

**SANTA CLARA COUNTY  
OFFICE OF EDUCATION  
AUDIT REPORT  
For the Fiscal Year Ended  
June 30, 2014**



**SANTA CLARA COUNTY OFFICE OF EDUCATION**

*For the Fiscal Year Ended June 30, 2014*

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**SANTA CLARA COUNTY OFFICE OF EDUCATION  
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***Financial Section***

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## INDEPENDENT AUDITORS' REPORT

Board of Education  
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 Santa Clara County Office of Education, as of and for the fiscal year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the County'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.

### Auditors' 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, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2013-14*. 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 Santa Clara County Office of Education, as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

**Emphasis of Matter**

As discussed in Note 1.G. to the basic financial statements, the County has changed its method for accounting and reporting certain items previously reported as assets or liabilities during fiscal year 2013-2014 due to the adoption of Governmental Accounting Standards Board Statement No. 65, "Items Previously Reported as Assets and Liabilities". The adoption of this standard required retrospective application resulting in a \$438,336 reduction of previously reported net position at July 1, 2013. 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 on pages 3 through 12, budgetary comparison information on pages 44 and 45, and schedule of funding progress on page 46 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.

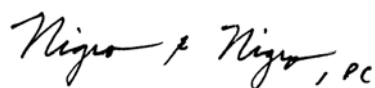
*Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Santa Clara County Office of Education's basic financial statements. The other supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The other supplementary information listed in the table of contents, including the Schedule of Expenditures of Federal Awards, 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 other supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2014 on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control over financial reporting and compliance.



Murrieta, California  
December 12, 2014

**SANTA CLARA COUNTY OFFICE OF EDUCATION**  
*Management's Discussion and Analysis (Unaudited)*  
*For the Fiscal Year Ended June 30, 2014*

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This discussion and analysis of Santa Clara County Office of Education's financial performance provides an overview of the County's financial activities for the fiscal year ended June 30, 2014. Please read it in conjunction with the County's financial statements, which immediately follow this section.

**FINANCIAL HIGHLIGHTS**

- The County's financial status increased overall as a result of this year's operations. Net position of governmental activities increased by \$14.2 million, or 11.8%.
- Governmental expenses were about \$253.6 million. Revenues were about \$267.8 million.
- The County spent over \$5.0 million on new capital assets during the year.
- The County increased its outstanding long-term debt by \$0.5 million. This was primarily due to other post-employment benefits.
- Average daily attendance (ADA) decreased by 86, or 4.4%.

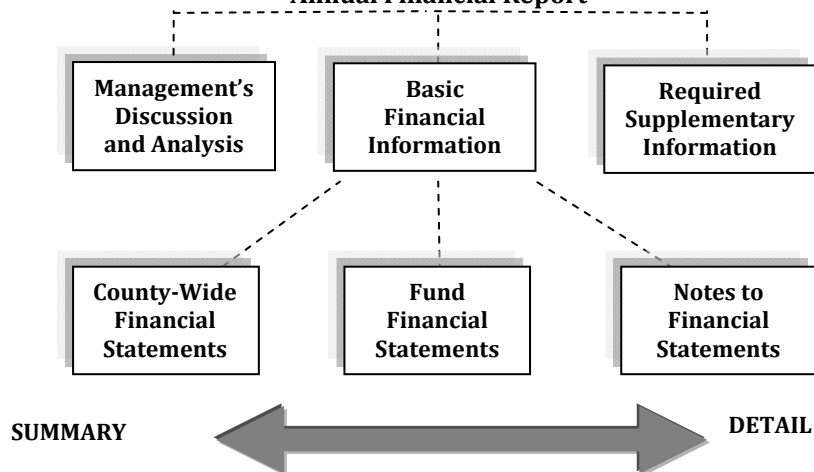
**OVERVIEW OF THE FINANCIAL STATEMENTS**

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:

- The first two statements are *county-wide financial statements* that provide both short-term and long-term information about the County's overall financial status.
- The remaining statements are *fund financial statements* that focus on individual parts of the County, reporting the County'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 relationships in which the County acts solely as a trustee or agent for the benefit of others to whom the resources belong.

**Figure A-1. Organization of Santa Clara County Office of Education's Annual Financial Report**

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 (Unaudited)*  
*For the Fiscal Year Ended June 30, 2014*

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**OVERVIEW OF THE FINANCIAL STATEMENTS (continued)**

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

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

<b>Type of Statements</b>	<b>County-Wide</b>	<b>Governmental Funds</b>	<b>Proprietary Funds</b>	<b>Fiduciary Funds</b>
<i>Scope</i>	Entire County, except fiduciary activities	The activities of the County that are not proprietary or fiduciary, such as special education and building maintenance	Activities of the County that operate like a business, such as self-insurance funds	Instances in which the County 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"> <li>• Statement of Net Position</li> <li>• Statement of Activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance Sheet</li> <li>• Statement of Revenues, Expenditures &amp; Changes in Fund Balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of Net Position</li> <li>• Statement of Revenues, Expenses, &amp; Changes in Fund Net Position</li> <li>• Statement of Cash Flows</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of Fiduciary Net Position</li> </ul>
<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's funds do not currently contain nonfinancial assets, though they can	All assets and liabilities, both short-term and long-term; The County'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 thereafter	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 (Unaudited)*  
*For the Fiscal Year Ended June 30, 2014*

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**OVERVIEW OF THE FINANCIAL STATEMENTS (continued)**

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 as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the County'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's net position and how it has changed. Net position – the difference between the County's assets and deferred outflows of resources and liabilities and deferred inflows of resources – is one way to measure the County's financial health, or *position*.

- Over time, increases and decreases in the County's net position are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the County, you need to consider additional nonfinancial factors such as changes in the County's demographics and the condition of school buildings and other facilities.
- In the County-wide financial statements, the County's activities are categorized as *Governmental Activities*. Most of the County'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's most significant funds – not the County as a whole. Funds are accounting devices the County uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by State law and by bond covenants.
- The County 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 has three kinds of funds:

- 1) **Governmental funds** – Most of the County'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'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 (Unaudited)*  
*For the Fiscal Year Ended June 30, 2014*

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**OVERVIEW OF THE FINANCIAL STATEMENTS (continued)**

**Fund Financial Statements (continued)**

- 2) **Proprietary funds** – When the County charges other County 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'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 uses the internal service fund to report activities that relate to the County's self-insured program for workers compensation claims.
- 3) **Fiduciary funds** – The County is the trustee, or fiduciary, for assets that belong to others, such as the student activities funds. The County 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'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 cannot use these assets to finance its operations.

**FINANCIAL ANALYSIS OF THE COUNTY AS A WHOLE**

**Net Position.** The County's combined net position was higher on June 30, 2014, than it was the year before – increasing 11.8% to \$134.9 million (See Table A-1).

**Table A-1**

	<b>Governmental Activities</b>		<b>Variance</b>
	<b>(In millions)</b>		<b>Increase</b>
	<b>2014</b>	<b>2013*</b>	<b>(Decrease)</b>
Current assets	\$ 129.0	\$ 113.7	\$ 15.3
Capital assets	67.7	68.3	(0.6)
<b>Total assets</b>	<b>196.7</b>	<b>182.0</b>	<b>14.7</b>
Current liabilities	37.5	37.5	-
Long-term liabilities	24.3	23.8	0.5
<b>Total liabilities</b>	<b>61.8</b>	<b>61.3</b>	<b>0.5</b>
Net position			
Net investment in capital assets	58.0	57.9	0.1
Restricted	15.7	14.4	1.3
Unrestricted	61.2	48.4	12.8
<b>Total net position</b>	<b>\$ 134.9</b>	<b>\$ 120.7</b>	<b>\$ 14.2</b>

\* As restated

**SANTA CLARA COUNTY OFFICE OF EDUCATION**  
*Management's Discussion and Analysis (Unaudited)*  
*For the Fiscal Year Ended June 30, 2014*

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**FINANCIAL ANALYSIS OF THE COUNTY AS A WHOLE (continued)**

**Changes in net position, governmental activities.** The County's total revenues increased 3.8% to \$267.8 million (See Table A-2). The increase is due primarily to increases in federal special education funding.

The total cost of all programs and services increased 3.8% to \$253.6 million. The County's expenses are predominantly related to educating and caring for students, 57.1%. The purely administrative activities of the County accounted for just 9.2% of total costs. A significant contributor to the increase in costs was increased transfers to other agencies for special education.

**Table A-2**

	<b>Governmental Activities</b>		<b>Variance</b>
	<b>(In millions)</b>		<b>Increase</b>
	<b>2014</b>	<b>2013</b>	<b>(Decrease)</b>
Total Revenues	\$ 267.8	\$ 258.1	\$ 9.7
Total Expenses	253.6	244.2	9.4
Increase (decrease) in net position	<u>\$ 14.2</u>	<u>\$ 13.9</u>	<u>\$ 0.3</u>

**FINANCIAL ANALYSIS OF THE COUNTY'S FUNDS**

The financial performance of the County as a whole is reflected in its governmental funds as well. As the County completed this year, its governmental funds reported a combined fund balance of \$77.7 million, which is above last year's restated ending fund balance of \$66.0 million. The primary cause of the increased fund balance is increased federal and state funding.

**County School Services Fund Budgetary Highlights**

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

- Revenues – increased by \$17.0 million primarily to reflect federal and state budget actions.
- Salaries and benefits costs – increased \$6.3 million due to changes in staffing and collective bargaining agreements
- Other non-personnel expenses – increased \$15.7 million to re-budget carryover funds and revise operational cost estimates.

While the County's final budget for the County School Service Fund anticipated that expenditures would exceed revenues by about \$3.0 million, the actual results for the year show that revenues exceeded expenditures by roughly \$16.3 million. Actual revenues were \$7.6 million less than anticipated, but expenditures were \$26.9 million less than budgeted. That amount consists primarily of restricted categorical program dollars that were not spent as of June 30, 2014 that will be carried over into the 2014-15 budget.

**SANTA CLARA COUNTY OFFICE OF EDUCATION**  
*Management's Discussion and Analysis (Unaudited)*  
*For the Fiscal Year Ended June 30, 2014*

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**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets**

By the end of 2013-14 the County had invested \$5.0 million in new capital assets. (More detailed information about capital assets can be found in Note 6 to the financial statements). Total depreciation expense for the year exceeded \$3.3 million.

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

	Governmental Activities (In millions)		Variance Increase (Decrease)
	2014	2013	
Land	\$ 5.5	\$ 5.5	\$ -
Buildings and improvements	58.6	58.6	-
Furniture and equipment	3.6	3.4	0.2
Construction in progress	-	0.7	(0.7)
Total	<u>\$ 67.7</u>	<u>\$ 68.2</u>	<u>\$ (0.5)</u>

**Long-Term Debt**

At year-end the County had \$24.3 million in certificates of participation and employment benefits – an increase of 2.1% from last year – as shown in Table A-4. (More detailed information about the County's long-term liabilities is presented in Note 7 to the financial statements).

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

	Governmental Activities (In millions)		Variance Increase (Decrease)
	2014	2013*	
Certificates of participation	9.7	10.4	(0.7)
Compensated absences	5.4	5.6	(0.2)
Other postemployment benefits	9.2	7.8	1.4
Total	<u>\$ 24.3</u>	<u>\$ 23.8</u>	<u>\$ 0.5</u>

\*As restated

**SANTA CLARA COUNTY OFFICE OF EDUCATION**  
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**FACTORS BEARING ON THE COUNTY'S FUTURE**

**Budget Overview**

The Governor signed the *2014-15 Budget Act* on June 20, 2014. In late June, the Governor signed 17 budget-related bills into law. The 2014-15 budget package assumes total state spending of \$152.3 billion, an increase of 8.6 percent over revised totals for 2013-14. This consists of \$108 billion from the General Fund and the Education Protection Account created by Proposition 30 (2012), and \$44.3 billion from special funds. The budget package assumes spending from federal funds to be \$98 billion, an increase of 20.9 percent over 2013-14 revised levels, mainly due to increases in the health area of the budget. Bond spending is expected to decline 53 percent in 2014-15.

**Major Features of the 2014-15 Spending Plan**

Similar to the 2013-14 budget, the 2014-15 spending plan makes targeted augmentations in a few areas while paying down several billion dollars in key liabilities. In addition, if certain revenue and other targets are met, additional spending—mostly for paying down debt—would be “triggered” under the budget plan.

***Fully Funds CalSTRS Pension Program***

As of the end of 2012-13, the California State Teachers' Retirement System (CalSTRS) had a \$74 billion shortfall. Budget-related legislation aims to erase the unfunded liability in 32 years by increasing contributions from the state, school and community college districts, and teachers.

***Proposition 98***

The budget plan includes large Proposition 98 funding increases for schools and community colleges. The Proposition 98 budget continues implementation of the Local Control Funding Formula, pays down most of the remaining payment deferrals, and pays down several hundred million dollars of other Proposition 98 obligations.

**Spending Changes**

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

**Deferral Payments**

***Pays Down \$5.2 Billion in Outstanding Deferrals***

The budget package pays down \$5.2 billion in outstanding deferrals (\$4.7 billion for schools and \$498 million for community colleges). Of the total paydown, \$1.4 billion is designated as 2012-13 spending, \$3.1 billion is designated as 2013-14 spending, and \$662 million is designated as 2014-15 spending. Under the budget plan, \$992 million in deferrals (\$897 million for schools and \$94 million for community colleges) would remain outstanding at the end of 2014-15.

***Eliminates Remaining Deferrals if Minimum Guarantee Exceeds Estimates***

The budget package pays down additional deferrals (potentially eliminating all outstanding deferrals) if subsequent estimates of the 2013-14 and 2014-15 minimum guarantees are higher than the administration's May 2015 estimates. Effectively, the budget plan earmarks the first \$992 million in potential additional 2013-14 and 2014-15 spending for deferral paydowns.

**SANTA CLARA COUNTY OFFICE OF EDUCATION**  
*Management's Discussion and Analysis (Unaudited)*  
*For the Fiscal Year Ended June 30, 2014*

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**FACTORS BEARING ON THE COUNTY'S FUTURE (continued)**

**Mandates**

***Pays Down \$450 Million in Outstanding Education Mandate Claims***

We estimate the State currently has a backlog of more than \$5 billion in unpaid claims for education mandates. The budget includes \$400 million to reduce the mandate backlog for schools. (Of this amount, \$287 million is 2014-15 Proposition 98 funding and \$113 million is from unspent prior-year fund.) Funds will be distributed to schools and community colleges on a per-student basis.

***Adds Several Mandates to School and Community College Block Grants***

The Commission on State Mandates recently approved seven new reimbursable education mandates. Six of these mandates apply to schools, two apply to community colleges, and one applies to both schools and community colleges. For schools, the budget adds to the block grant mandates related to (1) parental involvement procedures, (2) compliance activities associated with the *Williams v. California* case, (3) uniform complaint procedures, (4) developer fees, (5) charter school oversight, and (6) public contracts.

**Energy Grants**

***State Provides Second-Year Funding for Energy Projects***

Passed by voters in November 2012, Proposition 39 increases state corporate tax revenues and requires for a five-year period, starting in 2013-14, that a portion of these revenues be used to improve energy efficiency and expand the use of alternative energy in public buildings. The 2014-15 budget provides \$345 million Proposition 98 General Fund for Proposition 39 school and community college energy programs. Specifically, the budget provides \$279 million for school grants, \$38 million for community colleges grants, and \$28 million for the revolving loan program for both schools and community colleges. (Estimates of Proposition 39 revenues are lower in 2014-15 compared to 2013-14, resulting in less provided for school and community college grants.) The budget also provides \$8 million non-Proposition 98 General Fund for Proposition 39 job-training programs administered by the California Conservation Corps (\$5 million) and the California Workforce Investment Board (\$3 million).

**Chapter 751 Obligation**

***Makes Final \$410 Million Payment on Outstanding Proposition 98 Obligations From 2004-05 and 2005-06***

The 2014-15 budget makes a final \$410 million payment to retire the state's obligation set forth in Chapter 751, Statutes of 2006 (SB 1133, Torlakson). Chapter 751 required the state to provide additional annual school and community college payments until a total of \$2.8 billion had been provided. Of the amount provided in the budget package, \$316 million is for continued funding of the QEIA program (\$268 million for schools and \$48 million for community colleges) and \$94 million is to pay down a separate state obligation related to school facility repairs.

**K-12 Education**

The largest K-12 augmentation is for the second-year phase in of the recently adopted Local Control Funding Formula (LCFF). The budget also includes several other school-specific augmentations—some of which relate to school operations and some of which relate to school infrastructure. In addition to these budget actions, the Legislature adopted trailer legislation relating to school district reserves and independent study (IS) programs.

**SANTA CLARA COUNTY OFFICE OF EDUCATION**  
*Management's Discussion and Analysis (Unaudited)*  
*For the Fiscal Year Ended June 30, 2014*

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**FACTORS BEARING ON THE COUNTY'S FUTURE (continued)**

**Operational Funding**

***Provides \$4.7 Billion for LCFF Implementation***

The budget plan includes \$4.7 billion in additional funding for the school district LCFF—resulting in per-pupil LCFF funding that is 12 percent higher than 2013-14 levels. The additional funding is sufficient to close 29 percent of the gap between districts' 2013-14 funding levels and their target funding rates. We estimate the 2014-15 funding level is approximately 80 percent of the full implementation cost. The budget also includes \$26 million for the LCFF for county offices of education (COEs). This increase is sufficient to bring all COEs up to their LCFF funding targets in 2014-15.

***Other Notable K-12 Actions***

The budget provides \$54 million to continue implementation of new student assessments and \$33 million to provide a cost-of-living adjustment (COLA) for several K-12 programs (including special education and child nutrition programs).

**Infrastructure**

***Allocates \$189 Million for Emergency Repair Program (ERP)***

Chapter 899, Statutes of 2004 (SB 6, Alpert), created the ERP to fund critical repair projects at certain low-performing schools. Chapter 899 requires the state to contribute a total of \$800 million for the program. The state has provided \$338 million to date. The budget provides \$189 million for the ERP in 2014-15.

***Allocates \$27 Million in One-Time Funds for School Internet Infrastructure***

The budget includes \$27 million in one-time Proposition 98 funding for schools to purchase Internet connectivity infrastructure upgrades required to administer new computer-based tests. Grantees are to be selected based on the results of a statewide assessment of schools' Internet connectivity infrastructure to be completed by the K-12 High-Speed Network (HSN) by March 1, 2015.

***Shifts Remaining Bond Authority Among Certain School Facility Programs***

The budget package shifts remaining bond authority from the Career Technical Education (CTE) and High Performance Incentive (HPI) school facility programs to the New Construction and Modernization facility programs.

**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 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 it submits a budget to its COE.



**SANTA CLARA COUNTY OFFICE OF EDUCATION**  
*Management's Discussion and Analysis (Unaudited)*  
*For the Fiscal Year Ended June 30, 2014*

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**FACTORS BEARING ON THE COUNTY'S FUTURE (continued)**

**Local Reserves (continued)**

***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 3 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 budget for the 2014-15 fiscal year.

**CONTACTING THE SANTA CLARA COUNTY OFFICE OF EDUCATION'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the Santa Clara County Office of Education's finances and to demonstrate the Santa Clara County Office of Education's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Ted O, Director-Internal Business Services via email at [Ted\\_O@sccoe.org](mailto:Ted_O@sccoe.org).

**SANTA CLARA COUNTY OFFICE OF EDUCATION***Statement of Net Position**June 30, 2014*

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	Total Governmental Activities
<b>ASSETS</b>	
<b>Current assets:</b>	
Cash	\$ 101,220,602
Accounts receivable	27,264,352
Inventories	309,513
Prepaid expenses	218,679
Total current assets	<u>129,013,146</u>
<b>Capital assets:</b>	
Non-depreciable assets	5,533,399
Depreciable assets	89,303,118
Less accumulated depreciation	<u>(27,111,625)</u>
Total capital assets, net of depreciation	<u>67,724,892</u>
Total assets	<u>196,738,038</u>
<b>LIABILITIES</b>	
<b>Current liabilities:</b>	
Accounts payable	24,153,047
Claim liabilities	11,366,000
Unearned revenue	2,020,743
Total current liabilities	<u>37,539,790</u>
<b>Long-term liabilities:</b>	
Due or payable within one year	700,000
Due or payable after one year	23,617,230
Total long-term liabilities	<u>24,317,230</u>
Total liabilities	<u>61,857,020</u>
<b>NET POSITION</b>	
Net investment in capital assets	57,994,892
Restricted for:	
Capital projects	382,225
Debt service	1,171,262
Categorical programs	14,116,304
Unrestricted	<u>61,216,335</u>
Total net position	<u>\$ 134,881,018</u>

**SANTA CLARA COUNTY OFFICE OF EDUCATION**

*Statement of Activities*

*For the Fiscal Year Ended June 30, 2014*

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue and Changes in Net Position</u>	
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>		<u>Capital Grants and Contributions</u>
<b>Governmental Activities:</b>					
Instructional Services:					
Instruction	\$ 92,869,253	\$ 1,733,611	\$ 52,493,690	\$ 7,586	\$ (38,634,366)
Instruction-Related Services:					
Supervision of instruction	13,692,384	2,957,095	6,183,544	-	(4,551,745)
Instructional library, media and technology	667,612	-	40,123	-	(627,489)
School site administration	10,575,447	468,962	4,596,418	-	(5,510,067)
Pupil Support Services:					
Home-to-school transportation	1,224,494	-	-	-	(1,224,494)
Food services	2,128,948	232,268	1,741,720	-	(154,960)
All other pupil services	23,743,014	496,826	15,207,328	-	(8,038,860)
General Administration Services:					
Data processing services	6,283,149	-	-	-	(6,283,149)
Other general administration	17,138,786	893,847	6,822,739	-	(9,422,200)
Plant services	6,459,002	153,488	3,474,319	-	(2,831,195)
Ancillary services	3,476,589	2,797,025	601,482	-	(78,082)
Community services	300,000	-	-	-	(300,000)
Enterprise activities	10,346	3,539	761	-	(6,046)
Transfers between agencies	74,563,611	739,818	58,572,063	-	(15,251,730)
Interest on long-term debt	492,083	-	-	-	(492,083)
Total Governmental Activities	<u>\$ 253,624,718</u>	<u>\$ 10,476,479</u>	<u>\$ 149,734,187</u>	<u>\$ 7,586</u>	<u>(93,406,466)</u>
<b>General Revenues:</b>					
Property taxes					94,628,254
Federal and state aid not restricted to specific purpose					6,248,573
Interest and investment earnings					271,251
Interagency revenues					3,840,138
Miscellaneous					<u>2,371,137</u>
					Total general revenues
					<u>107,359,353</u>
					<b>Special Item</b> - Gain on sale of property
					<u>250,502</u>
					Change in net position
					<u>14,203,389</u>
					Net position - July 1, 2013, as originally stated
					126,144,077
					Adjustments for restatements (Note 15)
					<u>(5,466,448)</u>
					Net position - July 1, 2013, restated
					<u>120,677,629</u>
					Net position - June 30, 2014
					<u>\$ 134,881,018</u>

**SANTA CLARA COUNTY OFFICE OF EDUCATION***Balance Sheet – Governmental Funds**June 30, 2014*

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	County School Service Fund	Special Education Pass-Through Fund	Non-Major Governmental Funds	Total Governmental Funds
<b>ASSETS</b>				
Cash	\$ 73,566,762	\$ 479,553	\$ 2,060,690	\$ 76,107,005
Accounts receivable	20,713,772	6,146,523	378,894	27,239,189
Due from other funds	691,188	1,260,920	370,638	2,322,746
Inventories	309,513	-	-	309,513
Prepaid expenditures	1,679	-	-	1,679
	<hr/>	<hr/>	<hr/>	<hr/>
Total Assets	<u>\$ 95,282,914</u>	<u>\$ 7,886,996</u>	<u>\$ 2,810,222</u>	<u>\$ 105,980,132</u>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities</b>				
Accounts payable	\$ 15,751,161	\$ 7,763,759	\$ 262,496	\$ 23,777,416
Due to other funds	1,764,652	113,762	577,426	2,455,840
Unearned revenue	1,904,083	-	116,660	2,020,743
	<hr/>	<hr/>	<hr/>	<hr/>
Total Liabilities	19,419,896	7,877,521	956,582	28,253,999
<b>Fund Balances</b>				
Nonspendable	336,192	-	-	336,192
Restricted	13,806,676	9,475	1,853,640	15,669,791
Assigned	53,203,942	-	-	53,203,942
Unassigned	8,516,208	-	-	8,516,208
	<hr/>	<hr/>	<hr/>	<hr/>
Total Fund Balances	75,863,018	9,475	1,853,640	77,726,133
Total Liabilities and Fund Balances	<u>\$ 95,282,914</u>	<u>\$ 7,886,996</u>	<u>\$ 2,810,222</u>	<u>\$ 105,980,132</u>

**SANTA CLARA COUNTY OFFICE OF EDUCATION**

*Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position  
June 30, 2014*

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<b>Total fund balances - governmental funds</b>			\$ 77,726,133
Amounts reported for governmental <i>activities</i> 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 the assets is \$94,836,517, and the accumulated depreciation is (\$27,111,625).			67,724,892
In governmental funds, interest on long-term debt is not recognized until the period in which it matures and is paid. In the government-wide statement of activities, it is recognized in the period that it is incurred. The additional liability for unmatured interest owing at the end of the period was:			(117,681)
In governmental funds, only current liabilities are reported. In the statement of net position, all liabilities, including long-term liabilities, are reported. Long-term liabilities relating to governmental activities consist of:			
	Certificates of participation payable	(9,730,000)	
	Compensated absences payable	<u>(5,406,182)</u>	(15,136,182)
Internal service funds are used to conduct certain activities for which costs are charged to other funds on a full cost-recovery basis. Because internal service funds are presumed to operate for the benefit of governmental activities, assets and liabilities of internal service funds are reported with governmental activities in the statement of net position. Net position for internal service funds is:			<u>4,683,856</u>
<b>Total net position - governmental activities</b>			<u><u>\$ 134,881,018</u></u>

**SANTA CLARA COUNTY OFFICE OF EDUCATION**

*Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds  
For the Fiscal Year Ended June 30, 2014*

	County School Service Fund	Special Education Pass-Through Fund	Non-Major Governmental Funds	Total Governmental Funds
<b>REVENUES</b>				
LCFF sources	\$ 99,078,997	\$ -	\$ -	\$ 99,078,997
Federal sources	40,639,687	32,531,464	2,342,516	75,513,667
Other state sources	17,555,023	35,023,955	2,933,395	55,512,373
Other local sources	35,789,521	1,250,816	432,229	37,472,566
<b>Total Revenues</b>	<b>193,063,228</b>	<b>68,806,235</b>	<b>5,708,140</b>	<b>267,577,603</b>
<b>EXPENDITURES</b>				
Current:				
Instruction	86,974,549	-	3,572,571	90,547,120
Instruction-related services:				
Supervision of instruction	12,911,808	-	438,681	13,350,489
Instructional library, media and technology	630,678	-	-	630,678
School site administration	9,789,455	-	511,581	10,301,036
Pupil support services:				
Home-to-school transportation	1,250,478	-	-	1,250,478
Food services	397,310	-	1,691,905	2,089,215
All other pupil services	23,053,106	-	148,526	23,201,632
Ancillary services	3,387,107	-	-	3,387,107
Community services	300,000	-	-	300,000
Enterprise activities	8,007	-	-	8,007
General administration services:				
Data processing services	6,856,040	-	-	6,856,040
Other general administration	18,802,216	-	137	18,802,353
Plant services	7,117,316	-	438,406	7,555,722
Transfers of indirect costs	(520,442)	-	520,442	-
Intergovernmental transfers	4,592,322	68,802,089	-	73,394,411
Capital outlay	1,190,942	-	3,516,333	4,707,275
Debt service:				
Principal	-	-	670,000	670,000
Interest	-	-	499,200	499,200
<b>Total Expenditures</b>	<b>176,740,892</b>	<b>68,802,089</b>	<b>12,007,782</b>	<b>257,550,763</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	16,322,336	4,146	(6,299,642)	10,026,840
<b>OTHER FINANCING SOURCES (USES)</b>				
Interfund transfers in	-	-	2,802,444	2,802,444
Interfund transfers out	(2,802,444)	-	-	(2,802,444)
<b>Total Other Financing Sources and Uses</b>	<b>(2,802,444)</b>	<b>-</b>	<b>2,802,444</b>	<b>-</b>
<b>SPECIAL ITEM</b>				
Proceeds from sale of property	1,735,835	-	-	1,735,835
<b>Net Change in Fund Balances</b>	<b>15,255,727</b>	<b>4,146</b>	<b>(3,497,198)</b>	<b>11,762,675</b>
Fund Balances, July 1, 2013, as originally stated	61,332,669	5,329	5,350,838	66,688,836
Adjustments for restatement	(725,378)	-	-	(725,378)
Fund Balances, July 1, 2013, as restated	60,607,291	5,329	5,350,838	65,963,458
Fund Balances, June 30, 2014	\$ 75,863,018	\$ 9,475	\$ 1,853,640	\$ 77,726,133

**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 Fiscal Year Ended June 30, 2014*

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**Total net change in fund balances - governmental funds** \$ 11,762,675

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

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.

The difference between capital outlay expenditures and depreciation expense for the period is:

Expenditures for capital outlay	5,038,608	
Depreciation expense	<u>(3,326,022)</u>	
Net:		1,712,586

In governmental funds, repayments of long-term debt are reported as expenditures. In the government-wide statements, repayments of long-term debt are reported as reduction of liabilities. Expenditures for repayment of the principal portion of long-term debt were: 670,000

In governmental funds, the entire proceeds from disposal of capital assets are reported as revenue. In the statement of activities, only the resulting gain or loss is reported. The difference between the proceeds from disposal of capital assets and the resulting gain or loss is: (2,263,472)

In governmental funds, interest on long-term debt is recognized in the period that it becomes due. In the government-wide statement of activities, it is recognized in the period that it is incurred. Unmatured interest owing at the end of the period, less matured interest paid during the period but owing from the prior period, was: 7,117

In the statement of activities, compensated absences 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.) 196,580

The internal service fund is used by management to charge the cost of self-insurance activities. The net revenue (expense) of the internal service fund is reported with governmental activities. 2,117,903

**Change in net position of governmental activities** \$ 14,203,389

**SANTA CLARA COUNTY OFFICE OF EDUCATION**  
*Statement of Net Position – Proprietary Fund*  
*June 30, 2014*

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	Governmental Activities: Internal Service Fund
<b>ASSETS</b>	
Cash	\$ 25,113,597
Other receivables	25,163
Prepaid expenses	217,000
Due from other funds	263,052
	<hr/>
Total Assets	25,618,812
	<hr/>
<b>LIABILITIES</b>	
Claim liabilities	11,366,000
OPEB liability	9,181,048
Accounts payable	257,950
Due to other funds	129,958
	<hr/>
Total Liabilities	20,934,956
	<hr/>
<b>NET POSITION</b>	
Restricted	\$ 4,683,856
	<hr/> <hr/>



**SANTA CLARA COUNTY OFFICE OF EDUCATION**

*Statement of Revenues, Expenses and Changes in Net Position – Proprietary Fund  
For the Fiscal Year Ended June 30, 2014*

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	Governmental Activities: Internal Service Fund
<b>OPERATING REVENUES</b>	
Charges to other funds	\$ 10,512,512
Other local revenues	322,932
Total operating revenues	<u>10,835,444</u>
<b>OPERATING EXPENSES</b>	
Classified salaries	217,698
Employee benefits	68,018
Books and supplies	39,367
Services and other operating expenses	<u>8,486,517</u>
Total operating expenses	<u>8,811,600</u>
Operating Income	2,023,844
<b>NON-OPERATING REVENUES</b>	
Interest income	<u>94,059</u>
Change in net position	2,117,903
Net position, July 1, 2013	<u>2,565,953</u>
Net position, June 30, 2014	<u><u>\$ 4,683,856</u></u>

**SANTA CLARA COUNTY OFFICE OF EDUCATION**  
*Statement of Cash Flows – Proprietary Fund*  
*For the Fiscal Year Ended June 30, 2014*

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	Governmental Activities: Internal Service Fund
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Cash received from assessments made to other funds	\$ 10,398,637
Cash received from retiree premium payments	345,984
Cash payments for payroll, insurance and operating costs	<u>(6,859,026)</u>
Net cash provided (used) by operating activities	3,885,595
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest on investments	<u>86,192</u>
Net increase (decrease) in cash	3,971,787
Cash, July 1, 2013	<u>21,141,810</u>
Cash, June 30, 2014	<u>\$ 25,113,597</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:	
Operating income (loss)	\$ 2,023,844
(Increase) Decrease in operating assets:	
Due from other funds	20,337
Accounts receivable	23,052
Increase (Decrease) in operating liabilities:	
Due to other funds	(134,212)
Claim liabilities	687,000
OPEB liability	1,362,894
Accounts payable	<u>(97,320)</u>
Net cash provided (used) by operating activities	<u>\$ 3,885,595</u>

**SANTA CLARA COUNTY OFFICE OF EDUCATION**  
*Statement of Fiduciary Net Position*  
*June 30, 2014*

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	<u>Agency Funds</u>
<b>Assets</b>	
Cash	<u>\$ 116,597,806</u>
<b>Total Assets</b>	<u><u>\$ 116,597,806</u></u>
<b>Liabilities</b>	
Deferred salaries payable	\$ 90,717,417
Warrants payable	25,346,543
Due to other agencies	<u>533,846</u>
<b>Total Liabilities</b>	<u><u>\$ 116,597,806</u></u>

# SANTA CLARA COUNTY OFFICE OF EDUCATION

## Notes to Financial Statements

June 30, 2014

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### NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

#### A. Reporting Entity

A reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure the financial statements are not misleading. The primary government of the County consists of all funds, departments, and agencies that are not legally separate from the County. For Santa Clara County Office of Education, this includes general operations, food service, and student related activities of the County.

Component units are legally separate organizations for which the County is financially accountable. The County's component units are so intertwined with the County that they are, in substance, the same as the County and, therefore, are blended and reported as if they were part of the County. The County Board of Education also serves as the governing board for the Santa Clara County Board of Education Finance Corporation. Although the board members of the Santa Clara County Board of Education Finance Corporation are appointed by the County Board, the corporation exists solely to finance the acquisition and construction of equipment and facilities for the County.

<u>Component Unit</u>	<u>Included in the Reporting Entity Because:</u>	<u>Separate Financial Statements</u>
<b>Santa Clara County Board of Education Finance Corporation</b> was formed on February 2, 1995 for the sole purpose of providing financial assistance to the County by acquiring, constructing, financing, selling and leasing public facilities, land, personal property and equipment for the use and benefit of the County. The County leases certain school facilities from the corporation under a lease-purchase agreement dated April 1, 1995.	Board of Education composes board of Finance Corporation	Available by contacting the County.

#### B. Basis of Presentation, Basis of Accounting

##### 1. Basis of Presentation

###### Government-Wide Financial Statements

The statement of net position and the statement of activities display information about the primary government (the County) and its component units. These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. These statements distinguish between the *governmental* and *business-type activities* of the County. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the County's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

# SANTA CLARA COUNTY OFFICE OF EDUCATION

Notes to Financial Statements

June 30, 2014

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## NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

### B. Basis of Presentation, Basis of Accounting (continued)

#### 1. Basis of Presentation (continued)

##### **Fund Financial Statements**

The fund financial statements provide information about the County's funds, including its fiduciary funds (and blended component units). Separate statements for each fund category - *governmental*, *proprietary*, and *fiduciary* - are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

##### **Major Governmental Funds**

The County maintains the following major governmental funds:

**County School Services Fund:** This fund is the general operating fund of the County. It is used to account for all financial resources except those required to be accounted for in another fund.

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

##### **Non-Major Governmental Funds**

The County maintains the following non-major governmental funds:

##### **Special Revenue Funds:**

**Child Development Fund:** This fund is used to account for resources committed to child development and preschool programs maintained by the County.

**Cafeteria Fund:** This fund is used to account for revenues received and expenditures made to operate the County's food service operations.

##### **Capital Projects Funds:**

**County School Facilities Fund:** This fund is used to account for state apportionments provided for modernization of school facilities under SB50.

##### **Debt Service Fund:**

**Debt Service Fund:** This fund is used to account for the accumulation of resources for, and the payment of, long-term debt principal, interest, and related costs on the certificates of participation.

# SANTA CLARA COUNTY OFFICE OF EDUCATION

## Notes to Financial Statements

June 30, 2014

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### NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

#### B. Basis of Presentation, Basis of Accounting (continued)

##### 1. Basis of Presentation (continued)

###### Proprietary Funds

Proprietary fund reporting focuses on the determination of operating income, changes in net position, financial position, and cash flows. Proprietary funds are classified as enterprise or internal service. The County has the following proprietary fund:

**Internal Service Funds:** These funds may be used to account for any activity for which services are provided to other funds of the County Office of Education on a cost reimbursement basis. The County Office of Education operates a self-insurance program for workers compensation, property and liability, other postemployment benefits, dental, vision, and medical benefits that are accounted for in one internal service fund with multiple sub-funds.

###### Fiduciary Funds

Fiduciary fund reporting focuses on net position and changes in net position. Fiduciary funds are used to report assets held in a trustee or agency capacity for others and therefore cannot be used to support the County's own programs. The fiduciary fund category includes pension (and other employee benefit) trust funds, investment trust funds, private-purpose trust funds, and agency funds. The County maintains the following fiduciary funds:

**Agency Funds:** The County maintains a DFS account for clearing funds which are holding accounts for County warrants, payroll, taxes withheld, TRANS, and charter school clearing.

##### 2. Measurement Focus, Basis of Accounting

###### Government-Wide, Proprietary, and Fiduciary Fund Financial Statements

The government-wide, proprietary, and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the County gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year in which all eligibility requirements have been satisfied.

###### Governmental Fund Financial Statements

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The County considers all revenues reported in the governmental funds to be available if the revenues are collected within 60 days after year-end. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and financing from capital leases are reported as other financing sources.

**SANTA CLARA COUNTY OFFICE OF EDUCATION**

*Notes to Financial Statements*

*June 30, 2014*

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**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)**

**C. Budgetary Data**

The budgetary process is prescribed by provisions of the California *Education Code* and requires the governing board to hold a public hearing and adopt an operating budget no later than July 1 of each year. The County 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.

**D. Encumbrances**

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

**E. Assets, Deferred Outflows of Resources, Liabilities, and Net Position**

**1. Cash and Cash Equivalents**

The County considers cash and cash equivalents to be cash on hand and demand deposits. In addition, because the Treasury Pool is sufficiently liquid to permit withdrawal of cash at any time without prior notice or penalty, equity in the pool is also deemed to be a cash equivalent.

**2. Inventories and Prepaid Items**

Inventories are valued at cost using the first-in/first-out (FIFO) method. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

**3. Capital Assets**

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated fixed assets are recorded at their estimated fair value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

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

<u>Description</u>	<u>Estimated Lives</u>
Buildings and Improvements	20-30 years
Furniture and Equipment	4-25 years

# SANTA CLARA COUNTY OFFICE OF EDUCATION

## Notes to Financial Statements

June 30, 2014

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### NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

#### E. Assets, Deferred Outflows of Resources, Liabilities, and Net Position (continued)

##### 4. Compensated Absences

The liability for compensated absences reported in the government-wide statements consists of unpaid, accumulated vacation leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

##### 5. Property Tax Calendar

The County is responsible for the assessment, collection, and apportionment of property taxes for all jurisdictions including the schools and special districts within the County. The Board of Supervisors levies property taxes as of September 1 on property values assessed on July 1. Secured property tax payments are due in two equal installments. The first is generally due November 1 and is delinquent with penalties on December 10, and the second is generally due on February 1 and is delinquent with penalties on April 10. Secured property taxes become a lien on the property on January 1.

##### 6. Fund Balances

The fund balance for governmental funds is reported in classifications based on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent.

**Nonspendable:** Fund balance is reported as nonspendable when the resources cannot be spent because they are either in a nonspendable form or legally or contractually required to be maintained intact. Resources in nonspendable form include inventories and prepaid assets.

**Restricted:** Fund balance is reported as restricted when the constraints placed on the use of resources are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or imposed by law through constitutional provision or by enabling legislation.

**Committed:** The County's highest decision-making level of authority rests with the County's Board. Fund balance is reported as committed when the Board passes a resolution that places specified constraints on how resources may be used. The Board can modify or rescind a commitment of resources through passage of a new resolution.

**Assigned:** Resources that are constrained by the County's intent to use them for a specific purpose, but are neither restricted nor committed, are reported as assigned fund balance. Intent may be expressed by either the Board, committees (such as budget or finance), or officials to which the Board has delegated authority.

**Unassigned:** Unassigned fund balance represents fund balance that has not been restricted, committed, or assigned and may be utilized by the County for any purpose. When expenditures are incurred, and both restricted and unrestricted resources are available, it is the County's policy to use restricted resources first, then unrestricted resources in the order of committed, assigned, and then unassigned, as they are needed.



## SANTA CLARA COUNTY OFFICE OF EDUCATION

### Notes to Financial Statements

June 30, 2014

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#### NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

##### E. Assets, Deferred Outflows of Resources, Liabilities, and Net Position (continued)

###### 7. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The County has no deferred outflows of resources.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. The County has no deferred inflows of resources.

###### 8. Net Position

Net position is classified into three components: net investment in capital assets; restricted; and unrestricted. These classifications are defined as follows:

- **Net investment in capital assets** - This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.
- **Restricted** - This component of net position consists of constraints placed on net position use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted net position** - This component of net position consists of net position that does not meet the definition of "net investment in capital assets" or "restricted".

When both restricted and unrestricted resources are available for use, it is the County's policy to use restricted resources first, then unrestricted resources as they are needed.

##### F. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reported period. Actual results could differ from those estimates.

**SANTA CLARA COUNTY OFFICE OF EDUCATION**

*Notes to Financial Statements*

*June 30, 2014*

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**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)**

**G. New GASB Pronouncement**

During the 2013-14 fiscal year, the following GASB Pronouncement became effective:

**Statement No. 65, *Items Previously Reported as Assets and Liabilities (Issued 03/12)***

This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

Due to the implementation of this statement, the calculation of deferred amount on refunding was revised to eliminate the inclusion of costs that should be recognized as an expense in the period incurred and eliminated debt issuance costs which should be recognized as an expense in the period incurred. Accounting changes adopted to conform to the provisions of this statement should be applied retroactively. The result of the implementation of this standard was to decrease the net position at July 1, 2013 by \$438,336, which is the amount of unamortized debt issuance costs at July 1, 2013.

Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined the elements included in financial statements, including deferred outflows of resources and deferred inflows of resources. In addition, Concepts Statement 4 provides that reporting a deferred outflow of resources or a deferred inflow of resources should be limited to those instances identified by the Board in authoritative pronouncements that are established after applicable due process.

This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term *deferred* in financial statement presentations.

## SANTA CLARA COUNTY OFFICE OF EDUCATION

### Notes to Financial Statements

June 30, 2014

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#### NOTE 2 – CASH

Cash at June 30, 2014 is reported at fair value and consisted of the following:

	Governmental Activities			Fiduciary Funds
	Governmental Funds	Proprietary Fund	Total	
Pooled Funds:				
Cash in county treasury	\$ 74,910,743	\$ 24,975,615	\$ 99,886,358	\$ 116,597,806
Cash with fiscal agent	1,171,262	-	1,171,262	-
Total Pooled Funds	<u>76,082,005</u>	<u>24,975,615</u>	<u>101,057,620</u>	<u>116,597,806</u>
Deposits:				
Cash on hand and in banks	-	137,982	137,982	-
Cash in revolving fund	25,000	-	25,000	-
Total Deposits	<u>25,000</u>	<u>137,982</u>	<u>162,982</u>	<u>-</u>
Total Cash	<u>\$ 76,107,005</u>	<u>\$ 25,113,597</u>	<u>\$ 101,220,602</u>	<u>\$ 116,597,806</u>

#### Pooled Funds

In accordance with Education Code Section 41001, the County maintains substantially all of its cash in the County Treasury. The County pools and invests the cash. These pooled funds are carried at cost which approximates fair value. Interest earned is deposited annually to participating funds. Any investment losses are proportionately shared by all funds in the pool.

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

In accordance with applicable state laws, the County Treasurer may invest in derivative securities with the State of California. However, at June 30, 2014, the County Treasurer has represented that the Pooled Investment Fund contained no derivatives or other investments with similar risk profiles.

#### Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the County's deposits may not be returned to it. The County does not have a policy for custodial credit risk for deposits. Cash balances held in banks are insured up to \$250,000 by the Federal Depository Insurance Corporation (FDIC) and are collateralized by the respective financial institutions. In addition, 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 the public agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2014, none of the County's bank balance was exposed to custodial credit risk because it was insured by the FDIC.

**SANTA CLARA COUNTY OFFICE OF EDUCATION***Notes to Financial Statements**June 30, 2014*

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**NOTE 3- ACCOUNTS RECEIVABLE**

Accounts receivable as of June 30, 2014 consisted of the following:

	<u>County School Service Fund</u>	<u>Special Education Pass- Through Fund</u>	<u>Non-Major Governmental Funds</u>	<u>Self- Insurance Fund</u>	<u>Totals</u>
Federal Government:					
Categorical aid programs	\$ 7,972,608	\$ -	\$ 292,138	\$ -	\$ 8,264,746
State Government:					
LCFF	831,460	6,145,312	-	-	6,976,772
Lottery	284,041	-	-	-	284,041
Special education	10,723,539	-	-	-	10,723,539
Child nutrition	-	-	23,815	-	23,815
Categorical aid programs	357,468	-	6,952	-	364,420
Local:					
Interest	19,777	1,211	1,044	23,666	45,698
Other	524,879	-	54,945	1,497	581,321
Total	<u>\$ 20,713,772</u>	<u>\$ 6,146,523</u>	<u>\$ 378,894</u>	<u>\$ 25,163</u>	<u>\$ 27,264,352</u>

**SANTA CLARA COUNTY OFFICE OF EDUCATION**

*Notes to Financial Statements*

*June 30, 2014*

**NOTE 4 - INTERFUND TRANSACTIONS**

**A. Balances Due To/From Other Funds**

Balances due to/from other funds at June 30, 2014 consisted of the following:

	Due From Other Funds				Total
	County School Service Fund	Special Education Pass-Through Fund	Non-Major Governmental Funds	Proprietary Fund	
County School Service Fund	\$ -	\$ 1,260,920	\$ 240,680	\$ 263,052	\$ 1,764,652
Special Education Pass-Through Fund	113,762	-	-	-	113,762
Non-Major Governmental Funds	577,426	-	-	-	577,426
Proprietary Fund	-	-	129,958	-	129,958
<b>Total</b>	<b>\$ 691,188</b>	<b>\$ 1,260,920</b>	<b>\$ 370,638</b>	<b>\$ 263,052</b>	<b>\$ 2,585,798</b>

Child Development Fund due to the General Fund for indirect costs	\$ 51,735
Child Nutrition due to the General Fund for cash loan	525,691
Special Education Pass-Through fund due to the General Fund for SELPA pass-through	113,762
General Fund due to the Self-Insurance Fund for Workers Compensation	263,052
General Fund due to the Child Nutrition Fund for food production	81,142
Self-Insurance Fund due to the Child Development Fund for Workers Compensation	129,958
General Fund due to the Child Development Fund for expense reimbursement	159,538
General Fund due to the Special Education Pass-Through Fund for SELPA pass-through	1,260,920
<b>Total</b>	<b>\$ 2,585,798</b>

**B. Transfers To/From Other Funds**

Transfers to/from other funds for the fiscal year ended June 30, 2014 consisted of the following:

County School Service Fund transfer to Child Development Fund for reimbursements from the Head Start program	\$ 1,552,129
County School Service Fund transfer to Cafeteria Fund for contribution	81,115
County School Service Fund transfer to Debt Service Fund for certificates of participation payment	1,169,200
<b>Total</b>	<b>\$ 2,802,444</b>

**NOTE 5 - FUND BALANCES**

**Minimum Fund Balance Policy**

The County has not adopted a formal minimum fund balance policy, as recommended by GASB Statement No. 54; however, the County follows the guidelines recommended in the Criteria and Standards of Assembly Bill (AB) 1200, which recommend a Reserve for Economic Uncertainties consisting of unassigned amounts equal to no less than two percent of total General Fund expenditures and other financing uses.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the County 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 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.

**SANTA CLARA COUNTY OFFICE OF EDUCATION**

*Notes to Financial Statements*

*June 30, 2014*

**NOTE 5 – FUND BALANCES (continued)**

At June 30, 2014, fund balances of the County’s governmental funds are classified as follows:

	County School Service Fund	Special Education Pass-Through Fund	Non-Major Governmental Funds	Total
<b>Nonspendable:</b>				
Revolving cash	\$ 25,000	\$ -	\$ -	\$ 25,000
Stores inventories	309,513	-	-	309,513
Prepaid expenditures	1,679	-	-	1,679
<b>Total Nonspendable</b>	<b>336,192</b>	<b>-</b>	<b>-</b>	<b>336,192</b>
<b>Restricted:</b>				
Categorical programs	13,806,676	-	9,314	13,815,990
Special education	-	9,475	-	9,475
Child development programs	-	-	290,839	290,839
School facilities	-	-	382,225	382,225
Debt service	-	-	1,171,262	1,171,262
<b>Total Restricted</b>	<b>13,806,676</b>	<b>9,475</b>	<b>1,853,640</b>	<b>15,669,791</b>
<b>Assigned:</b>				
Excess taxes	12,295,907	-	-	12,295,907
District loans for cashflow issues	5,000,000	-	-	5,000,000
Carryover unspent funds	2,230,336	-	-	2,230,336
Facilities	8,257,106	-	-	8,257,106
Technology services	9,062,191	-	-	9,062,191
Deferred maintenance (FMP)	6,142,368	-	-	6,142,368
Vacation liability	1,500,028	-	-	1,500,028
COP payoff	7,168,697	-	-	7,168,697
STRS for H1B1 items	610,000	-	-	610,000
Redevelopment funds (RDA)	804,332	-	-	804,332
Psychologist 1% salary retro	21,132	-	-	21,132
Lottery	111,845	-	-	111,845
<b>Total Assigned</b>	<b>53,203,942</b>	<b>-</b>	<b>-</b>	<b>53,203,942</b>
<b>Unassigned:</b>				
Reserve for economic uncertainties	7,181,733	-	-	7,181,733
Remaining unassigned balances	1,334,475	-	-	1,334,475
<b>Total Unassigned</b>	<b>8,516,208</b>	<b>-</b>	<b>-</b>	<b>8,516,208</b>
<b>Total</b>	<b>\$ 75,863,018</b>	<b>\$ 9,475</b>	<b>\$ 1,853,640</b>	<b>\$ 77,726,133</b>

**SANTA CLARA COUNTY OFFICE OF EDUCATION**  
*Notes to Financial Statements*  
*June 30, 2014*

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**NOTE 6 – CAPITAL ASSETS AND DEPRECIATION**

Capital asset activity for the year ended June 30, 2014 was as follows:

	Balance July 1, 2013	Additions	Deletions	Balance, June 30, 2014
Capital assets not being depreciated:				
Land	\$ 5,533,399	\$ -	\$ -	\$ 5,533,399
Construction in progress	696,232	4,707,274	5,403,506	-
Total capital assets not being depreciated	<u>6,229,631</u>	<u>4,707,274</u>	<u>5,403,506</u>	<u>5,533,399</u>
Capital assets being depreciated:				
Buildings and improvements	74,142,776	4,725,837	2,625,615	76,242,998
Furniture and equipment	12,274,444	1,009,003	223,327	13,060,120
Total capital assets being depreciated	<u>86,417,220</u>	<u>5,734,840</u>	<u>2,848,942</u>	<u>89,303,118</u>
Accumulated depreciation for:				
Buildings and improvements	(15,542,591)	(2,487,424)	(364,891)	(17,665,124)
Furniture and equipment	(8,828,482)	(838,598)	(220,579)	(9,446,501)
Total accumulated depreciation	<u>(24,371,073)</u>	<u>(3,326,022)</u>	<u>(585,470)</u>	<u>(27,111,625)</u>
Total capital assets being depreciated, net	<u>62,046,147</u>	<u>2,408,818</u>	<u>2,263,472</u>	<u>62,191,493</u>
Governmental activity capital assets, net	<u>\$ 68,275,778</u>	<u>\$ 7,116,092</u>	<u>\$ 7,666,978</u>	<u>\$ 67,724,892</u>

Depreciation expense was charged to governmental functions as follows:

Governmental Activities:	
Instruction	\$ 1,580,510
Supervision of instruction	290,298
Instructional library, media, and technology	32,256
School site administration	193,532
Home to school transportation	32,256
Food services	32,256
All other pupil services	419,319
Ancillary services	64,510
All other general administration	455,300
Data processing services	96,765
Plant services	<u>129,020</u>
Total	<u>\$ 3,326,022</u>

**SANTA CLARA COUNTY OFFICE OF EDUCATION**  
*Notes to Financial Statements*  
*June 30, 2014*

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**NOTE 7 – GENERAL LONG-TERM DEBT**

Changes in long-term debt for the year ended June 30, 2014 were as follows:

	Balance, July 1, 2013 as originally stated		Balance, July 1, 2013 as restated		Additions	Deductions	Balance, June 30, 2014	Amount Due Within One Year
Certificates of Participation	\$ 10,400,000	\$ -	\$ 10,400,000	\$ -	\$ 670,000	\$ 9,730,000	\$ 700,000	
Compensated Absences	1,300,028	4,302,734	5,602,762	-	196,580	5,406,182	-	
Other Postemployment Benefits	7,818,154	-	7,818,154	1,362,894	-	9,181,048	-	
Totals	<u>\$ 19,518,182</u>	<u>\$ 4,302,734</u>	<u>\$ 23,820,916</u>	<u>\$ 1,362,894</u>	<u>\$ 866,580</u>	<u>\$ 24,317,230</u>	<u>\$ 700,000</u>	

Payments for certificates of participation are made by the Debt Service Fund. Accumulated vacation and other postemployment benefits will be paid for by the fund for which the employee worked.

**Certificates of Participation**

On July 11, 2002 the County issued \$15,895,000 of certificates of participation through the Santa Clara Board of Education Financing Corporation. The certificates were issued with stated interest rates ranging between 3.0% and 5.0%. The certificates were issued to advance refund certificates that were originally issued in 1995. At June 30, 2014 the principal balance outstanding was \$9,730,000.

The annual requirements to amortize certificates of participation outstanding as of June 30, 2014 are as follows:

Fiscal Year	Principal	Interest	Total
2014-15	\$ 700,000	\$ 470,725	\$ 1,170,725
2015-16	725,000	440,975	1,165,975
2016-17	760,000	408,350	1,168,350
2017-18	790,000	373,200	1,163,200
2018-19	830,000	335,675	1,165,675
2019-24	4,815,000	1,022,750	5,837,750
2024-25	1,110,000	55,500	1,165,500
Total	<u>\$ 9,730,000</u>	<u>\$ 3,107,175</u>	<u>\$ 12,837,175</u>

**NOTE 8 – JOINT VENTURE**

The Santa Clara County Office of Education is a member of the South Bay Area Schools Insurance Authority (SBASIA) joint powers authority (JPA). The County Office of Education pays an annual premium to the applicable entity for its property and liability coverages. The relationship between the Santa Clara County Office of Education and the JPA is such that the JPA is not a component unit of the County for financial reporting purposes.

The JPA is governed by a board consisting of a representative from each member district. The governing board controls the operations of the JPA independent of any influence by the member districts beyond their representation on the governing board. Each member district pays a premium commensurate with the level of coverage requested and shares surpluses and deficits proportionately to its participation in the JPA.



## SANTA CLARA COUNTY OFFICE OF EDUCATION

### Notes to Financial Statements

June 30, 2014

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#### NOTE 8 – JOINT VENTURE (continued)

Condensed unaudited financial information as of June 30, 2014 is shown below:

	SBASIA
Assets	\$ 4,663,614
Liabilities	3,058,848
Net Position	<u>\$ 1,604,766</u>
Revenues	\$ 3,136,614
Expenses	3,843,478
Operating Income	(706,864)
Non-Operating Income	15,590
Change in Net Assets	<u>\$ (691,274)</u>

#### NOTE 9 – COMMITMENTS AND CONTINGENCIES

##### A. State and Federal Allowances, Awards, and Grants

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

##### B. Litigation

The County is involved in certain legal matters that arose out of the normal course of business. The County has not accrued liability for any potential litigation against it because it does not meet the criteria to be considered a liability at June 30.

#### NOTE 10 – RISK MANAGEMENT

##### Property and Liability

The County 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, 2014, the County participated in the South Bay Area Schools Insurance Authority 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.

##### Workers' Compensation

For fiscal year 2013-14, the County was self-insured up to \$350,000 for workers compensation, with excess coverage provided by a policy through Star Insurance Company.

##### Employee Dental and Vision Benefits

The County is self-insured for dental and vision benefits for employees. The County uses Delta Dental to process the dental benefit claims, and MES to process the vision claims.

**SANTA CLARA COUNTY OFFICE OF EDUCATION**

*Notes to Financial Statements*

*June 30, 2014*

**NOTE 10 – RISK MANAGEMENT (continued)**

Coverages for property and liability and workers' compensation are as follows:

Insurance Carrier / Public Entity Risk Pool	Type of Coverage	Self-Insured Retention	Limits
<b>Workers' Compensation</b>			
Santa Clara County Office of Education	Workers' Compensation	N/A	\$ 350,000
Star Insurance Company	Workers' Compensation	\$ 350,000	\$ 100,000,000
<b>Property and Liability Program</b>			
South Bay Area Schools Insurance Authority	Property	\$ 10,000	\$ 500,000
South Bay Area Schools Insurance Authority	Liability	\$ 5,000	\$ 300,000
<b>Excess Property and Liability Program</b>			
Genesis Insurance Company	Excess Liability	\$ 300,000	\$ 1,000,000
CSAC Excess Insurance Authority	General Liability - JPA Pool	\$ 1,000,000	\$ 24,000,000
Public Entity Property Insurance Program	Excess Property	\$ 500,000	\$ 1,000,000,000

**Claims Liability**

The County records an estimated liability for workers' compensation claims against the County. Claims liabilities are based on estimates of the ultimate cost of reported claims (including future claim adjustment expenses) and an estimate for claims incurred but not reported based on historical experience.

**Unpaid Claims Liabilities**

The County 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's workers' compensation from July 1, 2012 to June 30, 2014:

	<u>Workers'</u> <u>Compensation</u>
Liability Balance, June 30, 2012	\$ 11,120,000
Claims and changes in estimates	1,709,442
Claim payments	<u>(2,150,442)</u>
Liability Balance, June 30, 2013	\$ 10,679,000
Claims and changes in estimates	3,867,236
Claim payments	<u>(3,180,236)</u>
Liability Balance, June 30, 2014	<u>\$ 11,366,000</u>
 Assets available to pay claims	 <u>\$ 12,427,042</u>

**NOTE 11 – EMPLOYEE RETIREMENT PLANS**

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

# SANTA CLARA COUNTY OFFICE OF EDUCATION

## Notes to Financial Statements

June 30, 2014

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### NOTE 11 – EMPLOYEE RETIREMENT PLANS (continued)

#### Plan Description and Provisions

##### **Public Employees’ Retirement System (PERS)**

###### **Plan Description**

The County contributes to the School Employer Pool under the California Public Employees’ Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by state statutes, as legislatively amended, within the Public Employees’ Retirement Law. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the comprehensive annual financial report may be obtained from the CalPERS Executive Office, 400 Q Street, Sacramento, California 95811.

###### **Funding Policy**

Active plan members are required to contribute 7.0% of their salary and the County is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution for fiscal year 2013-14 was 11.442%. The contribution requirements of the plan members are established by State statute. The County’s contributions to CalPERS for the last three fiscal years were as follows:

	<u>Contribution</u>	<u>Percent of Required Contribution</u>
2013-14	\$ 5,830,031	100%
2012-13	\$ 5,693,284	100%
2011-12	\$ 5,462,120	100%

##### **State Teachers’ Retirement System (STRS)**

###### **Plan Description**

The County contributes to the California State Teachers’ Retirement System (CalSTRS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalSTRS. The plan provides retirement, disability and survivor benefits to beneficiaries. Benefit provisions are established by state statutes, as legislatively amended, within the State Teachers’ Retirement Law. CalSTRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the comprehensive annual financial report may be obtained from CalSTRS, 100 Waterfront Place, West Sacramento, California 95605, or at [www.calstrs.com](http://www.calstrs.com).

###### **Funding Policy**

Active plan members are required to contribute 8.0% of their salary. The required employer contribution rate for fiscal year 2013-14 was 8.25% of annual payroll. The contribution requirements of the plan members are established by State statute. The County’s contributions to STRS for the last three fiscal years were as follows:

	<u>Contribution</u>	<u>Percent of Required Contribution</u>
2013-14	\$ 3,477,119	100%
2012-13	\$ 3,482,742	100%
2011-12	\$ 3,515,982	100%

**SANTA CLARA COUNTY OFFICE OF EDUCATION**

*Notes to Financial Statements*

*June 30, 2014*

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**NOTE 11 – EMPLOYEE RETIREMENT PLANS (continued)**

**On-Behalf Payments**

The County was the recipient of on-behalf payments made by the State of California to STRS for K-12 education. These payments consist of state General Fund contributions of approximately \$1.8 million to STRS (4.267% of salaries subject to STRS in 2013-14).

**NOTE 12 – OTHER POSTEMPLOYMENT BENEFITS**

Santa Clara County Office of Education administers a single-employer defined benefit other postemployment benefit (OPEB) plan that provides medical, dental and vision insurance benefits to eligible retirees and their spouses. The County implemented Governmental Accounting Standards Board Statement #45, *Accounting and Financial Reporting by Employers for Postemployment Benefit Plans Other Than Pension Plans*, in 2007-08.

**Plan Descriptions and Contribution Information**

Membership in the plan consisted of the following:

Retirees and beneficiaries receiving benefits*	90
Active plan members*	<u>1,698</u>
Total	<u><u>1,788</u></u>

*\* As of July 1, 2012 actuarial valuation*

The County provides employee health benefits coverage for eligible retirees and their dependents as a lifetime benefit. 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 provided to eligible retired employees. The percentage of the monthly premium paid by the County varies. Retirees pay all amounts in excess of:

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

Benefits cease at age 65.

**SANTA CLARA COUNTY OFFICE OF EDUCATION**

*Notes to Financial Statements*

*June 30, 2014*

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**NOTE 12 – OTHER POSTEMPLOYMENT BENEFITS (continued)**

**Plan Descriptions and Contribution Information (continued)**

The County’s funding policy is based on the projected pay-as-you-go financing requirements. For fiscal year 2013-14, the County contributed \$999,813. At June 30, 2014, the County had also set aside approximately \$10.9 million for post-employment benefits in Sub Fund 671, which is reported in these financial statements in the Self-Insurance Fund. However, because these funds were not placed in an irrevocable trust, they do not qualify as “contributions” for accounting purposes.

**Annual OPEB Cost and Net OPEB Obligation**

The County’s annual OPEB cost is calculated based on the Annual Required Contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the County’s annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the County’s net OPEB obligation:

Annual required contribution (ARC)	\$ 2,773,792
Interest on net OPEB obligation	78,182
Adjustment to ARC	<u>(489,267)</u>
Annual OPEB cost	2,362,707
Contributions made:	
Pay-as-you-go costs	<u>(999,813)</u>
Increase in net OPEB liability	1,362,894
Net OPEB liability - July 1, 2013	<u>7,818,154</u>
Net OPEB liability - June 30, 2014	<u>\$ 9,181,048</u>

The County’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the three most recent years are as follows:

Year Ended June 30,	Annual OPEB Cost	Percentage Contributed	Net OPEB Obligation
2012	\$ 2,938,631	41%	\$ 6,734,775
2013	\$ 2,240,313	52%	\$ 7,818,154
2014	\$ 2,362,707	42%	\$ 9,181,048

**Funded Status and Funding Progress – OPEB Plans**

As of July 1, 2012, the most recent actuarial valuation date, the County Office did not have a funded plan. The actuarial accrued liability (AAL) for benefits was \$17.9 million, and the unfunded actuarial accrued liability (UAAL) was \$17.9 million for 2013-14.

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

**SANTA CLARA COUNTY OFFICE OF EDUCATION**

*Notes to Financial Statements*

*June 30, 2014*

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**NOTE 12 – OTHER POSTEMPLOYMENT BENEFITS (continued)**

**Funded Status and Funding Progress – OPEB Plans (continued)**

The schedule of funding progress presented as Required Supplementary Information presents multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

**Actuarial Methods and Assumptions**

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

Additional information as of the latest actuarial valuation follows:

Valuation Date	7/1/2012
Actuarial Cost Method	Projected Unit Credit
Amortization Method	Level-dollar
Remaining Amortization Period	25 years
Asset Valuation	N/A
Actuarial Assumptions:	
Discount rate	0.5% - 4.0%
Medical trend rates	6.0% - 11.0%

**NOTE 13 – SALE OF REAL PROPERTY**

During the 2013-14 year, the County sold two pieces of real property in two separate transactions. Both homes were acquired through housing loans to previous County Superintendents (Weis and De La Torre) during their tenure at the County.

The Weis property was sold to a private party on June 10, 2014 for \$810,000. After closing costs of \$47,387, the net proceeds were \$763,613.

The County did not have title to the De La Torre property, however, the County had a Deed of Trust on the property, and therefore reported the property as a capital asset. On May 8, 2014, the County received \$972,221 from the former County Superintendent to pay-off the mortgage loan. The property was sold to a private party on the same day.

The total proceeds from these sales of \$1,735,835 is reported as a special item in the governmental funds, however, the costs of these properties sold, net of depreciation, is removed from the capital assets on the Statement of Net Position and offset against the sale proceeds. This results in a gain on the sale of real property of \$250,502.

**SANTA CLARA COUNTY OFFICE OF EDUCATION**

*Notes to Financial Statements*

*June 30, 2014*

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**NOTE 14 – CONTINGENCIES**

**Payroll Audit**

In February 2013, the County moved the payroll function from the Internal Business Services Department to District Business Advisory Services. In July 2013, given reports regarding payroll errors, Business Management asked the auditors to fully review payroll processes and processing. In September 2013, there were reports of password sharing between staff processing payroll. In September 2013, the County Superintendent asked Business Management to issue an RFP for a payroll audit that included a review of password approval and payroll processing. In October 2013, the County Superintendent contracted with an external consultant to conduct a review and assessment of the payroll and human resources functions, including a review of information technology security. During the 2013-14 year, a second payroll review was started by a different vendor than the previous audit. The extent of the payroll errors is undetermined at this time, and the auditors could not quantify the potential liability for penalties, taxes, and fees associated with the errors in processing. Accordingly, no liability has been recorded in the financial statements. However, management does not currently believe that the impact will materially affect the financial position of the County.

**NOTE 15 – ADJUSTMENTS FOR RESTATEMENTS**

The beginning net position on the Statement of Activities has been restated by \$4,302,734 in order to increase the liability associated with accrued vacation leave. The beginning net position on the Statement of Net Position has also been restated by \$725,378 to remove the Medi-Cal Administrative Activities (MAA) accounts receivable which was never collected. Additionally, the beginning net position on the Statement of Activities has been restated by \$438,336 to remove debt issuance costs in accordance with GASB. This change is described in greater detail in Note 1.G. The net effect of those changes is:

	<u>Adjustments for Restatements</u>
Increase (decrease) in beginning net position:	
Compensated absences understated	\$ (4,302,734)
Accounts receivable overstated	(725,378)
Debt issuance costs overstated (GASB 65)	<u>(438,336)</u>
Net effect on net position, July 1, 2013	<u>\$ (5,466,448)</u>

## SANTA CLARA COUNTY OFFICE OF EDUCATION

### *Notes to Financial Statements*

*June 30, 2014*

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#### **NOTE 16 – FUTURE GASB PRONOUNCEMENT**

The following statement issued by the Governmental Accounting Standards Board (GASB) will become effective in 2014-15 and is expected to have a significant impact on the County's financial reporting:

#### **Statement No. 68, *Accounting and Financial Reporting for Pensions—An Amendment of GASB Statement No. 27 (Issued 06/12)***

The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency.

This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria.

This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures. For defined benefit pensions, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service.

#### **Cost-Sharing Employers**

In financial statements prepared using the economic resources measurement focus and accrual basis of accounting, a cost-sharing employer that does not have a special funding situation is required to recognize a liability for its proportionate share of the net pension liability (of all employers for benefits provided through the pension plan)—the collective net pension liability. An employer's proportion is required to be determined on a basis that is consistent with the manner in which contributions to the pension plan are determined, and consideration should be given to separate rates, if any, related to separate portions of the collective net pension liability. The use of the employer's projected long-term contribution effort as compared to the total projected long-term contribution effort of all employers as the basis for determining an employer's proportion is encouraged.

A cost-sharing employer is required to recognize pension expense and report deferred outflows of resources and deferred inflows of resources related to pensions for its proportionate shares of collective pension expense and collective deferred outflows of resources and deferred inflows of resources related to pensions.



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***Required Supplementary Information***

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**SANTA CLARA COUNTY OFFICE OF EDUCATION**

*Budgetary Comparison Schedule – County School Service Fund  
For the Fiscal Year Ended June 30, 2014*

	Budgeted Amounts		Actual (Budgetary Basis)	Variance with Final Budget - Pos (Neg)
	Original	Final		
<b>Revenues</b>				
LCFF Sources	\$ 91,428,371	\$ 99,078,994	\$ 99,078,997	\$ 3
Federal Sources	41,488,560	45,980,355	40,639,687	(5,340,668)
Other State Sources	22,661,839	17,768,974	17,555,023	(213,951)
Other Local Sources	28,123,453	37,842,359	35,789,521	(2,052,838)
<b>Total Revenues</b>	<b>183,702,223</b>	<b>200,670,682</b>	<b>193,063,228</b>	<b>(7,607,454)</b>
<b>Expenditures</b>				
Current:				
Certificated Salaries	43,371,348	45,197,104	43,387,965	1,809,139
Classified Salaries	49,420,326	53,915,225	52,146,733	1,768,492
Employee Benefits	39,864,018	39,840,902	37,752,706	2,088,196
Books and Supplies	4,490,313	7,947,343	4,342,895	3,604,448
Services and Other Operating Expenditures	37,999,921	46,458,172	32,006,249	14,451,923
Indirect costs	(523,871)	(592,427)	(520,442)	(71,985)
Capital Outlay	3,054,035	4,681,957	1,863,264	2,818,693
Intergovernmental	4,008,417	6,203,612	5,761,522	442,090
<b>Total Expenditures</b>	<b>181,684,507</b>	<b>203,651,888</b>	<b>176,740,892</b>	<b>26,910,996</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	2,017,716	(2,981,206)	16,322,336	19,303,542
<b>Other Financing Sources and Uses</b>				
Interfund Transfers Out	(1,549,430)	(1,751,126)	(2,802,444)	(1,051,318)
<b>Total Other Financing Sources and Uses</b>	<b>(1,549,430)</b>	<b>(1,751,126)</b>	<b>(2,802,444)</b>	<b>684,517</b>
Special item- sale of real property	-	1,735,835	1,735,835	-
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	468,286	(4,732,332)	15,255,727	19,988,059
Fund Balance, July 1, 2013, as restated	58,171,630	58,171,630	60,607,291	2,435,661
Fund Balance, June 30, 2014	\$ 58,639,916	\$ 53,439,298	\$ 75,863,018	\$ 22,423,720

**SANTA CLARA COUNTY OFFICE OF EDUCATION**

*Budgetary Comparison Schedule – Special Education Pass-Through Fund  
For the Fiscal Year Ended June 30, 2014*

	<b>Budgeted Amounts</b>		<b>Actual (Budgetary Basis)</b>	<b>Variance with Final Budget - Pos (Neg)</b>
	<b>Original</b>	<b>Final</b>		
<b>Revenues</b>				
Federal Sources	\$ 25,536,192	\$ 39,566,674	\$ 32,531,464	\$ (7,035,210)
Other State Sources	38,036,980	36,596,425	35,023,955	(1,572,470)
Other Local Sources	1,283,692	1,283,692	1,250,816	(32,876)
<b>Total Revenues</b>	<b>64,856,864</b>	<b>77,446,791</b>	<b>68,806,235</b>	<b>(8,640,556)</b>
<b>Expenditures</b>				
Intergovernmental	64,856,864	77,452,120	68,802,089	8,650,031
<b>Total Expenditures</b>	<b>64,856,864</b>	<b>77,452,120</b>	<b>68,802,089</b>	<b>8,650,031</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	-	(5,329)	4,146	9,475
Fund Balance, July 1, 2013	5,329	5,329	5,329	-
Fund Balance, June 30, 2014	\$ 5,329	\$ -	\$ 9,475	\$ 9,475

**SANTA CLARA COUNTY OFFICE OF EDUCATION**  
*Schedule of Funding Progress - OPEB*  
*For the Fiscal Year Ended June 30, 2014*

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Actuarial Valuation Date	Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
July 1, 2008	\$ -	\$ 27,280,000	\$ 27,280,000	0.0%	\$101,123,014	20.27%
July 1, 2010	\$ -	\$ 20,495,330	\$ 20,495,330	0.0%	\$ 96,929,375	28.14%
July 1, 2012	\$ -	\$ 17,883,237	\$ 17,883,237	0.0%	N/A	N/A

**SANTA CLARA COUNTY OFFICE OF EDUCATION**  
*Notes to the Required Supplementary Information*  
*For the Fiscal Year Ended June 30, 2014*

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**NOTE 1 – PURPOSE OF SCHEDULES**

**Budgetary Comparison Schedules**

These schedules are required by GASB Statement No. 34 as required supplementary information (RSI) for the General Fund and for each major special revenue fund that has a legally adopted annual budget. The budgetary comparison schedules present both (a) the original and (b) the final appropriated budgets for the reporting period as well as (c) actual inflows, outflows, and balances, stated on the County's budgetary basis. A separate column to report the variance between the final budget and actual amounts is also presented, although not required.

**Schedule of Funding Progress**

This schedule is required by GASB Statement No. 45 for all sole and agent employers that provide other postemployment benefits (OPEB). The schedule presents, for the most recent actuarial valuation and the two preceding valuations, information about the funding progress of the plan, including, for each valuation, the actuarial valuation date, the actuarial value of assets, the actuarial accrued liability, the total unfunded actuarial liability (or funding excess), the actuarial value of assets as a percentage of the actuarial accrued liability (funded ratio), the annual covered payroll, and the ratio of the total unfunded actuarial liability (or funding excess) to annual covered payroll.

**NOTE 2 – EXCESS OF EXPENDITURES OVER APPROPRIATIONS**

At June 30, 2014, the County incurred the following excess of expenditures over appropriations in individual major funds presented in the Budgetary Comparison Schedule:

County School Service Fund:		
Indirect Costs	\$	71,985
Interfund Transfers Out		1,051,318

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***Supplementary Information***

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## SANTA CLARA COUNTY OFFICE OF EDUCATION

### *Local Educational Agency Organization Structure*

*June 30, 2014*

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The Santa Clara County Office of Education was organized in 1852 under the laws of the State of California. The County Office of Education 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 of Education 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 of Education coordinates Regional Occupational Programs for five school districts and one 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 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.

The 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.

#### **SANTA CLARA COUNTY BOARD OF EDUCATION, As of June 30, 2014**

<b>Member</b>	<b>Office</b>	<b>Term Expires</b>
Leon F. Beauchman	President	2016
Darcie Green	Vice President	2014
Michael Chang	Member	2014
Joseph Di Salvo	Member	2016
Julia Hover-Smoot	Member	2014
Grace H. Mah	Member	2016
Anna Song	Member	2016

#### **ADMINISTRATION**

Mary Ann Dewan, Ph.D.,<sup>1</sup>  
*Interim County Superintendent of Schools and Chief Schools Officer*

Micaela Ochoa,  
*Chief Business Officer*

Angelica Ramsey, Ed.D.,  
*Chief Academic Officer*

Kelly Calhoun, Ed.D.,  
*Chief Technology Officer*

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<sup>1</sup> Effective August 2014, Jon Gundry was hired as County Superintendent of Schools. Mary Ann Dewan is still the Chief Schools Officer.

**SANTA CLARA COUNTY OFFICE OF EDUCATION**

*Schedule of Average Daily Attendance  
For the Fiscal Year Ended June 30, 2014*

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**Second Period Report - Certificate No. (101D8C0F)**

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<b>Regular ADA:</b>	<b><u>Elementary</u></b>	<b><u>High School</u></b>	<b><u>Total</u></b>
Juvenile Halls, Homes and Camps	4.27	234.98	239.25
Probation Referred, On Probation or Parole, Expelled Pursuant to EC 48915	<u>23.98</u>	<u>214.21</u>	<u>238.19</u>
Total ADA	<u>28.25</u>	<u>449.19</u>	<u>477.44</u>
<b>Other (Included in Regular ADA Amounts):</b>			
Full-Time Independent Study	<u>30.67</u>		

**Annual Report - Certificate No. (94ADC30B)**

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<b>Regular ADA:</b>	<b><u>Elementary</u></b>	<b><u>High School</u></b>	<b><u>Total</u></b>
Juvenile Halls, Homes and Camps	6.36	232.40	238.76
Probation Referred, On Probation or Parole, Expelled Pursuant to EC 48915	<u>27.42</u>	<u>211.49</u>	<u>238.91</u>
Total ADA	<u>33.78</u>	<u>443.89</u>	<u>477.67</u>
<b>Other (Included in Regular ADA Amounts):</b>			
Full-Time Independent Study	<u>29.15</u>		

**SANTA CLARA COUNTY OFFICE OF EDUCATION***Schedule of Average Daily Attendance Special Day Classes as of Second Period  
For the Fiscal Year Ended June 30, 2014*

	<b>Elementary</b>		<b>Secondary</b>		<b>Total</b>
	<b>Master Plan</b>	<b>Extended Year</b>	<b>Master Plan</b>	<b>Extended Year</b>	
Alum Rock	106.00	8.86	-	-	114.86
Berryessa	41.24	3.76	-	-	45.00
Cambrian	17.14	1.87	-	-	19.01
Campbell High	-	-	107.98	7.69	115.67
Campbell Elementary	18.76	1.83	-	-	20.59
Cupertino Union	19.65	1.39	-	-	21.04
East Side Union High	-	-	248.54	23.17	271.71
Evergreen	97.97	10.12	-	-	108.09
Franklin-McKinley	33.03	3.73	-	-	36.76
Fremont Union High	-	-	23.54	1.64	25.18
Gilroy Unified	22.81	1.94	14.55	1.49	40.79
Loma Prieta	0.43	0.09	-	-	0.52
Los Altos	0.02	0.07	-	-	0.09
Los Gatos	12.58	1.02	-	-	13.60
Los Gatos-Saratoga Joint Union High	-	-	6.66	0.76	7.42
Luther Burbank	4.87	0.50	-	-	5.37
Milpitas Unified	21.30	1.79	29.67	2.89	55.65
Moreland	21.95	1.78	-	-	23.73
Morgan Hill	42.96	3.64	32.81	2.11	81.52
Mount Pleasant	18.30	1.55	-	-	19.85
Mountain View- Los Altos High	-	-	4.82	0.53	5.35
Mountain View Whisman	3.69	0.40	-	-	4.09
Oak Grove	71.76	6.70	-	-	78.46
Orchard	6.99	0.63	-	-	7.62
Pacific Grove Unified	-	-	0.89	0.02	0.91
Palo Alto Unified	-	-	1.96	0.18	2.14
San Jose Unified	68.43	5.77	67.99	5.96	148.15
Santa Clara Unified	26.07	2.62	29.10	2.50	60.29
Saratoga Union	7.02	0.61	-	-	7.63
Sunnyvale	11.39	1.52	-	-	12.91
Union	14.68	1.48	-	-	16.16
	<u>689.04</u>	<u>63.67</u>	<u>568.51</u>	<u>48.94</u>	<u>1,370.16</u>

**SANTA CLARA COUNTY OFFICE OF EDUCATION**  
*Schedule of Financial Trends and Analysis*  
*For the Fiscal Year Ended June 30, 2014*

County School Service Fund	(Budget) 2015 <sup>3</sup>	2014	2013	2012
Revenues and other financing sources	\$ 193,742,843	\$ 194,799,063	\$ 192,032,969	\$ 170,810,336
Expenditures	186,774,144	176,740,892	173,516,531	180,536,792
Other uses and transfers out	1,666,434	2,802,444	5,406,554	1,654,545
Total outgo	188,440,578	179,543,336	178,923,085	182,191,337
Change in fund balance (deficit)	5,302,265	15,255,727	13,109,884	(11,381,001)
Ending fund balance <sup>4</sup>	\$ 81,165,283	\$ 75,863,018	\$ 60,607,291	\$ 48,222,785
Available reserves <sup>1</sup>	\$ 21,413,900	\$ 8,516,208	\$ 7,883,249	\$ 9,403,103
Available reserves as a percentage of total outgo	11.4%	4.7%	4.4%	5.2%
Total long-term debt <sup>4</sup>	\$ 23,617,230	\$ 24,317,230	\$ 23,820,916	\$ 19,146,111
Average daily attendance at P-2 <sup>2</sup>	1,884	1,848	1,934	1,998

The County School Service Fund balance has increased by \$27,640,233 over the past two years. The fiscal year 2014-15 adopted budget projects an increase of \$5,302,265. For a county of this size, the state recommends available reserves of at least 2% of total County School Service Fund expenditures, transfers out, and other uses (total outgo).

The County has incurred an operating deficit in only one of the past three years, and does not anticipate incurring an operating deficit during the 2014-15 fiscal year. Long-term debt has increased by \$5,171,119 over the past two years.

Average daily attendance has decreased by 150 over the past two years. An increase of 36 ADA is anticipated during fiscal year 2014-15.

<sup>1</sup> Available reserves consist of all unassigned fund balances in the County School Service Fund.

<sup>2</sup> Includes County Operated programs and District Funded County programs.

<sup>3</sup> Revised Final Budget September, 2014.

<sup>4</sup> As restated.

**SANTA CLARA COUNTY OFFICE OF EDUCATION**  
*Schedule of Expenditures of Federal Awards*  
*For the Fiscal Year Ended June 30, 2014*

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Cluster Expenditures	Federal Expenditures
Federal Programs:				
U.S. Department of Agriculture:				
Passed through California Dept. of Education (CDE):				
Child Nutrition: School Programs Cluster				
National School Lunch Program	10.553	13391	\$ 184,054	
School Breakfast - Basic	10.553	13525	23,280	
School Breakfast - Especially Needy	10.553	13526	26,138	
Subtotal Child Nutrition: School Programs Cluster				\$ 233,472
Child and Adult Care Food Program Cluster				
Child Care Food Program Claims - Centers and Family Day	10.558	13393	1,245,755	
Cash in Lieu of Commodities	10.558	13389	63,126	
Subtotal Child and Adult Care Food Program Cluster				1,308,881
Total U.S. Department of Agriculture				<u>1,542,353</u>
U.S. Department of Justice				
At-Risk Youth Student Information System (ARYSIS)	16.540	10045		58,726
U.S. Department of Education:				
Grants for Promoting Readiness of Minors in Supplemental Security Income (PROMISE)				
84.418P		Unknown		1,305
Passed through California Dept. of Education (CDE):				
No Child Left Behind (NCLB):				
Title I Grants to Local Educational Agencies Cluster				
Title I, Part A, Basic Grants Low-Income and Neglected	84.010	14329	1,978,132	
Title I, Basic School Support	84.010	14416	762,836	
Title I, Part D, Local Delinquent Programs	84.010	14357	775,088	
Subtotal Title I Grants to Local Educational Agencies Cluster				3,516,056
Title I, Part C, Migrant Ed (Regular and Summer Program)	84.011	14326		8,255,940
Title II, Part A, Improving Teacher Quality Local Grants	84.367	14341		16,948
English Language Acquisition Grants Cluster				
Title III, Technical Assistance	84.365	14917	150,666	
Title III, Limited English Proficiency	84.365	14346	42,707	
Subtotal English Language Acquisition Grants Cluster				193,373
Title IV, 21st Century Community Learning Centers, Technical Assistance	84.287	14350		21,663
Department of Rehabilitation: Workability II, Transition Partnership	84.158	10006		232,085
Carl D. Perkins Career and Technical Education, Adult, Section 132	84.048	14893		13,643
Special Education: Early Intervention Grants, Part C	84.181	23761		787,560
Individuals with Disabilities Education Act (IDEA):				
Local Assistance Entitlement	84.027	13379	30,409,188	
Preschool Grants, Part B, Section 619 (Age 3-4-5)	84.173	13430	910,715	
Preschool Accountability Grants, Part B, Section 619	84.173A	14688	34,285	
Preschool Local Entitlement, Part B	84.173A	13682	2,054,748	
Mental Health Services, Part B, Section 611	84.027A	14468	2,191,255	
Preschool Staff Development, Part B, Section 619	84.173A	13431	7,338	
Total Special Education (IDEA) Cluster				35,607,529
Total U.S. Department of Education				<u>48,646,102</u>
U.S. Department of Health & Human Services:				
Head Start				
93.600		10016		21,307,403
Passed through California Dept. of Education (CDE):				
Child Care and Development Fund Cluster				
Federal General (CCTR) and State Preschool	93.596	13609	743,541	
Quality Improvement Activities	93.575	13979	635,580	
Federal Local Planning Councils	93.575	13946	56,622	
Subtotal Child Care and Development Fund Cluster				1,435,743
Medi-Cal Billing Option	93.778	10013		2,523,340
Total U.S. Department of Health & Human Services				<u>25,266,486</u>
Total Expenditures of Federal Awards				<u>\$ 75,513,667</u>

**SANTA CLARA COUNTY OFFICE OF EDUCATION***Reconciliation of Annual Financial and Budget Report with Audited Financial Statements  
For the Fiscal Year Ended June 30, 2014*

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	County School Service Fund	Debt Service Fund	Self-Insurance Fund
June 30, 2014, annual financial and budget report (SACS) fund balances	\$ 74,859,520	\$ 1,171,250	\$ 13,864,904
Adjustments and reclassifications:			
Cash understated	-	12	-
Accounts receivable overstated	(1,264,736)	-	-
Unearned revenue overstated	2,268,234	-	-
OPEB liability understated	-	-	(9,181,048)
June 30, 2014, audited financial statement fund balances	<u>\$ 75,863,018</u>	<u>\$ 1,171,262</u>	<u>\$ 4,683,856</u>

**SANTA CLARA COUNTY OFFICE OF EDUCATION**  
*Combining Balance Sheet - Non-Major Governmental Funds*  
*June 30, 2014*

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	Child Development Fund	Cafeteria Fund	County School Facilities Fund	Debt Service Fund	Total Non-Major Governmental Funds
<b>ASSETS</b>					
Cash	\$ 307,756	\$ 200,033	\$ 381,639	\$ 1,171,262	\$ 2,060,690
Accounts receivable	86,309	291,999	586	-	378,894
Due from other funds	289,496	81,142	-	-	370,638
Total Assets	<u>\$ 683,561</u>	<u>\$ 573,174</u>	<u>\$ 382,225</u>	<u>\$ 1,171,262</u>	<u>\$ 2,810,222</u>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>Liabilities</b>					
Accounts payable	\$ 224,327	\$ 38,169	\$ -	\$ -	\$ 262,496
Due to other funds	51,735	525,691	-	-	577,426
Unearned revenue	116,660	-	-	-	116,660
Total Liabilities	392,722	563,860	-	-	956,582
<b>Fund Balances</b>					
Restricted	290,839	9,314	382,225	1,171,262	1,853,640
Total Liabilities and Fund Balances	<u>\$ 683,561</u>	<u>\$ 573,174</u>	<u>\$ 382,225</u>	<u>\$ 1,171,262</u>	<u>\$ 2,810,222</u>



**SANTA CLARA COUNTY OFFICE OF EDUCATION**

*Combining Statement of Revenues, Expenditures, and Changes in Fund Balances -  
Non-Major Governmental Funds  
For the Fiscal Year Ended June 30, 2014*

	Child Development Fund	Cafeteria Fund	County School Facilities Fund	Debt Service Fund	Total Non-Major Governmental Funds
<b>REVENUES</b>					
Federal sources	\$ 800,163	\$ 1,542,353	\$ -	\$ -	\$ 2,342,516
Other state sources	2,841,298	95,747	(3,650)	-	2,933,395
Other local sources	280,143	140,701	11,236	149	432,229
Total Revenues	3,921,604	1,778,801	7,586	149	5,708,140
<b>EXPENDITURES</b>					
Current:					
Instruction	3,572,571	-	-	-	3,572,571
Instruction-related services:					
Supervision of instruction	438,681	-	-	-	438,681
School site administration	511,581	-	-	-	511,581
Pupil support services:					
Food services	68,007	1,623,898	-	-	1,691,905
All other pupil services	148,526	-	-	-	148,526
General administration	-	-	-	137	137
Plant services	304,687	133,719	-	-	438,406
Transfers of indirect costs	427,457	92,985	-	-	520,442
Capital outlay	-	-	3,516,333	-	3,516,333
Debt service:					
Principal	-	-	-	670,000	670,000
Interest	-	-	-	499,200	499,200
Total Expenditures	5,471,510	1,850,602	3,516,333	1,169,337	12,007,782
Excess (Deficiency) of Revenues Over (Under) Expenditures	(1,549,906)	(71,801)	(3,508,747)	(1,169,188)	(6,299,642)
<b>OTHER FINANCING SOURCES (USES)</b>					
Interfund transfers in	1,552,129	81,115	-	1,169,200	2,802,444
Total Other Financing Sources and Uses	1,552,129	81,115	-	1,169,200	2,802,444
Net Change in Fund Balances	2,223	9,314	(3,508,747)	12	(3,497,198)
Fund Balances, July 1, 2013	288,616	-	3,890,972	1,171,250	5,350,838
Fund Balances, June 30, 2014	\$ 290,839	\$ 9,314	\$ 382,225	\$ 1,171,262	\$ 1,853,640

**SANTA CLARA COUNTY OFFICE OF EDUCATION**

*Schedule of Charter Schools*

*For the Fiscal Year Ended June 30, 2014*

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<u>Charter School</u>	<u>Inclusion in Financial Statements</u>
ACE Empower Academy	Not included
Bullis Charter School	Not included
Discovery Charter School	Not included
Discovery Charter II	Not included
Downtown College Preparatory - Alum Rock	Not included
Leadership Public Schools - San Jose	Not included
Magnolia Science Academy Santa Clara	Not included
Rocketship Academy Brilliant Minds	Not included
Rocketship Alma Academy	Not included
Rocketship Discovery Prep	Not included
Rocketship Los Suenos Academy	Not included
Rocketship Mateo Sheedy Elementary	Not included
Rocketship Si Se Puede Academy	Not included
Silicon Valley Flex Academy	Not included
Summit Public School - Tahoma	Not included
Summit Public School - Denali	Not included
Sunrise Middle	Not included
University Preparatory Academy Charter School	Not included

The County Board of Education approved five additional new charter schools to begin classes in 2014-15. However, three of these newly approved charters were abandoned or withdrew their applications and never opened.

# SANTA CLARA COUNTY OFFICE OF EDUCATION

Note to the Supplementary Information

June 30, 2014

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## NOTE 1 – PURPOSE OF SCHEDULES

### Schedule of Average Daily Attendance (ADA)

Average daily attendance (ADA) is a measurement of the number of pupils attending classes of the County. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionments of State funds are made to school districts and county offices of education. This schedule provides information regarding the attendance of students at various grade levels and in different programs.

### Schedule of Financial Trends and Analysis

This schedule discloses the County's financial trends by displaying past years' data along with current year budget information. These financial trend disclosures are used to evaluate the County's ability to continue as a going concern for a reasonable period of time.

### Schedule of Expenditures of Federal Awards

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

### Subrecipients

Of the Federal expenditures presented in the schedule, the County provided Federal awards to subrecipients as follows:

Program	Federal CFDA Number	Pass-Through Amount
Local Assistance Entitlement	84.027	\$ 27,749,284
IDEA Preschool Grants, Part B, Section 619 (Age 3-4-5)	84.173	798,142
Preschool Local Entitlement, Part B	84.173A	1,795,183
IDEA Mental Health Allocation Plan, Part B, Sec 611	84.027	2,183,775
Preschool Staff Development	84.173A	5,080

### 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.

### Non-Major Governmental Funds – Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balance

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.

### Schedule of Charter Schools

This schedule lists all charter schools chartered by the County, and displays information for each charter school and whether or not the charter school is included in the County audit.

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***Other Independent Auditors' Reports***

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**INDEPENDENT AUDITORS' 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 as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Santa Clara County Office of Education's basic financial statements, and have issued our report thereon dated December 12, 2014.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Santa Clara County Office of Education's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Santa Clara County Office of Education's internal control. Accordingly, we do not express an opinion on the effectiveness of the Santa Clara County Office of Education's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the 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. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as Findings 2014-1 through 2014-3 that we consider to be significant deficiencies.

**Compliance and Other Matters**

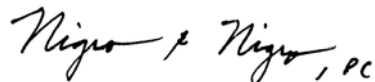
As part of obtaining reasonable assurance about whether Santa Clara County Office of Education's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as Findings 2014-4 and 2014-5.

**Santa Clara County Office of Education's Responses to Findings**

Santa Clara County Office of Education's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. Santa Clara County Office of Education's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

**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'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's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Murrieta, California  
December 12, 2014



INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

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

Report on Compliance for State Programs

We have audited Santa Clara County Office of Education's compliance with the types of compliance requirements described in the Standards and Procedures for Audits of California K-12 Local Educational Agencies 2013-14, published by the Education Audit Appeals Panel, for the year ended June 30, 2014. Santa Clara County Office of Education's state programs are identified below.

Management's Responsibility

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

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Santa Clara County Office of Education's State programs based on our audit of the types of compliance requirements referred to below. 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 Standards and Procedures for Audits of California K-12 Local Educational Agencies 2013-14. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to below occurred. An audit includes examining, on a test basis, evidence about Santa Clara County Office of Education's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each State program. However, our audit does not provide a legal determination of Santa Clara County Office of Education's compliance.

Table with 3 columns: Description, Procedures in Audit Guide, Procedures Performed. Rows include Attendance Reporting, Teacher Certification and Misassignments, Kindergarten Continuance, Independent Study, Continuation Education, Instructional Time for School Districts, Instructional Materials General Requirements, Ratios of Administrative Employees to Teachers, Classroom Teacher Salaries, and Early Retirement Incentive.



Description	Procedures in Audit Guide	Procedures Performed
Gann Limit Calculation	1	Yes
School Accountability Report Card	3	Yes
Juvenile Court Schools	8	Yes
Local Control Funding Formula Certification	1	Yes
California Clean Energy Jobs Act	3	No (see below)
After School Education and Safety Program:		
General Requirements	4	Not applicable
After School	5	Not applicable
Before School	6	Not applicable
Education Protection Account Funds	1	Yes
Common Core Implementation Funds	3	Yes
Unduplicated Local Control Funding Formula Pupil Counts	3	Yes
Charter Schools:		
Contemporaneous Records of Attendance	8	Not applicable
Mode of Instruction	1	Not applicable
Nonclassroom-Based Instruction/Independent Study	15	Not applicable
Determination of Funding for Nonclassroom-Based Instruction	3	Not applicable
Annual Instructional Minutes – Classroom Based	4	Not applicable
Charter School Facility Grant Program	1	Not applicable

We did not perform testing of the California Clean Energy Jobs Act because the County had not yet spent any of the funds.

***Opinion on Compliance with State Programs***

In our opinion, Santa Clara County Office of Education complied, in all material respects, with the types of compliance requirements referred to above for the year ended June 30, 2014.

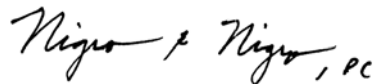
***Other Matters***

The results of our auditing procedures disclosed instances of noncompliance with the compliance requirements referred to above, which are required to be reported in accordance with *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2013-14*, and which are described in the accompanying schedule of findings and questioned costs as Findings 2014-4 and 2014-5.

***District's Responses to Findings***

Santa Clara County Office of Education's responses to the compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. Santa Clara County Office of Education's responses were not subjected to the auditing procedures in the audit of compliance and, accordingly, we express no opinion on the responses.

The purpose of this report on State compliance is solely to describe the scope of our testing of State compliance and the results of that testing based on the requirements of the *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2013-14*. Accordingly, this report is not suitable for any other purpose.



Murrieta, California  
December 12, 2014



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR  
EACH MAJOR FEDERAL PROGRAM AND ON  
INTERNAL CONTROL OVER COMPLIANCE**

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 compliance with the types of compliance requirements described in the OMB Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of Santa Clara County Office of Education's major federal programs for the year ended June 30, 2014. Santa Clara County Office of Education's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

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

***Auditors' Responsibility***

Our responsibility is to express an opinion on compliance for each of Santa Clara County Office of Education's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Santa Clara County Office of Education's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Santa Clara County Office of Education'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, 2014.

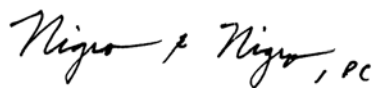
### **Report on Internal Control Over Compliance**

Management of Santa Clara County Office of Education is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Santa Clara County Office of Education's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County'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, as defined above. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



Murrieta, California  
December 12, 2014

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## ***Findings and Questioned Costs***

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**SANTA CLARA COUNTY OFFICE OF EDUCATION**  
*Schedule of Audit Findings and Questioned Costs*  
*For the Fiscal Year Ended June 30, 2014*

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**SECTION I - SUMMARY OF AUDITORS' RESULTS**

***Financial Statements***

Type of auditor's report issued	<u>Unmodified</u>
Internal control over financial reporting:	
Material weakness(es) identified?	<u>No</u>
Significant deficiency(s) identified not considered to be material weaknesses?	<u>Yes</u>
Noncompliance material to financial statements noted?	<u>No</u>

***Federal Awards***

Internal control over major programs:	
Material weakness(es) identified?	<u>No</u>
Significant deficiency(s) identified not considered to be material weaknesses?	<u>No</u>
Type of auditor's report issued on compliance for major programs:	<u>Unmodified</u>
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)	<u>No</u>
Identification of major programs:	
<u>CFDA Numbers</u> <u>Name of Federal Program or Cluster</u>	
<u>93.600</u> <u>Head Start</u>	
Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 2,265,410</u>
Auditee qualified as low-risk auditee?	<u>Yes</u>

***State Awards***

Internal control over state programs:	
Material weakness(es) identified?	<u>No</u>
Significant deficiency(s) identified not considered to be material weaknesses?	<u>Yes</u>
Type of auditor's report issued on compliance for state programs:	<u>Unmodified</u>

**SANTA CLARA COUNTY OFFICE OF EDUCATION**  
*Schedule of Audit Findings and Questioned Costs*  
*For the Fiscal Year Ended June 30, 2014*

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**SECTION II - FINANCIAL STATEMENT FINDINGS**

This section identifies the significant deficiencies, material weaknesses, and instances of noncompliance related to the financial statements that are required to be reported in accordance with *Government Auditing Standards*. Pursuant to Assembly Bill (AB) 3627, all audit findings must be identified as one or more of the following categories:

<u>Five Digit Code</u>	<u>AB 3627 Finding Types</u>
10000	Attendance
20000	Inventory of Equipment
30000	Internal Control
40000	State Compliance
41000	CalSTRS
50000	Federal Compliance
60000	Miscellaneous
61000	Classroom Teacher Salaries
70000	Instructional Materials
71000	Teacher Misassignments
72000	School Accountability Report Card

**Finding 2014-1: Purchasing (30000)**

**Finding:** During our testing of the County’s controls over credit card purchases, we noted several instances where controls were not followed. We noted the following areas of concern in relation to County credit cards:

- We noted instances of employees paying for dues and memberships with their County credit card.
- We noted one instance where items purchased were shipped to an employee's personal address.
- We noted several instances where the monthly limit of \$2,500 and/or the single purchase limit of \$500 per County policy were exceeded.
- We noted multiple instances where purchases did not have itemized receipts or other supporting documentation.
- We noted purchases of gift cards.
- We noted several instances where the expenditure was incurred prior to approval.

**Recommendation:** We recommend the following:

- Employees should pay for dues and memberships with their own personal cards, and seek reimbursement from the County. This will ensure that the County is not reimbursing employees for expenditures they did not personally incur.
- All purchases should be shipped to the County Office or a SCCOE-owned facility.
- The limits should be monitored so that they are not exceeded without accountability.
- All credit card purchases should be substantiated by itemized receipts.
- The Business Office should investigate the purpose of these purchases further. All future purchases should be substantiated by evidence that the purchase was for SCCOE business.
- All expenditures should be pre-approved in accordance with SCCOE guidelines. This will ensure that the County has appropriated an amount for this purpose.

**SANTA CLARA COUNTY OFFICE OF EDUCATION**  
*Schedule of Audit Findings and Questioned Costs*  
*For the Fiscal Year Ended June 30, 2014*

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**SECTION II - FINANCIAL STATEMENT FINDINGS (continued)**

**Finding 2014-1: Purchasing (30000) (continued)**

**County Response:** The 2012-13 audit findings were finalized six months into the 2013-14 fiscal-year. At that time, staff immediately began revising the P-card manual, policies and procedures, and then providing mandatory trainings. The 2013-14 finding listed occurred prior to the P-Card manual being updated, and prior to conducting the Purchasing Trainings. Internal Business Services and General Services' Purchasing Department worked together to review and update the P-card manual, and develop a thorough training session that covers each requirement associated with the P-cards. During 2013-14, three mandatory trainings were provided to staff that have involvement with the Purchasing Card (Pcard). The trainings were conducted in May 2014 and June 2014. Additional internal controls, accountability and oversight responsibilities were included in the manual. Additional individual trainings are provided by General Services' Purchasing Department, in addition to the ongoing annual training.

**Finding 2014-2: Contract Approval (30000)**

**Finding:** During our review of contracts, we noted payments that were approved by the Superintendent's Office to a company for the purchase and installation of playground equipment. Upon further inquiry, we discovered that the County had originally sent out a request for proposal for similar work in 2008. However, there is no documentation showing that the company who ultimately provided and installed the equipment in 2013-14 had submitted a proposal during the initial 2008 request for proposals. Furthermore, the approval of the payments made to the company were split onto two separate purchase orders, which both reference the bid number on the original RFP. Upon further inquiry into the approvals for the payments, we discovered that the purchase orders were both approved after the work had been completed.

**Recommendation:** We recommend that no payments be made on contracts that have not been approved in accordance with SCCOE policies and procedures.

**County Response:** Student Services Branch understands that contracts must be fully executed prior to any work commencing, and that no payments shall be made on contracts that have not been approved in accordance with policies and procedures. In addition, in collaboration with Early Learning Services, Business Services and the General Counsel's office, the administrative regulation on purchasing and the Board Policy on contracts were updated in the Spring/Summer 2014. Finally, the Business Services Branch, General Counsel's Office, and Human Resources Branch worked together to develop a thorough Contracts Training for SCCOE management involved with contracts. In fall 2014, trainings were provided to staff involved with contracts. Additional trainings will be provided to ensure that management and their assistants are familiar with policies, procedures and approval of contracts.



**SANTA CLARA COUNTY OFFICE OF EDUCATION**  
*Schedule of Audit Findings and Questioned Costs*  
*For the Fiscal Year Ended June 30, 2014*

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**SECTION II - FINANCIAL STATEMENT FINDINGS (continued)**

**Finding 2014-3: Cash Receipts (30000)**

**Finding:** During our testing of cash receipts, we noted eight instances in our sample of 20 deposits where adequate supporting documentation was not maintained from the point of collection to deposit. All of the deposits were for cash collections at SCCOE school sites. Without adequate supporting documentation, we could not verify whether all cash collected had been deposited intact and to the correct accounts.

**Recommendation:** The SCCOE should implement procedures and provide pre-numbered receipt books to each site so that adequate records can be maintained from the point of collection to deposit. All of the deposits were for cash collections at SCCOE school sites. Without adequate supporting documentation, we could not verify whether all cash collected had been deposited intact and to the correct amounts.

**County Response:** The audit finding occurred prior to the implementation of the new cash receipts procedure. On October 9, 2014, Internal Business Services (IBS) implemented the new cash receipts procedure. Four mandatory trainings were provided to staff involved with cash receipts. Additional trainings were provided afterwards for staff that was not able to attend the mandatory trainings. Pre-numbered receipt books were ordered and provided to sites and departments as part of the new cash receipts procedure so that adequate records can be maintained from the point of collection to deposit. A designated staff has been assigned to oversee and be responsible for the new cash receipts procedure.

**SANTA CLARA COUNTY OFFICE OF EDUCATION**  
*Schedule of Audit Findings and Questioned Costs*  
*For the Fiscal Year Ended June 30, 2014*

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**SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

This section identifies the audit findings required to be reported by Circular A-133, Section .510(a) (e.g., significant deficiencies, material weaknesses, and instances of noncompliance, including questioned costs).

*There were no federal award findings or questioned costs in 2013-14.*

**SANTA CLARA COUNTY OFFICE OF EDUCATION**  
*Schedule of Audit Findings and Questioned Costs*  
*For the Fiscal Year Ended June 30, 2014*

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**SECTION IV - STATE AWARD FINDINGS AND QUESTIONED COSTS**

This section identifies the audit findings pertaining to noncompliance with state program rules and regulations.

**Finding 2014-4: Instructional Materials Hearing (70000)**

**Criteria:** California Education Code Section 60119 requires that county offices of education conduct a public hearing regarding the sufficiency of textbooks and instructional materials. County offices of education must provide a notice to the public 10 days prior to the public hearing. The notice must be posted at a minimum of three public locations and include the time, place, and purpose of the hearing.

**Condition:** The notice was only posted at the county office of education administration building.

**Questioned Cost:** None.

**Effect:** None.

**Cause:** The County neglected to inform its satellite offices that the notice should be posted.

**Recommendation:** We recommend that the County begin posting all public notices at the County Office, on the County's website, and at all the County's locations to ensure the public is notified of future actions. Furthermore, we recommend that an employee be delegated the responsibility of ensuring this takes place.

**County Response:** Student Services Branch has been informed of the public notice posting requirement for the Instructional Materials hearing. In 2014-15, a public hearing regarding the sufficiency of textbooks and instructional materials was conducted on September 17, 2014. A designated staff in Student Services has ensured that the sites posted the public notice 10 days prior to the public hearing. The public notice was posted at three or more public locations ten days prior to the public hearing.

**Finding 2014-5: CALPADS Unduplicated Pupil Counts (40000)**

**Criteria:** In order to be counted in CALPADS report 1.17, a student must have an open primary or short-term enrollment in CALPADS over Census Day (the first Wednesday in October) and meet one or more of the following criteria:

- Have a program record with an education program code of homeless, Migrant, Free Meal Program, or Reduced-Price Meal Program, that is open over Census Day
- Have an English Language Acquisition Status of "English learner" (EL) that is effective over Census Day
- Be directly certified in July through November as being eligible for free meals based on a statewide match conducted by CALPADS
- Be identified as a foster youth based on a statewide match conducted by CALPADS
- Be identified as foster youth through a local data matching process and submitted to and validated by CALPADS (functionality will be implemented in fall 2014)

**SANTA CLARA COUNTY OFFICE OF EDUCATION**  
*Schedule of Audit Findings and Questioned Costs*  
*For the Fiscal Year Ended June 30, 2014*

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**SECTION IV - STATE AWARD FINDINGS AND QUESTIONED COSTS (continued)**

**Finding 2014-5: CALPADS Unduplicated Pupil Counts (40000) (continued)**

**Condition:** During our testing of the English Learner (EL) and Free and Reduced Price Meal (FRPM) eligible students reported in the CALPADS 1.17 and 1.18 reports, we noted one student who was incorrectly classified as FRPM eligible.

**Questioned Cost:** None. The County's state aid is based on the Minimum State Aid Guarantee, and is therefore not impacted by the Unduplicated Pupil Count percentage.

**Cause:** The CALPADS reports were not updated in a timely manner to correct student changes in the 2013-14 year.

**Effect:** The unduplicated pupil counts in the CALPADS 1.17 and 1.18 reports should be adjusted for the following changes:

Program/Site:	CALPADS	Adjusted based on eligibility for:			Adjusted Total
		FRPM	EL	EL and FRPM	
County Community	219	(1)	-	-	218
Aggregate remaining sites	1,057	-	-	-	1,057
County-wide	1,276	(1)	-	-	1,275

Total enrollment of 1,894 was not adjusted based on the results of our procedures.

**Recommendation:** We recommend that the County implement a review procedure of the CALPADS information prior to the reports submission to the California Department of Education.

**County Response:** The School Office Coordinator (SOC) has been trained for the 2014-15 school year to ensure the correct eligibility status of each applicant. The Food Production Center accountant will review the information submitted by the site SOC's before Technology Services enters the data into CALPADS. In addition, staff in Technology Services will make the adjustments to the unduplicated pupil counts in the CALPADS 1.17 and 1.18 reports.

**SANTA CLARA COUNTY OFFICE OF EDUCATION**

*Summary Schedule of Prior Audit Findings*

*For the Fiscal Year Ended June 30, 2014*

Original Finding No.	Finding	Code	Recommendation	Current Status
<i>Finding 2013-1: Contract Approvals</i>	<p>Board Policy 3312 states that all contractual agreements estimated to exceed \$100,000 shall require prior approval of the County Board. All contractual agreements estimated to fall within the range of \$100,000 to \$250,000 shall be placed on the agenda of regular County Board meetings as Consent Action items; all contractual agreements estimated to exceed \$250,000 shall be placed on the agenda of regular County Board meetings as Study Action items. Specifically, County policy requires that all contracts in excess of \$250,000 be placed on the agenda of a regular County Board meeting as a Study item, and subsequently approved by the Board of Education. During our testing, we noted two instances where County Board of Education policies and procedures had not been followed. The two contracts noted were for medical health insurance providers, which had not been approved by the Board of Education since October 4, 2004. Both contracts individually exceeded \$17 million each fiscal year.</p>	30000	<p>Due to the lack of consistency in following board policies and procedures, and the decentralized nature of the SCCOE's contract process, we recommend that the Board of Education implement a control to restrict the authority of SCCOE employees who are authorized to enter into contracts on behalf of SCCOE and enforce County policy which states that the Superintendent or his/her designee, must receive and approve all contracts in excess of \$100,000 prior to formal authorization. Restricting the number of employees who have the authority to enter into binding contracts with external parties will reduce the likelihood of contracts being entered into without the Board of Education's approval, prevent the County from exceeding budget appropriations, and limit the exposure to risk. Enforcing the County policy which requires the Superintendent or his/her designee to approve and receive a copy of contracts in excess of \$100,000 will allow Business Office staff to ensure all contracts meet SCCOE policy in both content and approvals.</p>	Implemented.
<i>Finding 2013-2: Credit Cards</i>	<p>During our testing of the County's controls over credit card purchases, we noted several instances where controls were not followed. We noted the following areas of concern in relation to County credit cards:</p> <ul style="list-style-type: none"> <li>• There appears to be an excessive amount of credit cards issued to SCCOE employees at various levels within the organization.</li> <li>• It appears as though purchases are being split into multiple transactions to avoid exceeding the \$500 credit card limit per transaction and also to avoid the normal purchasing process.</li> <li>• We noted several instances where the monthly limit of \$2,500 per County policy was exceeded.</li> </ul>	30000	<p>We recommend the following:</p> <ul style="list-style-type: none"> <li>• The number of credit cards should be restricted to department supervisors and above.</li> <li>• Purchases made on County credit cards should be restricted to situations where vendors will not accept purchase orders or for travel. All other purchases should follow the normal purchasing process.</li> <li>• The monthly limit of \$2,500 should be monitored so it is not exceeded without accountability. Additionally, we recommend that the P-card manual be updated to be consistent with County policy.</li> <li>• All credit card purchases should be substantiated by itemized receipts.</li> </ul>	Partially Implemented. See Finding 2014-1.

**SANTA CLARA COUNTY OFFICE OF EDUCATION**

*Summary Schedule of Prior Audit Findings*

*For the Fiscal Year Ended June 30, 2014*

Original Finding No.	Finding	Code	Recommendation	Current Status
<p><i>Finding 2013-2: Credit Cards (continued)</i></p>	<ul style="list-style-type: none"> <li>• We noted numerous instances where purchases did not have itemized receipts or other supporting documentation.</li> <li>• We noted several instances where items were shipped to employees' personal addresses.</li> <li>• We noted the purchase of the QuickBooks software. Since the Business Office was unaware of this, there may be cash collections occurring outside the purview of the Business Office.</li> <li>• It appears as though dues and memberships were purchased on credit cards. County policy states that only 50% of one membership will be reimbursed.</li> <li>• We noted large purchases for groceries, and we could not verify a valid business purpose for these purchases.</li> <li>• It appears as though multiple employees beyond the authorized cardholder are making purchases on the cards and notifying the cardholder after-the-fact.</li> <li>• We noted numerous large, routine purchases that should have followed the normal purchasing process.</li> <li>• We noted the purchase of alcohol on one occasion.</li> </ul>		<ul style="list-style-type: none"> <li>• All purchases should be shipped to the County Office or a SCCOE-owned facility.</li> <li>• The Business Office should investigate the use of the QuickBooks software, which was purchased on a credit card, to determine if there are financial transactions which are not being reported to the Business Office.</li> <li>• Dues should be a prohibited credit card purchase.</li> <li>• The Business Office should investigate the purpose of these purchases. All future purchases should be substantiated by evidence that the purchase was for SCCOE business.</li> <li>• Only authorized card holders should be making purchases on County credit cards.</li> <li>• Recurring routine purchases should follow the normal purchase process.</li> <li>• No alcohol should be purchased by SCCOE.</li> </ul>	
<p><i>Finding 2013-3: Cash Receipts</i></p>	<p>During our testing of cash receipts, we noted 10 instances in our sample of 20 deposits where adequate supporting documentation was not maintained from the point of collection to deposit. All of the deposits were for collections at SCCOE sites. Without adequate supporting documentation, we could not verify whether all cash collected had been deposited intact and to the correct accounts.</p>	<p>30000</p>	<p>The Internal Business Services Department should implement procedures and provide pre-numbered receipt books to each site so that adequate records can be maintained from the point of collection to deposit. Additionally, we recommend that the County properly train site secretaries to ensure that site documentation is properly maintained for all cash receipting activities.</p>	<p>Not Implemented. See Finding 2014-3.</p>

**SANTA CLARA COUNTY OFFICE OF EDUCATION**

*Summary Schedule of Prior Audit Findings*

*For the Fiscal Year Ended June 30, 2014*

<b>Original Finding No.</b>	<b>Finding</b>	<b>Code</b>	<b>Recommendation</b>	<b>Current Status</b>
<i>Finding 2013-4: Payroll Function</i>	<p>In February 2013, the County moved the payroll function from the Internal Business Services Department to District Business Advisory Services. In July 2013 given reports regarding payroll errors, Business Management asked the auditors to fully review payroll processes and processing. In September 2013, there were reports of password sharing between staff processing payroll. In September 2013, the County Superintendent asked Business Management to issue an RFP for a payroll audit that included a review of password approval and payroll processing. In October 2013, the County Superintendent contracted with an external consultant to conduct a review and assessment of the payroll and human resources functions, including a review of information technology security. The extent of the payroll errors is undetermined at this time, and the auditors could not quantify the potential liability for penalties, taxes, and fees associated with the errors in processing.</p>	30000	<p>We recommend that the County perform a thorough investigation of the payroll and human resources function. Additionally, we recommend that the County modify its current procedures to ensure that future errors in these functions do not occur which could have a material effect on the financial position of the County.</p>	Implemented.
<i>Finding 2013-5: Procurement and Suspension and Debarment</i>	<p>Non-Federal entities are prohibited from entering into procurement contracts for goods or services that are expected to equal or exceed \$25,000 with parties that are suspended or debarred or whose principals are suspended or debarred as specified in 2 CFR Section 180.220, unless they are specifically exempt.</p> <p>The County does not currently have a process or procedure in place to verify that procurement contracts for goods or services expected to equal or exceed \$25,000 will be made with entities who are not suspended or debarred by the Federal Government.</p>	50000	<p>The County should implement a process where vendors are compared against the listing, maintained by the Federal Government at <a href="http://www.SAM.gov">www.SAM.gov</a>, of suspended or debarred parties when payment is expected to equal or exceed \$25,000 that is to be paid from a Federal Grant Award.</p>	Implemented.