791,597	-	3,791,597
Facilities	7,084,161	-	7,084,161
Technology services	8,688,504	-	8,688,504
Vacation and sick leave	4,559,034	-	4,559,034
Education resource center	100,000	-	100,000
Carryover of unspent funds	1,156,350	-	1,156,350
Total Assigned	<u>25,555,646</u>	<u>-</u>	<u>25,555,646</u>
Unassigned			
Reserve for economic uncertainties	9,705,945	-	9,705,945
Remaining unassigned	8,198,657	-	8,198,657
Total Unassigned	<u>17,904,602</u>	<u>-</u>	<u>17,904,602</u>
Total	<u>\$ 70,989,863</u>	<u>\$ 347,037</u>	<u>\$ 71,336,900</u>

SANTA CLARA COUNTY OFFICE OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

NOTE 11 - TOTAL POST EMPLOYMENT BENEFIT (OPEB) LIABILITY

For the fiscal year ended June 30, 2018, the County Office reported total OPEB liability, deferred outflows of resources, and OPEB expense as follows:

Total OPEB Liability	Deferred Outflows of Resources	OPEB Expense
\$ 26,026,472	\$ 24,000,000	\$ 2,557,759

Plan Administration

The County Office's governing board administers the Postemployment Benefits Plan (the Plan) is a single-employer defined benefit plan that is used to provide postemployment benefits other than pensions (OPEB) for eligible retirees and their dependents.

Plan Membership

At June 30, 2018, the Plan membership consisted of the following:

	Plan Members
Inactive employees or beneficiaries currently receiving benefits payments	73
Active employees	1,597
Total	1,670

Benefits Provided

The Plan provides health benefits to eligible retirees and their dependents until age 65. Benefits are provided through a third-party insurer, and the full cost of benefits is covered by the Plan. Eligibility requirements are as follows:

- SEIU employees who retire on or after age 50 with at least 10 years of service.
- ACE/CTA employees and psychologists who retire on or after age 55 with at least 10 years of service.
- Management employees hired on or before November 1, 2008, who retire on or after age 55 with at least one year of service.
- Management employees and Superintendent hired after November 1, 2008, who retire on or after age 55 with at least ten years of service.

The same medical coverage as provided to active employees is provide to eligible retired employees. The percentage of the monthly premium paid by the County Office varies. Retirees pay all amounts in excess of:

- For SEIU retirees, 50 percent.
- For ACE/CTA/psychologists, the percentage is 50 percent after 10 years of employment, 75 percent after 15 years, and 100 percent after 20 years.
- For management and Superintendent, 3.3 percent for each year of service (100 percent after 30 years).

The County Office's governing board has the authority to establish and amend the benefit terms as contained within the negotiated labor agreements.

SANTA CLARA COUNTY OFFICE OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Contributions

The required contribution is based on projected pay-as-you-go financing requirements which is paid by the employer only. For fiscal year 2017-2018, the County Office contributed \$24,000,000 to the Plan, of which \$878,106 was used for current premiums.

Actuarial Assumptions

The total OPEB liability in the June 30, 2017 actuarial valuation was determined using the following assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.75 percent
Salary increases	3.00 percent, average, including inflation
Discount rates	6.00 percent, net of OPEB plan investment expense, including inflation
Healthcare cost trend rates	8.00 percent for 2017, 7.00 percent for 2018, and 6.00 percent for 2019 and later

The discount rate was based on the Bond Buyer 20-bond General Obligation Index.

Mortality rates were based on the 2016 CalSTRS Mortality Table for certificated employees and the 2014 CalPERS Active Mortality for Miscellaneous Employees Table for classified employees. Mortality rates vary by age and sex. (Unisex mortality rates are not often used as individual OPEB benefits do not depend on the mortality table used.) If employees die prior to retirement, past contributions are available to fund benefits for employees who live to retirement. After retirement, death results in benefit termination or reduction. Although higher mortality rates reduce service costs, the mortality assumption is not likely to vary from employer to employer.

The actual assumptions used in the June 30, 2017 valuation were based on the results of an actual experience study for the period July 1, 2016 to June 30, 2017.

Changes in the Total OPEB Liability

	<u>Total OPEB Liability</u>
Balance at June 30, 2016	\$ 23,468,713
Service cost	2,054,085
Interest	1,381,780
Benefit payments	(878,106)
Net change in total OPEB liability	<u>2,557,759</u>
Balance at June 30, 2017	<u><u>\$ 26,026,472</u></u>

SANTA CLARA COUNTY OFFICE OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Sensitivity of the total OPEB Liability to Changes in the Discount Rate

The following presents the total OPEB liability of the County Office, as well as what the County Office's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5 percent) or 1-percentage-point higher (7 percent) than the current discount rate:

<u>Discount Rate</u>	<u>Total OPEB Liability</u>
1% decrease (5%)	\$ 28,788,466
Current discount rate (6%)	26,026,472
1% increase (7%)	23,603,239

Sensitivity of the total OPEB Liability to Changes in the Healthcare Cost Trend Rates.

The following presents the total OPEB liability of the County Office, as well as what the County Office's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare costs trend rates:

<u>Healthcare Cost Trend Rate</u>	<u>Total OPEB Liability</u>
1% decrease	\$ 23,045,089
Current healthcare cost trend rate	26,026,472
1% increase	29,540,757

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources related to OPEB

For the year ended June 30, 2018, the County Office recognized OPEB expense of \$2,557,759. At June 30, 2018, the County Office reported deferred outflows of resources for OPEB contributions subsequent to measurement date of \$24,000,000.

NOTE 12 - EMPLOYEE RETIREMENT SYSTEMS

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

For the fiscal year ended June 30, 2018, the County Office reported net pension liabilities, deferred outflows of resources, deferred inflows of resources, and pension expense for each of the above plans as follows:

<u>Pension Plan</u>	<u>Net Pension Liability</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>	<u>Pension Expense</u>
CalSTRS	\$ 88,256,423	\$ 25,989,636	\$ 5,006,686	\$ 9,485,447
CalPERS	111,033,215	36,430,172	4,434,567	18,288,692
Total	<u>\$ 199,289,638</u>	<u>\$ 62,419,808</u>	<u>\$ 9,441,253</u>	<u>\$ 27,774,139</u>

SANTA CLARA COUNTY OFFICE OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

The details of each plan are as follows:

California State Teachers' Retirement System (CalSTRS)

Plan Description

The County Office contributes to the State Teachers Retirement Plan (STRP) administered by the California State Teachers' Retirement System (CalSTRS). STRP is a cost-sharing multiple-employer public employee retirement system defined benefit pension plan. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law.

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2016, annual actuarial valuation report, Defined Benefit Program Actuarial Valuation. This report and CalSTRS audited financial information are publicly available reports that can be found on the CalSTRS website under Publications at:

<http://www.calstrs.com/member-publications>.

Benefits Provided

The STRP provides retirement, disability and survivor benefits to beneficiaries. Benefits are based on members' final compensation, age and years of service credit. Members hired on or before December 31, 2012, with five years of credited service are eligible for the normal retirement benefit at age 60. Members hired on or after January 1, 2013, with five years of credited service are eligible for the normal retirement benefit at age 62. The normal retirement benefit is equal to 2.0 percent of final compensation for each year of credited service.

The STRP is comprised of four programs: Defined Benefit Program, Defined Benefit Supplement Program, Cash Balance Benefit Program and Replacement Benefits Program. The STRP holds assets for the exclusive purpose of providing benefits to members and beneficiaries of these programs. CalSTRS also uses plan assets to defray reasonable expenses of administering the STRP. Although CalSTRS is the administrator of the STRP, the state is the sponsor of the STRP and obligor of the trust. In addition, the state is both an employer and nonemployer contributing entity to the STRP.

The County Office contributes exclusively to the STRP Defined Benefit Program, thus disclosures are not included for the other plans. The STRP provisions and benefits in effect at June 30, 2018, are summarized as follows:

	STRP Defined Benefit Program	
	On or before December 31, 2012	On or after January 1, 2013
Hire date	2012	January 1, 2013
Benefit formula	2% at 60	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	60	62
Monthly benefits as a percentage of eligible compensation	2.0% - 2.4%	2.0% - 2.4%
Required employee contribution rate	10.25%	9.21%
Required employer contribution rate	14.43%	14.43%
Required state contribution rate	9.328%	9.328%

SANTA CLARA COUNTY OFFICE OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Contributions

Required member, County Office and State of California contributions rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. The contributions rates are expressed as a level percentage of payroll using the entry age normal actuarial method. In accordance with AB 1469, employer contributions into the CalSTRS will be increasing to a total of 19.1 percent of applicable member earnings phased over a seven year period. The contribution rates for each plan for the year ended June 30, 2018, are presented above and the County Office's total contributions were \$7,165,833.

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

At June 30, 2018, the County Office reported a liability for its proportionate share of the net pension liability that reflected a reduction for State pension support provided to the County Office. The amount recognized by the County Office as its proportionate share of the net pension liability, the related state support and the total portion of the net pension liability that was associated with the County Office were as follows:

County Office's proportionate share of net pension liability	\$ 88,256,423
State's proportionate share of the net pension liability associated with the County Office	52,211,755
Total	\$ 140,468,178

The net pension liability was measured as of June 30, 2017. The County Office's proportion of the net pension liability was based on a projection of the County Office's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts and the State, actuarially determined. The County Office's proportionate share for the measurement period June 30, 2017 and June 30, 2016, respectively was 0.0954 percent and 0.0915 percent, resulting in a net decrease in the proportionate share of 0.0040 percent.

For the year ended June 30, 2018, the County Office recognized pension expense of \$9,485,447. In addition, the County Office recognized pension expense and revenue of \$5,255,614 for support provided by the State.

At June 30, 2018, the County Office reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions made subsequent to measurement date	\$ 7,165,833	\$ -
Net differences between projected and actual earnings on investments	-	2,350,515
Differences between expected and actual experience	326,381	1,539,254
Change in assumptions	16,350,533	-
Change in proportions	2,146,889	1,116,917
Total	\$ 25,989,636	\$ 5,006,686

SANTA CLARA COUNTY OFFICE OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

The deferred outflows of resources related to pensions resulting from County Office contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the subsequent fiscal year. The deferred outflows/(inflows) of resources related to the difference between projected and actual earnings on pension plan investments are amortized over a closed five-year period and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2019	\$ (1,954,370)
2020	1,478,832
2021	213,270
2022	(2,088,247)
Total	<u>\$ (2,350,515)</u>

The deferred outflows/(inflows) of resources related to the net change in proportionate share of net pension liability, differences between expected and actual experience in the measurement of the total pension liability, and changes of assumptions will be amortized over the Expected Average Remaining Service Life (EARSL) of all members that are provided benefits (active, inactive, and retirees) as of the beginning of the measurement period. The EARSL for the measurement period is seven years and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2019	\$ 5,459,606
2020	5,459,606
2021	4,895,794
2022	(178,508)
2023	118,924
2024	412,210
Total	<u>\$ 16,167,632</u>

Actuarial Methods and Assumptions

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

Valuation date	June 30, 2016
Measurement date	June 30, 2017
Experience study	July 1, 2010 through June 30, 2015
Actuarial cost method	Entry age normal
Discount rate	7.10%
Investment rate of return	7.10%
Consumer price inflation	2.75%
Wage growth	3.50%

SANTA CLARA COUNTY OFFICE OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

CalSTRS uses a generational mortality assumption, which involves the use of a base mortality table and projection scales to reflect expected annual reductions in mortality rates at each age, resulting in increases in life expectancies each year into the future. The base mortality tables are CalSTRS custom tables derived to best fit the patterns of mortality among its members. The projection scale was set equal to 110 percent of the ultimate improvement factor from the Mortality Improvement Scale (MP-2016) table, issued by the Society of Actuaries.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. The best estimate ranges were developed using capital market assumptions from CalSTRS general investment consultant (Pension Consulting Alliance-PCA) as an input to the process. The actuarial investment rate of return assumption was adopted by the board in February 2017 in conjunction with the most recent experience study. For each future valuation, CalSTRS consulting actuary (Milliman) reviews the return assumption for reasonableness based on the most current capital market assumptions. Best estimates of 20-year geometrically-linked real rates of return and the assumed asset allocation for each major asset class for the year ended June 30, 2017, are summarized in the following table:

Asset Class	Assumed Asset Allocation	Long-Term Expected Real Rate of Return
Global Equity	47%	6.30%
Fixed Income	12%	0.30%
Real Estate	13%	5.20%
Private equity	13%	9.30%
Absolute Return /Risk Mitigating Strategies	9%	2.90%
Inflation sensitive	4%	3.80%
Cash/Liquidity	2%	-1.00%
	<u>100%</u>	

Discount Rate

The discount rate used to measure the total pension liability was 7.10 percent. The projection of cash flows used to determine the discount rate assumed the contributions from plan members and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.10 percent) and assuming that contributions, benefit payments and administrative expense occurred midyear. Based on these assumptions, the STRP'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 total pension liability.

The following presents the County Office's proportionate share of the net pension liability calculated using the current discount rate as well as what the net pension liability would be if it were calculated using a discount rate that is one percent lower or higher than the current rate:

Discount Rate	Net Pension Liability
1% decrease (6.10%)	\$ 129,588,448
Current discount rate (7.10%)	88,256,423
1% increase (8.10%)	54,712,684

SANTA CLARA COUNTY OFFICE OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

California Public Employees Retirement System (CalPERS)

Plan Description

Qualified employees are eligible to participate in the School Employer Pool (SEP) under the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Law.

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2016 annual actuarial valuation report, Schools Pool Actuarial Valuation. This report and CalPERS audited financial information are publicly available reports that can be found on the CalPERS website under Forms and Publications at: <https://www.calpers.ca.gov/page/forms-publications>.

Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of service credit, a benefit factor and the member's final compensation. Members hired on or before December 31, 2012, with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. Members hired on or after January 1, 2013, with five years of total service are eligible to retire at age 52 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after five years of service. The Basic Death Benefit is paid to any member's beneficiary if the member dies while actively employed. An employee's eligible survivor may receive the 1957 Survivor Benefit if the member dies while actively employed, is at least age 50 (or 52 for members hired on or after January 1, 2013), and has at least five years of credited service. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

The CalPERS provisions and benefits in effect at June 30, 2018, are summarized as follows:

	<u>School Employer Pool (CalPERS)</u>	
	On or before December 31, 2012	On or after January 1, 2013
Hire date	December 31, 2012	January 1, 2013
Benefit formula	2% at 55	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	55	62
Monthly benefits as a percentage of eligible compensation	1.1% - 2.5%	1.0% - 2.5%
Required employee contribution rate	7.00%	6.50%
Required employer contribution rate	15.531%	15.531%

SANTA CLARA COUNTY OFFICE OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers are determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Total plan contributions through the CalPERS annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The County Office is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. The contributions rates are expressed as percentage of annual payroll. The contribution rates for each plan for the year ended June 30, 2018, are presented above and the total County Office contributions were \$9,474,362.

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

As of June 30, 2018, the County Office reported net pension liabilities for its proportionate share of the CalPERS net pension liability totaling \$111,033,215. The net pension liability was measured as of June 30, 2017. The County Office's proportion of the net pension liability was based on a projection of the County Office's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts, actuarially determined. The County Office's proportionate share for the measurement period June 30, 2017 and June 30, 2016, respectively was 0.4651 percent and 0.4476 percent, resulting in a net increase in the proportionate share of 0.0176 percent.

For the year ended June 30, 2018, the County Office recognized pension expense of \$18,288,692. At June 30, 2018, the County Office reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions made subsequent to measurement date	\$ 9,474,362	\$ -
Net differences between projected and actual earnings on investments	3,840,990	-
Differences between expected and actual experience	16,218,147	1,307,279
Change in assumptions	3,977,861	-
Change in proportions	2,918,812	3,127,288
Total	<u>\$ 36,430,172</u>	<u>\$ 4,434,567</u>

The deferred outflows of resources related to pensions resulting from County Office contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the subsequent fiscal year.

SANTA CLARA COUNTY OFFICE OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

The deferred outflows/(inflows) of resources related to the difference between projected and actual earnings on pension plan investments are amortized over a closed five-year period and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows(Inflows) of Resources
2019	\$ (104,077)
2020	4,431,669
2021	1,616,723
2022	(2,103,325)
Total	<u>\$ 3,840,990</u>

The deferred outflows/(inflows) of resources related to the net change in proportionate share of net pension liability, differences between expected and actual experience in the measurement of the total pension liability, and changes of assumptions will be amortized over the Expected Average Remaining Service Life (EARSL) of all members that are provided benefits (active, inactive, and retirees) as of the beginning of the measurement period. The EARSL for the measurement period is 3.9 years and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows(Inflows) of Resources
2019	\$ 5,004,373
2020	7,161,044
2021	6,514,836
Total	<u>\$ 18,680,253</u>

Actuarial Methods and Assumptions

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

Valuation date	June 30, 2016
Measurement date	June 30, 2017
Experience study	July 1, 1997 through June 30, 2011
Actuarial cost method	Entry age normal
Discount rate	7.15%
Investment rate of return	7.15%
Consumer price inflation	2.75%
Wage growth	Varies by entry age and service

SANTA CLARA COUNTY OFFICE OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

The mortality table used was developed based on CalPERS-specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB.

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 ten years) and the long-term (11+ 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 rounded 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 equal to the single equivalent rate calculated above and adjusted to account for assumed administrative expenses. The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Assumed Asset Allocation	Long-Term Expected Real Rate of Return
Global equity	47%	5.38%
Global debt securities	19%	2.27%
Inflation assets	6%	1.39%
Private equity	12%	6.63%
Real estate	11%	5.21%
Infrastructure and Forestland	3%	5.36%
Liquidity	2%	-0.90%
	<u>100%</u>	

Discount Rate

The discount rate used to measure the total pension liability was 7.15 percent. The projection of cash flows used to determine the discount rate assumed the contributions from plan members and employers will be made at statutory contribution rates. Based on these assumptions, the School Employer Pool 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 total pension liability.

The following presents the County Office's proportionate share of the net pension liability calculated using the current discount rate as well as what the net pension liability would be if it were calculated using a discount rate that is one percent lower or higher than the current rate:

Discount rate	Net Pension Liability
1% decrease (6.15%)	\$ 137,053,895
Current discount rate (7.15%)	111,033,215
1% increase (8.15%)	54,225,056

SANTA CLARA COUNTY OFFICE OF EDUCATION

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 13 - RISK MANAGEMENT

Property and Liability

The County Office is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year ending June 30, 2018, the County Office participated in the South Bay Area Schools Insurance Authority (SBASIA) public entity risk pool for property and liability insurance coverage. Settled claims have not exceeded this commercial coverage in any of the past three years. There has not been a significant reduction in coverage from the prior year.

Insurance Program / Company Name	Type of Coverage	Self-insured Retention	Limits
<u>Workers' Compensation Program</u>			
Santa Clara County Office of Education	Workers' Compensation	N/A	\$ 350,000
CSPIC	Workers' Compensation	\$ 300,000	\$ 5,000,000
<u>Property and Liability:</u>			
SBASIA	Property	\$ 10,000	\$ 500,000
SBASIA	Liability	\$ 10,000	\$ 250,000
<u>Excess Property and Liability Program:</u>			
Genesis Insurance Company	Excess Liability	\$ 300,000	\$ 1,000,000
CSAC Excess Insurance Authority	General Liability	\$ 1,000,000	\$ 24,000,000
Public Entity Property Insurance Program	Excess Property	\$ 500,000	\$ 1,000,000

Worker's Compensation Unpaid Claims Liabilities

The County Office accounts for the self-insured activities in the Self-Insurance Internal Service Fund. The fund establishes a liability for both reported and unreported events, which includes estimates of both future payments of losses and related claim adjustment expenses. The following represent the changes in approximate aggregate liabilities for the County Office from July 1, 2016 to June 30, 2018:

Liability Balance, July 1, 2016	\$ 12,419,000
Claims and changes in estimates	4,741,182
Claims payments	(4,179,182)
Liability Balance, June 30, 2017	12,981,000
Claims and changes in estimates	3,944,000
Claims payments	(4,217,000)
Liability Balance, June 30, 2018	\$ 12,708,000
Assets available to pay claims at June 30, 2018	\$ 18,141,456

SANTA CLARA COUNTY OFFICE OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

NOTE 14 - COMMITMENTS AND CONTINGENCIES

Grants

The County Office received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the County School Service Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the County Office at June 30, 2018.

Litigation

The County Office is involved in various litigation arising from the normal course of business. In the opinion of management and legal counsel, the disposition of all litigation pending is not expected to have a material adverse effect on the overall financial position of the County Office at June 30, 2018.

NOTE 15 - PARTICIPATION IN PUBLIC ENTITY RISK POOLS, JOINT POWER AUTHORITIES AND OTHER RELATED PARTY TRANSACTIONS

The County Office is a member of South Bay Area Schools Insurance Authority (SBASIA). SBASIA operates and maintains common risk management and insurance for liability and property damage protection. The JPA agreement for SBASIA provides that SBASIA will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of \$500,000 and \$1,000,000 for each insured event for property and liability, respectively. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years. Audited financial statements are generally available from the respective entities. The relationship between Santa Clara County Office of Education and the Joint Powers Authority is such that the JPA is not a component unit of the County Office for financial reporting purposes.

NOTE 16 - RESTATEMENT FO PRIOR YEAR NET POSITION

The County Office adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment benefits Other Than Pensions*, in the current year. As a result, the effect on the current fiscal year is as follows:

Net Position - Beginning	\$ 16,223,162
Restatement related to prior year's excess property tax	(22,140,554)
Restatement related to implementation of OPEB 75	(23,468,713)
Net Position - Beginning as Restated	<u>\$ (29,386,105)</u>

REQUIRED SUPPLEMENTARY INFORMATION

SANTA CLARA COUNTY OFFICE OF EDUCATION

**COUNTY SCHOOL SERVICE FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2018**

	Budgeted Amounts		Actual (GAAP Basis)	Variances - Positive (Negative)
	Original	Final		Final to Actual
REVENUES				
Local Control Funding Formula	\$ 144,147,642	\$ 140,071,342	\$ 144,469,823	\$ 4,398,481
Federal sources	44,057,269	51,180,940	45,678,433	(5,502,507)
Other State sources	12,167,817	14,790,066	13,415,966	(1,374,100)
Other local sources	37,102,701	49,238,269	45,476,732	(3,761,537)
Total Revenues	<u>237,475,429</u>	<u>255,280,617</u>	<u>249,040,954</u>	<u>(6,239,663)</u>
EXPENDITURES				
Current				
Certificated salaries	53,717,459	54,461,396	52,460,808	2,000,588
Classified salaries	62,304,054	65,411,688	62,597,779	2,813,909
Employee benefits	55,620,486	56,208,049	54,820,828	1,387,221
Books and supplies	5,685,330	9,842,331	4,318,497	5,523,834
Services and other expenditures	37,168,755	48,734,127	33,223,981	15,510,146
Other outgo	24,355,019	28,443,573	30,497,265	(2,053,692)
Capital outlay	10,168,939	14,293,759	5,649,966	8,643,793
Total Expenditures	<u>249,020,042</u>	<u>277,394,923</u>	<u>243,569,124</u>	<u>33,825,799</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(11,544,613)</u>	<u>(22,114,306)</u>	<u>5,471,830</u>	<u>27,586,136</u>
Other Financing Sources (Uses)				
Transfers out	<u>(2,436,692)</u>	<u>(2,155,348)</u>	<u>(2,164,037)</u>	<u>(8,689)</u>
Net Financing Sources (Uses)	<u>(2,436,692)</u>	<u>(2,155,348)</u>	<u>(2,164,037)</u>	<u>(8,689)</u>
NET CHANGE IN FUND BALANCES	(13,981,305)	(24,269,654)	3,307,793	27,577,447
Fund Balance - Beginning (restated)	67,682,070	67,682,070	67,682,070	-
Fund Balance - Ending	<u>\$ 53,700,765</u>	<u>\$ 43,412,416</u>	<u>\$ 70,989,863</u>	<u>\$ 27,577,447</u>

See accompanying note to required supplementary information.

SANTA CLARA COUNTY OFFICE OF EDUCATION

**SPECIAL EDUCATION PASS-THROUGH FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2018**

	<u>Budgeted Amounts</u>		<u>Actual (GAAP Basis)</u>	<u>Variances - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		<u>Final to Actual</u>
REVENUES				
Federal sources	\$ 28,253,467	\$ 33,960,433	\$ 27,401,806	\$ (6,558,627)
Other state sources	8,194,606	8,220,942	8,992,081	771,139
Other local sources	1,283,692	1,283,692	1,369,919	86,227
Total Revenues	<u>37,731,765</u>	<u>43,465,067</u>	<u>37,763,806</u>	<u>(5,701,261)</u>
EXPENDITURES				
Current				
Transfer of pass-through revenues	<u>37,731,765</u>	<u>43,465,067</u>	<u>37,763,806</u>	<u>5,701,261</u>
Total Expenditures	<u>37,731,765</u>	<u>43,465,067</u>	<u>37,763,806</u>	<u>5,701,261</u>
NET CHANGE IN FUND BALANCES				
	-	-	-	-
Fund Balance - Beginning	-	-	-	-
Fund Balance - Ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See accompanying note to required supplementary information.

SANTA CLARA COUNTY OFFICE OF EDUCATION

**SCHEDULE OF CHANGES IN THE COUNTY OFFICE'S TOTAL OPEB LIABILITY
AND RELATED RATIOS
FOR THE YEAR ENDED JUNE 30, 2018**

Measurement Date, as of June 30,	<u>2017</u>
Total OPEB Liability	
Service cost	\$ 2,054,085
Interest	1,381,780
Benefit payments	<u>(878,106)</u>
Net change in total OPEB liability	2,557,759
Total OPEB liability - beginning	<u>23,468,713</u>
Total OPEB liability - ending	<u><u>\$ 26,026,472</u></u>
Covered-employee payroll	<u>\$ 108,746,865</u>
County Office's total OPEB liability as a percentage of covered-employee payroll	<u>23.93%</u>

Note: In the future, as data becomes available, ten years of information will be presented.

See accompanying note to required supplementary information.

SANTA CLARA COUNTY OFFICE OF EDUCATION

**SCHEDULE OF THE COUNTY OFFICE'S PROPORTIONATE SHARE OF THE
NET PENSION LIABILITY
FOR THE YEAR ENDED JUNE 30, 2018**

Measurement Date, as of June 30,	<u>2018</u>	<u>2017</u>
CalSTRS		
County Office's proportion of the net pension liability	<u>0.0954%</u>	<u>0.0920%</u>
County Office's proportionate share of the net pension liability	\$ 88,256,423	\$ 74,537,000
State's proportionate share of the net pension liability associated with the County Office	<u>52,211,755</u>	<u>42,436,000</u>
Total	<u>\$ 140,468,178</u>	<u>\$ 116,973,000</u>
County Office's covered - employee payroll	<u>\$ 54,365,000</u>	<u>\$ 45,928,000</u>
County Office's proportionate share of the net pension liability as a percentage of its covered - employee payroll	<u>162%</u>	<u>162%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>69%</u>	<u>70%</u>
CalPERS		
County Office's proportion of the net pension liability	<u>0.4651%</u>	<u>0.4410%</u>
County Office's proportionate share of the net pension liability	<u>\$ 111,033,215</u>	<u>\$ 87,140,000</u>
County Office's covered - employee payroll	<u>\$ 59,344,000</u>	<u>\$ 52,933,000</u>
County Office's proportionate share of the net pension liability as a percentage of its covered - employee payroll	<u>187%</u>	<u>165%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>72%</u>	<u>74%</u>

Note : In the future, as data becomes available, ten years of information will be presented.

See accompanying note to required supplementary information.



<u>2016</u>	<u>2015</u>
<u>0.0930%</u>	<u>0.0950%</u>
\$ 62,863,000	\$ 55,278,000
<u>33,247,000</u>	<u>33,379,000</u>
<u>\$ 96,110,000</u>	<u>\$ 88,657,000</u>
<u>\$ 43,339,000</u>	<u>\$ 42,132,000</u>
<u>145%</u>	<u>131%</u>
<u>74%</u>	<u>78%</u>
<u>0.4690%</u>	<u>0.5080%</u>
<u>\$ 69,188,000</u>	<u>\$ 87,140,000</u>
<u>\$ 51,965,000</u>	<u>\$ 52,933,000</u>
<u>133%</u>	<u>165%</u>
<u>79%</u>	<u>83%</u>

SANTA CLARA COUNTY OFFICE OF EDUCATION

**SCHEDULE OF COUNTY OFFICE CONTRIBUTIONS
FOR THE YEAR ENDED JUNE 30, 2018**

Fiscal Year Ended, June 30,	<u>2018</u>	<u>2017</u>
CalSTRS		
Contractually required contribution	\$ 7,165,833	\$ 6,839,141
Contributions in relation to the contractually required contribution	7,165,833	6,839,141
Contribution deficiency (excess)	<u>\$ 14,331,666</u>	<u>\$ 13,678,282</u>
County Office's covered - employee payroll	<u>\$ 49,538,209</u>	<u>\$ 54,365,000</u>
Contributions as a percentage of covered - employee payroll	<u>14.47%</u>	<u>12.58%</u>
CalPERS		
Contractually required contribution	\$ 9,474,362	\$ 8,241,720
Contributions in relation to the contractually required contribution	9,474,362	8,241,720
Contribution deficiency (excess)	<u>\$ 18,948,724</u>	<u>\$ 16,483,440</u>
County Office's covered - employee payroll	<u>\$ 60,985,937</u>	<u>\$ 59,344,000</u>
Contributions as a percentage of covered - employee payroll	<u>15.54%</u>	<u>13.89%</u>

Note: In the future, as data becomes available, ten years of information will be presented.

See accompanying note to required supplementary information.

<u>2016</u>	<u>2015</u>
\$ 4,928,078	\$ 3,848,492
4,928,078	3,848,492
\$ 9,856,156	\$ 7,696,984
\$ 45,928,000	\$ 43,339,000
10.73%	8.88%

\$ 6,270,944	\$ 6,116,832
6,270,944	6,116,832
\$ 12,541,888	\$ 12,233,664
\$ 52,933,000	\$ 51,965,000
11.85%	11.77%

SANTA CLARA COUNTY OFFICE OF EDUCATION

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION JUNE 30, 2018

NOTE 1 - PURPOSE OF SCHEDULES

Budgetary Comparison Schedule(s)

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 State of America as prescribed by the Governmental Accounting Standards Board and provisions of the California *Education Code*. The governing board is required to hold a public hearing and adopt an operating budget no later than July 1 of each year. The adopted budget is subject to amendment throughout the year to give consideration to unanticipated revenue and expenditures primarily resulting from events unknown at the time of budget adoption with the legal restriction that expenditures cannot exceed appropriations by major object account.

The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts after all budget amendments have been accounted for.

These schedules presents information for the original and final budgets and actual results of operations, as well as the variances from the final budget to actual results of operations.

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

This schedule presents information on the County Office's changes in the total OPEB liability, including beginning and ending balances, and the total OPEB liability. In the future, as data becomes available, ten years of information will be presented.

Change in Benefit Terms – No Change in the current year.

Change in Assumptions – No Change in the current year.

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

This schedule presents information on the County Office's proportionate share of the net pension liability (NPL), the plans' fiduciary net position and, when applicable, the State's proportionate share of the NPL associated with the County Office. In the future, as data becomes available, ten years of information will be presented.

Changes in Benefit Terms – There were no changes in benefit terms since the previous valuations for both CalSTRS and CalPERS.

Changes in Assumptions – The CalSTRS plan rate of investment return assumption was changed from 7.60 percent to 7.10 percent since the previous valuation. The CalPERS plan rate of investment return assumption was changed from 7.65 percent to 7.15 percent since the previous valuation.

Schedule of County Office Pension Contributions

This schedule presents information on the County Office's required contribution, the amounts actually contributed, and any excess or deficiency related to the required contribution. In the future, as data becomes available, ten years of information will be presented.

SUPPLEMENTARY INFORMATION

SANTA CLARA COUNTY OFFICE OF EDUCATION

**NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2018**

	Child Development Fund	Cafeteria Fund	County School Facilities Fund
ASSETS			
Deposits and investments	\$ 1,342,015	\$ -	\$ 324,059
Receivables	739,333	142,129	1,367
Due from other funds	23,866	16,987	-
Total Assets	<u>\$ 2,105,214</u>	<u>\$ 159,116</u>	<u>\$ 325,426</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Overdrafts	\$ -	\$ 95,714	\$ -
Accounts payable	1,728,135	63,402	-
Due to other funds	8,252	-	-
Unearned revenue	347,216	-	-
Total Liabilities	<u>2,083,603</u>	<u>159,116</u>	<u>-</u>
Fund Balances:			
Restricted	21,611	-	325,426
Total Liabilities and Fund Balances	<u>\$ 2,105,214</u>	<u>\$ 159,116</u>	<u>\$ 325,426</u>

Debt Service Fund	Total Non-Major Governmental Funds
\$ 15	\$ 1,666,089
-	882,829
-	40,853
<u>\$ 15</u>	<u>\$ 2,589,771</u>

\$ -	\$ 95,714
-	1,791,537
15	8,267
-	347,216
<u>15</u>	<u>2,242,734</u>
-	347,037
<u>\$ 15</u>	<u>\$ 2,589,771</u>

SANTA CLARA COUNTY OFFICE OF EDUCATION

**NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2018**

	Child Development Fund	Cafeteria Fund	County School Facilities Fund
REVENUES			
Federal sources	\$ 772,629	\$ 924,199	\$ -
Other State sources	5,418,901	54,005	-
Other local sources	176,794	2,581	4,638
Total Revenues	6,368,324	980,785	4,638
EXPENDITURES			
Current			
Instruction	3,476,217	-	-
Instruction-related activities:			
Supervision of instruction	2,578,786	-	-
School site administration	313,250	-	-
Pupil services:			
Food services	115,104	1,031,653	-
All other pupil services	250,736	-	-
Administration:			
All other administration	451,845	56,794	-
Plant services	239,227	50,133	-
Principal	-	-	-
Interest and other	-	-	-
Total Expenditures	7,425,165	1,138,580	-
Excess (Deficiency) of Revenues Over Expenditures	(1,056,841)	(157,795)	4,638
Other Financing Sources (Uses)			
Transfers in	1,031,388	152,933	-
NET CHANGE IN FUND BALANCES	(25,453)	(4,862)	4,638
Fund Balance - Beginning	47,064	4,862	320,788
Fund Balance - Ending	\$ 21,611	\$ -	\$ 325,426

Debt Service Fund	Total Non-Major Governmental Funds
\$ -	\$ 1,696,828
-	5,472,906
-	184,013
-	<u>7,353,747</u>
-	3,476,217
-	2,578,786
-	313,250
-	1,146,757
-	250,736
-	508,639
-	289,360
705,000	705,000
270,400	270,400
<u>975,400</u>	<u>9,539,145</u>
(975,400)	(2,185,398)
975,400	<u>2,159,721</u>
-	(25,677)
-	372,714
<u>\$ -</u>	<u>\$ 347,037</u>

SANTA CLARA COUNTY OFFICE OF EDUCATION

**INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF NET POSITION
JUNE 30, 2018**

	Self Insurance	OPEB	Total
ASSETS			
Current Assets			
Deposits and investments	\$ 16,299,419	\$ 5,273,499	\$ 21,572,918
Receivables	71,340	118,326	189,666
Due from other funds	1,745,175	-	1,745,175
Prepaid expenses	354,982	-	354,982
Total Assets	<u>18,470,916</u>	<u>5,391,825</u>	<u>23,862,741</u>
LIABILITIES			
Current Liabilities			
Claim liabilities	4,490,000	-	4,490,000
Accounts payable	329,460	-	329,460
Total Current Liabilities	<u>4,819,460</u>	<u>-</u>	<u>4,819,460</u>
Noncurrent Liabilities			
Claim liabilities	8,218,000	-	8,218,000
Total Liabilities	<u>13,037,460</u>	<u>-</u>	<u>13,037,460</u>
NET POSITION			
Restricted	5,433,456	5,391,825	10,825,281
Total Net Position	<u>\$ 5,433,456</u>	<u>\$ 5,391,825</u>	<u>\$ 10,825,281</u>

SANTA CLARA COUNTY OFFICE OF EDUCATION

**INTERNAL SERVICES FUNDS
COMBINING STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2018**

	Self Insurance	OPEB	Internal Service Funds
OPERATING REVENUES			
Self-insurance premiums	\$ 7,636,442	\$ -	\$ 7,636,442
Contributions to OPEB	-	29,221,104	29,221,104
Other local revenue	244,283	-	244,283
Total Operating Revenues	<u>7,880,725</u>	<u>29,221,104</u>	<u>37,101,829</u>
OPERATING EXPENSES			
Classified salaries	239,197	-	239,197
Employee benefits	84,480	-	84,480
Supplies and materials	24,906	-	24,906
Contract services and other operating cost	5,687,765	-	5,687,765
Annual cost of OPEB	-	28,140,820	28,140,820
Total Operating Expenses	<u>6,036,348</u>	<u>28,140,820</u>	<u>34,177,168</u>
Operating Income	<u>1,844,377</u>	<u>1,080,284</u>	<u>2,924,661</u>
NONOPERATING REVENUES (EXPENSES)			
Interest income	219,760	383,429	603,189
Transfers in	4,316	-	4,316
Total nonoperating Revenues	<u>224,076</u>	<u>383,429</u>	<u>607,505</u>
Change in Net Position	2,068,453	1,463,713	3,532,166
Total Net Position - Beginning	3,365,003	3,928,112	7,293,115
Total Net Position - Ending	<u>\$ 5,433,456</u>	<u>\$ 5,391,825</u>	<u>\$ 10,825,281</u>

SANTA CLARA COUNTY OFFICE OF EDUCATION

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE JUNE 30, 2018

ORGANIZATION

Santa Clara County Office of Education was organized in 1852 under the laws of the State of California. The County Office operates under a locally-elected seven-member Board form of government and provides education services to grades K-12 as mandated by the State and/or Federal agencies. The County Office is the administrative agency for six Special Education Local Plan Areas and operates special education classes at seventy-two school sites within the County of Santa Clara. The County Office coordinates one Regional Occupational Programs and four community college district. It operates alternative schools programs that serve children in a variety of settings including Juvenile Hall, ranch programs, children's shelter and numerous community schools throughout the Santa Clara county. It operates via the children's service department, various preschool, childcare, developmental programs and comprehensive services for low income children and their families in Santa Clara and San Benito counties. This effort is coordinated using funds from Headstart, Early Headstart, Migrant Education, Preschool and State Preschool programs.

Santa Clara County Office of Education administers programs to 31 elementary, high school, unified, and community college districts within Santa Clara County serving an area of approximately 1,300 square miles.

GOVERNING BOARD

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Rosemary Kamei	President	2020
Anna Song	Vice President	2020
Joseph Di Salvo	Member	2020
Darcie Green	Member	2018
Kathleen King	Member	2018
Grace H. Mah	Member	2020
Claudia Rossi	Member	2018

ADMINISTRATION

Mary Ann Dewan, Ph.D.	County Superintendent of Schools
Steve Olmos, Ed.D.	Chief Schools Officer
Vacant	Chief Academic Officer
Megan K. Reilly	Chief Business Officer
Philip Gordillo	Chief Human Resources Officer
David Wu	Chief Technology Officer
Peter Daniels	Chief Public Affairs Officer

SANTA CLARA COUNTY OFFICE OF EDUCATION

**SCHEDULE OF AVERAGE DAILY ATTENDANCE
FOR THE YEAR ENDED JUNE 30, 2018**

	Final Report	
	Second Period Report	Annual Report
THE COUNTY OFFICE		
Elementary:		
Juvenile Halls, Homes and Camp	7.44	9.65
Probation Referred	12.90	14.58
Total Elementary	<u>20.34</u>	<u>24.23</u>
Secondary:		
Juvenile Halls, Homes and Camp	161.45	168.78
Probation Referred	61.55	64.02
Total Secondary	<u>223.00</u>	<u>232.80</u>
Total County Office	<u>243.34</u>	<u>257.03</u>
CHARTER SCHOOL		
Certificate Numbers	7387A6DE	19B49C00
Opportunity Youth (Nonclassroom-Based):		
Secondary:		
Probation Referred	<u>104.07</u>	<u>120.39</u>

SANTA CLARA COUNTY OFFICE OF EDUCATION

**SCHEDULE OF EXPENDITURE OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2018**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures	Amount Passed to Subrecipients
U.S. DEPARTMENT OF EDUCATION				
Direct grant:				
Preschool Development Grants	84.419C	[1]	\$ 345,457	\$ -
Passed through California Department of Education (CDE):				
Special Education Cluster				
Special Education grants to States				
Basic Local Assistance	84.027	13379	25,499,570	23,372,884
Preschool Local Entitlement	84.027A	13682	2,648,313	2,283,873
Mental Health Services	84.027A	13839	1,478,018	1,447,493
Special Education Preschool Grants				
Preschool Grants	84.173	14688	763,648	640,904
Preschool Staff Development	84.173A	13431	4,765	4,765
Alternative Dispute Resolution	84.173A	13007	27,637	12,476
Preschool Capacity Building Project	84.173A	13839	562,158	-
Total Special Education Cluster			<u>30,984,109</u>	<u>27,762,395</u>
Title I Grants to Local Educational Agencies (LEA)				
Part A, Basic Grants Low Income and Neglected	84.010	14329	1,261,431	-
Statewide System School Support	84.010	14416	613,195	338,433
Part D, Subpart 2, Local Delinquent Programs	84.010	14357	139,375	-
Title I Grants to LEA			<u>2,014,001</u>	<u>338,433</u>
Migrant Education state Grant Program				
Part C, Migrant Education Regular Programs	84.011	14326	8,891,446	-
Part C, Migrant Education Summer Programs	84.011	14768	477,267	-
Part D, Subpart 2, Local Delinquent Programs	84.011	14357	33,886	-
Total Migrant Education state Grant Program			<u>9,402,599</u>	<u>-</u>
English Language Acquisition Grants				
Limited English Proficiency Student	84.365	14346	45,047	-
Technical Assistance	84.365	14967	129,730	-
Total English Language Acquisition Grants			<u>174,777</u>	<u>-</u>
Special Education-Grants for Infants and Families	84.181	23761	787,560	-
Vocational Rehabilitation Grants to States	84.126	10006	87,948	-
Supporting Effective Instruction State Grants	84.367	14341	24,367	-
Education for Homeless Children and Youth	84.196	14342	138,350	-
Total Passed Through CDE			<u>43,613,711</u>	<u>28,100,828</u>
Passed through California Department of Rehabilitation:				
Promoting Readiness of Minors in Supplemental				
Security Income (PROMISSI)	84.418P	[1]	14,528	-
Total U.S. Department of Education			<u>43,973,696</u>	<u>28,100,828</u>

SANTA CLARA COUNTY OFFICE OF EDUCATION

**SCHEDULE OF EXPENDITURE OF FEDERAL AWARDS, (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2018**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures	Amount Passed to Subrecipients
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES				
Passed through CDE:				
Child Development Cluster:				
Child Care Mandatory and Matching Funds of the Child Care and Development Fund				
Federal Quality Improvement Activities	93.575	13979	\$ 600,319	\$ -
Local Planning Councils	93.575	13946	56,647	-
Federal Child Care Center	93.575	13609	115,663	-
Total Child Development Cluster			<u>772,629</u>	<u>-</u>
Medical Assistance Program				
Medi-Cal Billing Option	93.778	10013	1,543,175	
Medi-Cal Administrative Activities (MAA)	93.778	10060	1,186,294	
Total Medical Assistance Program			<u>2,729,469</u>	
Head Start	93.600	10016	26,377,073	-
Total U.S. Department of Health and Human Services			<u>29,879,171</u>	<u>-</u>
U.S. DEPARTMENT OF AGRICULTURE				
Passed through CDE:				
Child Nutrition Cluster:				
School Breakfast Program				
Basic School Breakfast Program	10.553	13525	22,508	-
Especially Needy Breakfast	10.553	13526	17,084	-
Total Child Nutrition Cluster			<u>39,592</u>	<u>-</u>
Child and Adult Care Food Program				
Centers and Families Claims	10.558	13393	844,733	-
CCFR Cash in Lieu of Commodities	10.558	13389	39,875	-
Total Child and Adult Care Food Program			<u>884,608</u>	<u>-</u>
Total U.S. Department of Agriculture			<u>924,200</u>	<u>-</u>
Total Expenditures of Federal Awards			<u>\$ 74,777,067</u>	<u>\$ 28,100,828</u>

^[1] Pass-Through Entity Identifying Number not available

SANTA CLARA COUNTY OFFICE OF EDUCATION

**RECONCILIATION OF UNAUDITED ACTUAL FINANCIAL REPORT
WITH AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

Summarized below are the fund balance reconciliations between the Unaudited Actual Financial Report and the audited financial statements.

	<u>County School Service Fund</u>
FUND BALANCE	
Balance, June 30, 2018, Unaudited Actuals	\$ 96,214,957
Increase in accounts payable	(25,225,094)
Balance, June 30, 2018, Audited Financial Statements	<u>\$ 70,989,863</u>

SANTA CLARA COUNTY OFFICE OF EDUCATION

**SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2018**

	(Budget) 2019	2018	2017	2016
COUNTY SCHOOL SERVICE FUND				
Revenues	\$ 249,105,151	\$ 249,040,954	\$ 239,140,394	\$ 230,326,943
Expenditures	249,861,104	243,569,124	229,690,987	210,063,933
Other uses and transfers out	979,250	2,164,037	3,519,353	10,869,606
Total Expenditures and Other Uses	250,840,354	245,733,161	233,210,340	220,933,539
Change in Fund Balance	\$ (1,735,203)	\$ 3,307,793	\$ 5,930,054	\$ 9,393,404
Ending fund balance	\$ 69,254,660	\$ 70,989,863	\$ 89,822,624	\$ 83,892,570
Prior period adjustment	-	-	(22,140,554)	-
Adjusted Ending Fund Balance	69,254,660	70,989,863	67,682,070	83,892,570
Available Reserves	\$ 16,169,399	\$ 17,904,602	\$ 12,008,156	\$ 23,416,146
Available Reserves as a percentage of Total Outgo	6.45%	7.29%	5.15%	10.60%
ALL FUNDS				
Long-Term Obligation	\$ 248,928,423	\$ 249,778,767	\$ 210,890,096	\$ 173,972,058
K-12 Average Daily Attendance at P-2	217	243	198	280

The County School Service Fund balance has decreased by \$12,902,707 over the past two years. The fiscal year 2018-2019 budget projects a decrease of \$1,735,203. For a County Office this size, the State of California recommends available reserves of at least 2 percent of total County School Service Fund expenditures, transfers out, and other uses (total outgo). The County Office met this requirement at June 30, 2018.

The County Office has incurred operating surpluses in all of the past three years, but anticipates incurring an operating deficit during the 2018-2019 fiscal year.

Total long-term liabilities have increased by \$75,806,709 over the past two years.

Average daily attendance (ADA) has decreased by 37 over the past two years. A further decrease of 26 ADA is anticipated during the 2018-2019 fiscal year.

¹ Budget 2019 is included for analytical purposes only and has not been subjected to audit.

² The ADA does not include charter school.

³ Available reserves consist of all unassigned fund balances including all amounts reserved for economic uncertainties contained with the County School Service Fund.

SANTA CLARA COUNTY OFFICE OF EDUCATION

**SCHEDULE OF CHARTER SCHOOLS
FOR THE YEAR ENDED JUNE 30, 2018**

<u>Charter #</u>	<u>Name of Charter School</u>	<u>Included in County Office Financial Statements, or Separate Report</u>
1840	Opportunity Youth Academy	Included in County Office's Financial Statements, County School Service Fund
972	ACE Empower Academy	Separate Report
1618	Alpha: Jose Hernandez Middle School	Separate Report
615	Bullis Charter School	Separate Report
767	Discovery Charter School	Separate Report
1547	Discovery Charter II	Separate Report
1268	Downtown College Preparatory - Alum Rock	Separate Report
1393	Rocketship Academy Brilliant Minds	Separate Report
1394	Rocketship Alma Academy	Separate Report
1193	Rocketship Discovery Prep	Separate Report
1687	Rocketship Fuerza Community Prep	Separate Report
1127	Rocketship Los Suenos Academy	Separate Report
850	Rocketship Mateo Sheedy Elementary	Separate Report
1778	Rocketship Rising Stars	Separate Report
1061	Rocketship Si Se Puede Academy	Separate Report
1665	Spark Charter	Separate Report
1516	Summit Public School - Denali	Separate Report
1282	Summit Public School - Tahoma	Separate Report
1290	Sunrise Middle	Separate Report
844	University Preparatory Academy Charter School	Separate Report
1716	Voices College-Bound Language Academy Morgan Hill	Separate Report
1743	Voices College-Bound Language Academy Mt. Pleasant	Separate Report

SANTA CLARA COUNTY OFFICE OF EDUCATION

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2018

NOTE 1 - PURPOSE OF SCHEDULES

Non-Major Governmental Funds Combining Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balance, and Internal Service Funds Combining Statement of Net Position and Statement of Revenues, Expenses and Changes in Net Position

The Non-Major Governmental Funds Combining Balance Sheet and Combining Statement of Revenues, Expenditures and Changes in Fund Balance is included to provide information regarding the individual funds that have been included in the Non-Major Governmental Funds column on the Governmental Funds Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balance. This section also provides information about the Internal Service Funds.

Local Education Agency Organization Structure

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

Schedule of Average Daily Attendance (ADA)

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 apportionments of State funds are made to County Offices. This schedule provides information regarding the attendance of students at various grade levels and in different programs.

Schedule of Expenditures of Federal Awards

The accompanying Schedule of Expenditures of Federal Awards includes the Federal grant activity of the County Office and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements. The County Office has not elected to use the ten percent de minimis cost rate as covered in Section 200.414 Indirect (F&A) costs of the Uniform Guidance.

Reconciliation of Annual Financial and Budget Report with Audited Financial Statements

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

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.

Schedule of Charter Schools

This Schedule lists all Charter Schools chartered by the County Office, and displays information for each Charter School whether or not the Charter School is included in the County Office audit.

INDEPENDENT AUDITOR'S REPORTS



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

Board of Education
Santa Clara County Office of Education
San Jose, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Santa Clara County Office of Education (the County Office) as of and for the year ended June 30, 2018, 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, 2018.

Emphasis of Matter - Change in Accounting Principles

As discussed in Note 1 to the financial statements, in 2018, the County Office adopted new accounting guidance, GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 the 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 County'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.

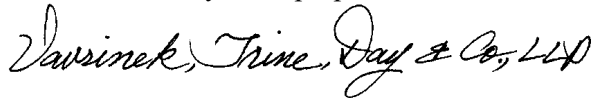
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not 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 Santa Clara County Office of Education's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed 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 County Office'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 County Office's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Palo Alto, California
December 14, 2018



VAVRINEK, TRINE, DAY & CO., LLP
Certified Public Accountants

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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

Board of Education
Santa Clara County Office of Education
San Jose, California

Report on Compliance for Each Major Federal Program

We have audited Santa Clara 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 Santa Clara County Office of Education's major Federal programs for the year ended June 30, 2018. 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 Federal statutes, regulations, and the terms and conditions of its Federal awards applicable to its Federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of 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 for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about the 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, Santa Clara County Office of Education complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the year ended June 30, 2018.

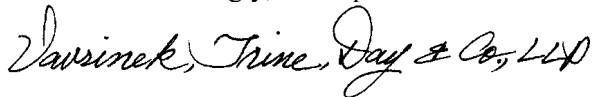
Report on Internal Control Over Compliance

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 the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the 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 a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a Federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a Federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

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



Palo Alto, California
December 14, 2018



VAVRINEK, TRINE, DAY & CO., LLP
Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Board of Education
Santa Clara County Office of Education
San Jose, California

Report on State Compliance

We have audited Santa Clara County Office of Education's (the County Office) compliance with the types of compliance requirements as identified in the *2017-2018 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* that could have a direct and material effect on each of the County Office's State government programs as noted below for the year ended June 30, 2018.

Management's Responsibility

Management is responsible for compliance with the requirements of State laws, regulations, and the terms and conditions of its State awards applicable to its State programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance of each of the County Office's State programs based on our audit of the types of compliance requirements referred to above. We conducted our audit 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 *2017-2018 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. These standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the applicable government programs noted below. 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 opinions. Our audit does not provide a legal determination of the County Office's compliance with those requirements.

Unmodified Opinion

In our opinion, Santa Clara County Office of Education complied, in all material respects, with the compliance requirements referred to above that are applicable to the government programs noted below that were audited for the year ended June 30, 2018.

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

	<u>Procedures Performed</u>
LOCAL EDUCATION AGENCIES OTHER THAN CHARTER SCHOOLS	
Attendance	Yes
Teacher Certification and Misassignments	Yes
Kindergarten Continuance	No, see below
Independent Study	No, see below
Continuation Education	No, see below
Instructional Time	No, see below
Instructional Materials	Yes
Ratios of Administrative Employees to Teachers	No, see below
Classroom Teacher Salaries	No, see below
Early Retirement Incentive	No, see below
Gann Limit Calculation	Yes
School Accountability Report Card	No, see below
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	Yes
Apprenticeship: Related and Supplemental Instruction	No, see below
SCHOOL DISTRICTS, COUNTY OFFICES OF EDUCATION, AND CHARTER SCHOOLS	
Educator Effectiveness	Yes
California Clean Energy Jobs Act	No, see below
After/Before School 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 Accountability Plan	Yes
Independent Study - Course Based	No, see below
CHARTER SCHOOLS	
Attendance	No, see below
Mode of Instruction	No, see below
Non Classroom-Based Instruction/Independent Study for Charter Schools	Yes
Determination of Funding for Non Classroom-Based Instruction	Yes
Annual Instruction Minutes Classroom-Based	No, see below
Charter School Facility Grant Program	No, see below

We did not perform any procedures related to Kindergarten Continuance, Continuation Education, Early Retirement Incentive, Middle or Early College High Schools, Apprenticeship: Related and Supplemental Instruction, After/Before School Education and Safety Program, Independent Study - Course Based Program, as the County Office does not offer such program.

The County Office's reported ADA for Independent Study was below the materiality level that requires testing; therefore, we did not perform any related procedures.

The County Office is not a school district, therefore we did not perform any procedures related to Instructional Time, School Accountability Report Card.

We did not perform any procedures related to Ratios of Administrative Employees to Teachers, Classroom Teacher Salaries, K-3 Grade Span Adjustment as these requirements do not apply to County Offices.

The County Office did not expend any California Clean Energy Job funds in the current year; therefore, we did not perform any related procedures.

The County Office does not operate any Classroom-Based Charter Schools; therefore, we did not perform any of the testing related to Charter School Attendance, Mode of Instruction, and Annual Instructional Minutes – Classroom-Based for Charter Schools.

The County Office did not receive Charter School Facility Grant funding in the current year; therefore, we did not perform any related procedures.



Palo Alto, California
December 14, 2018

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

SANTA CLARA COUNTY OFFICE OF EDUCATION

**SUMMARY OF AUDITOR'S RESULTS
FOR THE YEAR ENDED JUNE 30, 2018**

FINANCIAL STATEMENTS

Type of auditor's report issued:	<u>Unmodified</u>
Internal control over financial reporting:	
Material weakness identified?	<u>No</u>
Significant deficiency identified?	<u>None reported</u>
Noncompliance material to financial statements noted?	<u>No</u>

FEDERAL AWARDS

Internal control over major Federal programs:	
Material weakness identified?	<u>No</u>
Significant deficiency identified?	<u>None reported</u>
Type of auditor's report issued on compliance for major Federal programs:	<u>Unmodified</u>
Any audit findings disclosed that are required to be reported in accordance with Section 200.516(a) of the Uniform Guidance?	<u>No</u>

Identification of major Federal programs:

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

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 2,243,312</u>
Auditee qualified as low-risk auditee?	<u>Yes</u>

STATE AWARDS

Type of auditor's report issued on compliance for programs:	<u>Unmodified</u>
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SANTA CLARA COUNTY OFFICE OF EDUCATION

**FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2018**

None reported.

SANTA CLARA COUNTY OFFICE OF EDUCATION

**FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2018**

None reported.

SANTA CLARA COUNTY OFFICE OF EDUCATION

**STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2018**

None reported.

SANTA CLARA COUNTY OFFICE OF EDUCATION

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2018**

Summarized below is the current status of all audit findings reported in the prior year's schedule of financial statement findings.

Financial Statement Findings

None Reported.

Federal Awards Findings

None Reported.

State Awards Findings

2017-001 Code: 10000

Title: Attendance Reporting

Finding

At Sunol, one student was improperly marked present for one day, causing an overstatement of ADA by 0.01 in elementary grades.

Recommendation

The County Office should ensure attendance records are correct.`

Current Status

Report corrected

Accepted