

**HUMBOLDT COUNTY OFFICE OF EDUCATION**

**FINANCIAL STATEMENTS**

June 30, 2016

HUMBOLDT COUNTY OFFICE OF EDUCATION

FINANCIAL STATEMENTS  
WITH SUPPLEMENTARY INFORMATION  
For the Year Ended June 30, 2016

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HUMBOLDT COUNTY OFFICE OF EDUCATION

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WITH SUPPLEMENTARY INFORMATION  
For the Year Ended June 30, 2016  
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## INDEPENDENT AUDITOR'S REPORT

Board of Education  
Humboldt County Office of Education  
Eureka, California

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Humboldt County Office of Education, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Humboldt County Office of Education's basic financial statements as listed in the table of contents.

***Management's Responsibility for the Financial Statements***

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

***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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.

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(Continued)

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Humboldt County Office of Education, as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the *Management's Discussion and Analysis* on pages 4 to 13 and the General Fund Budgetary Comparison Schedule, the Special Education Pass-Through Fund Budgetary Comparison Schedule, Schedule of Other Postemployment Benefits (OPEB) Funding Progress, the Schedule of the County Office's Proportionate Share of the Net Pension Liability, and the Schedule of the County Office's Contributions on pages 50 to 56 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by 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.

### *Supplementary Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Humboldt County Office of Education's basic financial statements. The accompanying schedule of expenditure of federal awards as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and the other supplementary information listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedule of expenditure of federal awards and other supplementary information as listed in the table of contents are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information, except for the Schedule of Financial Trends and Analysis, 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 schedule of expenditure of federal awards and other supplementary information as listed in the table of contents, except for the Schedule of Financial Trends and Analysis, are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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(Continued)

The Schedule of Financial Trends and Analysis has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 6, 2016 on our consideration of Humboldt County Office of Education's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Humboldt County Office of Education's internal control over financial reporting and compliance.

*Crowe Horwath LLP*

Crowe Horwath LLP

Sacramento, California  
December 6, 2016

## HUMBOLDT COUNTY OFFICE OF EDUCATION MANAGEMENT'S DISCUSSION AND ANALYSIS

### **The Mission of the Humboldt County Office of Education**

The mission of the Humboldt County Office of Education (HCOE) is to advocate on behalf of the needs of local districts and students, provide expanded learning opportunities for students, promote improved student achievement, and support fiscal responsibility in local school districts.

The County Office is organized into two general leadership areas in order to accomplish its mission. These areas, Educational Services and Business Services, provide direct service to students, school districts, the community, as well as HCOE.

### **Program Highlights**

Educational Services offers a variety of school district leadership support, teacher and classroom program support, alternative education and student programs and services. Services rendered under this division include but are not limited to those related to Local Control Accountability Plan activities, the Cooperative Consolidated Application (CO-OP), administration of the After School Consortium, Foster and Homeless Youth programs, Court and Community Schools, as well as Career Technical Education (CTE) support services and some instructional classes in partnership with local high school districts. This unit also facilitates inter-district transfers and expulsion appeals to the County Board of Education as well as the work of the Special Education Local Plan Area (SELPA) which serves school districts in Humboldt and Del Norte Counties. HCOE Special Education services also include Special Day Classes, Infant/Preschool and itinerant services, and Nursing. In 2015-16, HCOE continued to expand its role in providing Psychologists, Speech Services and Occupational Therapy to districts in response to the shortage of providers and the variable hours needed by each school site.

Alternative Education, which includes Court and Community School classes, are housed in five different locations throughout the county and served a total of 545 students over the course of the year. The Special Beginnings program provides in-home itinerant services and Special Day Classes (SDC's) for children with moderate disabilities from birth to age five. During 2015-16, a total of 301 children were served throughout the county at private locations and the four SDC sites. Glen Paul School and its nine offsite classes provide services to children with severe disabilities and served 135 students over the duration of the year. Home-to-school transportation is also provided for special needs students attending county office or school district educational programs. CTE classes are held at eight different sites on school district campuses, and the Workability/Transitional Partnership Program (TPP) takes place at high schools and community schools throughout the county.

Business Services provides support services for educational programs. These services include the preparation and audit of payroll, retirement and accounts payable for school districts and for the county office. Personnel are also assigned to perform accounting services, prepare financial reports and provide fiscal oversight of school districts. A multi-county technology infrastructure provides internet access for students and staff, financial statement processing systems and state financial reporting systems. Printing, graphic and web design services for school districts, county office and governmental agencies are also provided. Programs for self-funded health

benefit programs and property, liability and workers compensation insurance are available to districts and employees in Humboldt, Del Norte and Siskiyou counties through the North Coast Schools Insurance Groups. Maintenance of county office facilities is also provided through this division.

### **Enrollment Trends**

A primary source of revenue for the Humboldt County Office of Education is generated by the average daily attendance (ADA) of students throughout the county. The decline or growth in countywide ADA can have a significant impact on the financial resources of the office.

Our data indicates that countywide school district enrollment, which generally corresponds to ADA, fluctuated up or down by 1.3% or less from October 2012 to October 2015, which indicates that countywide enrollment is stabilizing rather than declining as it had been previously, and therefore ADA is likely to be more constant as well.

In 2015-16, several school districts expanded their alternative education programs, which resulted in fewer students attending county operated court and community schools. Specifically, average daily attendance was approximately 130 for community schools and 31 for court schools.

### **Guiding Principles for Budget Development**

Each year the Humboldt County Office of Education prepares its annual budget plan using Guiding Principles to help it align the uses of its financial resources with its mission and organization priorities. For 2015-16, those Principles were as follows:

1. Generally, programs and services conducted by the county office are to be self-supporting within the limits of the federal, state and local funds specifically allocated for those purposes.
2. On-going expenses will be tied to on-going revenues; one-time revenues may be used to cover excess costs within the budget year.
3. Grant programs shall be self-sustaining, which includes providing sufficient resources to support all related administrative costs unless a specific exemption is made by the superintendent or legal restrictions specify otherwise.
4. Staffing levels shall be adjusted within each program/service area consistent with changes in anticipated pupil enrollment, level of service needs and available revenues.
5. Appropriate reserve funds may be re-allocated during the budget year to meet program priorities providing a plan to restore those reserves in future years is identified.
6. In order to help insure ongoing fiscal stability and to meet debt obligations, the target of a 10% reserve level for undesignated reserves shall be continued.



## **Reserves**

Humboldt County Office of Education is required by the State of California to maintain a minimum Reserve for Economic Uncertainty equal to 3% of its general fund expenditures and obligations. Because the minimum reserve would not allow us to react thoughtfully to potential instability in state funding or maintain current services, especially in the areas of countywide staff development, library/media services, facilities, and technology-in times of economic hardship, the office strives to maintain the reserves necessary to support these and other programs. At June 30, 2016, the available reserve was 7.5%.

## **Assumptions Used for Budget Development**

The County's Board of Education adopted the budget for fiscal year 2015-16 on June 10, 2015. The assumptions used during the budget development process included the following:

- Local Control Funding Formula, with COLA of 1.02% and full funding at the LCFF target
- Step and column cost increases on all salaries.
- Health and welfare budgeted to increase by 6.1% above 2014-15 costs
- Projected June 30, 2016 local reserve of \$2,851,912 or 9.67%

## **Events During the Fiscal Year**

During 2015-16, external and internal events resulted in changes to HCOE's financial position. Below are some of the noteworthy environmental and organizational factors that impacted the county office's position.

- Improvements in the state economy and state General Fund tax receipts resulted in additional K-12 funding, which for HCOE included discretionary funding for LCAP activities of \$962,225, Unrestricted Mandated Cost reimbursements of \$145,612, and Restricted Educator Effectiveness revenues in the amount of \$81,246.
- In response to the increasing population of students requiring specialized services, HCOE continued to expand its role as provider, increasing both revenues and expenditures in Special Education by over \$550,000.
- The Sequoia Conference Center was completed in July 2015, and held its first public event on August 8, 2015.
- GASB 68, which required government agencies to recognize Net Pension Liability (NPL) as well as Deferred Inflows and Outflows of Resources related to pensions, reduced Net Position by \$2.8 million in 2015-16.

## **Overview of the Financial Statements**

The annual financial report consists of the following: the independent auditor's report, management's discussion and analysis, the basic financial statements, including the notes to the financial statements, required supplementary information, and findings and recommendations.

This is the Management's Discussion and Analysis wherein the Humboldt County Office of Education's activities are analyzed at a summarized level for financial statement users. The analysis is based upon currently known facts and conditions.

The basic financial statements include a Statement of Net Position, a Statement of Activities, Fund Financial Statements as well as the notes to the financial statements. These documents provide financial information for the Humboldt County Office of Education as a whole and can also be used to assess the financial performance of the reported fiscal year.

The notes to the financial statements are an integral part of the audit report and provide details on significant accounting policies, capital assets and long-term debt changes, and supplementary information for the balances reported in the statements.

## **Reporting the Humboldt County Office of Education as a Whole**

### **The Statement of Net Position and the Statement of Activities**

The Statement of Net Position and the Statement of Activities report information about the county office as a whole and about its activities. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to that used by most organizations in the private-sector. All of the current year's revenues and expenses are taken into account, regardless of when cash is received or paid.

These two statements report net position and related changes. Net position is the difference between assets and liabilities, and is one measurement of the financial health, or *financial position*, of the organization. Over time, changes in net position can be an indication of whether financial health is improving or deteriorating.

The relationship between revenues and expenses is also known as *operating results*. Because our goal is to provide services to students in county-operated programs, Humboldt County school districts, and other regional programs, and not to generate profits as commercial entities do, there are other factors to consider when evaluating the overall health of the office. These non-financial indicators include the quality of the education and services provided and the safety of our schools. Another factor that should be considered is the physical condition of HCOE's schools and administrative facilities.

### **Summary of the Humboldt County Office of Education's Fiscal Position**

Net position for the fiscal year ending June 30, 2016 was \$3.5 million. Of this amount, negative \$12 million is defined as unrestricted by the state of California. The restricted net position is reported separately to show legal constraints from debt covenants, state legislation and other restrictions that limit their use. The following analysis focuses on the net position and the change in net position from governmental and business type activities.

<b>Summary Statement of Net Position</b>		
	2016	2015
Current and other assets	\$ 12,915,700	\$ 11,775,245
Capital assets	<u>14,102,234</u>	<u>14,499,068</u>
Total Assets	27,017,934	26,274,313
Deferred Outflows of Resources - Pensions	2,722,366	1,404,988
Current liabilities	1,740,305	1,391,702
Long-term debt	<u>22,631,248</u>	<u>18,754,852</u>
Total Liabilities	24,371,553	20,146,554
Deferred Inflows of Resources - Pensions	1,859,000	4,386,294
Net Position		
Net Investment in Capital Assets	10,942,234	11,177,360
Restricted	4,594,819	4,441,306
Unrestricted	<u>(12,027,306)</u>	<u>(12,471,963)</u>
Total Net Position	<u>\$ 3,509,747</u>	<u>\$ 3,146,703</u>

The negative \$12 million unrestricted net position from governmental activities represents the *accumulated* results of all past years' operations and is also inclusive of the Net Pension Liability and related Deferred Inflows and Outflows of Resources for STRS and PERS. The cumulative effect to HCOE's Net Position when GASB 68 was implemented in 2014-15, was a reduction to Net Position of \$18 million. However, it is important to keep in mind that this government-wide financial statement-only transaction impacts total assets and liabilities, but does not include any cash outflow aside from standard PERS and STRS contributions.

The results of this year's operation for the Humboldt County Office as a whole are presented below. We have rearranged the information to more clearly show our total revenues for the year.

<b>Summary Statement of Activities</b>		
	2016	2015
Program revenues:		
Charges for services	6,109,023	5,527,762
Operating grants and contributions	23,143,883	22,737,880
Capital grant and contributions	80	123
Total Program Revenues	<u>29,252,986</u>	<u>28,265,765</u>
General revenues:		
Unrestricted federal and state aid	9,028,412	8,473,103
Property taxes	1,857,706	1,773,912
Other general revenues	4,929,496	3,797,708
Total Revenues	<u>45,068,600</u>	<u>42,310,488</u>
Expenses		
Instruction related	17,716,017	16,831,164
Student support services	4,969,115	4,578,349
Administration	6,290,475	5,360,654
Plant services	1,126,855	1,074,404
Other	729,749	455,424
Pass-through to school districts	13,873,345	13,818,087
Total Expenses	<u>44,705,556</u>	<u>42,118,082</u>
Change in Net Position	<u>363,044</u>	<u>192,406</u>
Net Position Beginning	3,146,703	21,069,273
Cumulative Effect of GASB 68 Implementation		(18,114,976)
Net Position Ending	<u><u>\$ 3,509,747</u></u>	<u><u>\$ 3,146,703</u></u>

## **Reporting the Humboldt County Office of Education's Most Significant Funds**

### **Fund Financial Statements**

The fund financial statements provide detailed information about Governmental and Fiduciary funds – not the County Office as a whole. Some funds are established by state law and bond covenant. HCOE has established other funds to help control and manage funds for particular purposes or for compliance with legal requirements by certain state or federal agencies.

**Governmental funds** – All basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for a future period. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial* assets that can be readily

converted to cash. The governmental fund statements provide a detailed *short-term* view of the operations and the basic services provided. Governmental fund information helps determine whether there are more or fewer financial resources available for the future. HCOE has the following Governmental Funds: General Fund 01, Special Education Pass-Through Fund 10, Child Development Fund 12, Forest Reserve Fund 16, Special Reserve Funds 17/20, County School Facilities Fund 35, Special Reserve for Capital Outlay Fund 40, and Debt Service Fund 56.

**Enterprise funds** – The Sequoia Conference Center (SCC) Enterprise Fund 63 was established during 2014-15 to account for facility rental and other fees charged to internal and external users, and for all related SCC expenses. It is HCOE’s intent to establish fees or charges that are designed to recover the cost of providing services for all SCC activities. An enterprise fund is accounted for on the *accrual basis*, and is reported separately from Governmental or Fiduciary Funds.

**Fiduciary funds** – Humboldt County Office of Education is the trustee, or *fiduciary*, for funds held on behalf of others. These fiduciary activities are reported in a separate *Statement of Fiduciary Net Position and Statement of Change in Fiduciary Net Position*. These activities are excluded from the governmental funds because the Humboldt County Office of Education cannot use these assets to finance its operations. As trustee, the office is responsible for ensuring that the assets reported in these funds are used for their intended purposes. HCOE has the following Fiduciary Funds: Retirement Trust Fund 71, and Foundation Trust Fund 73.

The county office also utilizes a Payroll Deduction Fund, which exists primarily to account separately for amounts collected from employees for federal taxes, state taxes, transfers to credit unions, and other contributions. It is also used to account for those receipts for transfer to agencies for which the LEA is acting simply as a “cash conduit.”

### **Governmental Fund Balance Changes**

As of June 30, 2016, our total governmental funds combined balance was \$10.3 million. This increase of \$689,434 over the prior fiscal year was due to the following:

1. The General Fund increased \$633,770.
2. The Reserve Fund 17/20 increased by \$9,238.
3. All other non-major funds increased \$46,426.

### **Trust and Agency Fund Balance Changes**

1. As of June 30, 2016, trust funds had a combined ending fund balance of \$2,041,580. We account for the amounts set aside for retiree health benefits and the funds received as a bequest from the Burman Estate as trust funds. A payroll clearing account fund is used to report county-wide payroll related activity and is treated as an agency fund.

## **General Fund Budgetary Highlights**

Over the course of the year, HCOE revises its budget for each fund as it attempts to deal with unexpected changes in revenues and expenditures. The final amendment to the General Fund budget was approved by the Board of Education on August 10, 2016. Variances of each major revenue and expenditure category in excess of \$100,000 and 5% in the General Fund have been summarized below.

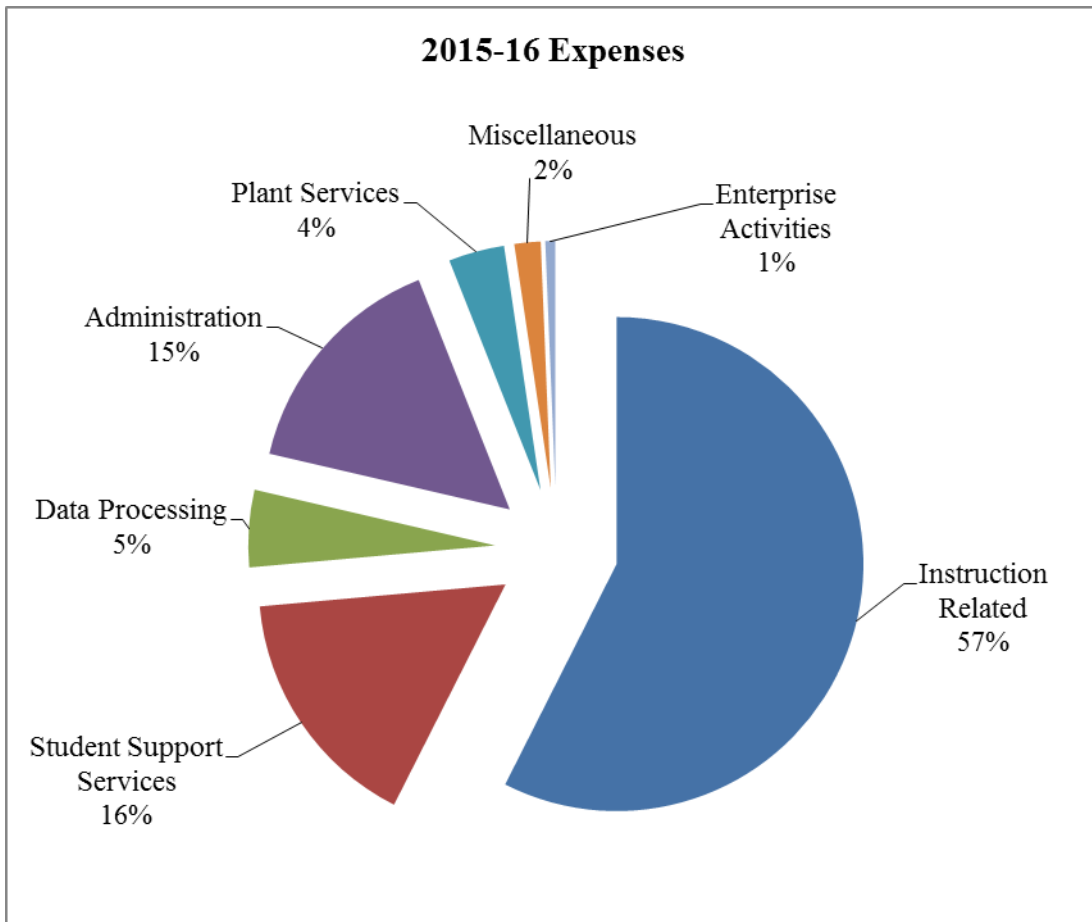
Deviations between actual revenues, expenditures and other financing uses and sources in comparison with the Final General Fund budget for all major categories were below the variance scope defined above. However, Transfers In from Other Funds exceeded the variance threshold because unfunded Professional Development was supported by Unrestricted General Funds and Specialized Services start-up costs were offset by Inter-Agency Services revenues rather than Forest Reserve Funds. In addition, Transfers Out of the General Fund exceeded the variance standard because Sequoia Conference Center operating expenditures were less than anticipated, so support from the General Fund was less than budgeted.

Schedules showing the office's original and final budget amounts compared with the amounts actually earned and expended in the General Fund are provided in our annual report beginning on page 50.

## **General Fund Expenses by Category**

In the pie chart on the following page, we have presented General Fund expenses, which are categorized as follows:

- *Instruction related* expenses for students in county operated programs, county-wide library and media services and staff development, and school site administration;
- *Student support services* expenses such as nursing and psychological services, transportation, and drug prevention program services;
- *Data processing* which includes processing financial statement transactions, student systems information and internet connectivity;
- *Administration*, which includes payroll and accounts payable accounting, district fiscal accountability, health and other insurance services, and other general administration;
- *Plant Services* or the maintenance and operations of our facilities; and finally,
- *Miscellaneous* expenses such as ancillary and community services and interest on long-term debt, and
- *Enterprise activities* relating to the Sequoia Conference Center.



**Capital Assets (net of depreciation)**

At June 30, 2016, HCOE owned a broad range of capital assets, including land, buildings, site improvements and equipment totaling approximately \$14.1 million after accumulated depreciation.

A schedule showing the office’s capital assets and accumulated depreciation by category and depreciation expense by function is provided in our annual report on page 33.

**Long-Term Debt**

In July 2013, HCOE issued \$3.28 million in Certificates of Participation, the proceeds of which were used to fund construction of the Sequoia Conference Center. The first principal payment was made in July 2014, with full amortization to be recognized in August of 2043. Coupon rates on these COPs are variable and range from 2.0% to 5.5% over the period of amortization. The outstanding balance of COP principal payments as of June 30, 2016 was \$3,160,000.

The County Office’s long-term obligations also include compensated absences payable (not including health benefits) in the amount of \$425,248 and Net Pension Liability of \$19,046,000 as of June 30, 2016.

## **Contacting Financial Management**

This financial report is designed to provide citizens, taxpayers, students, investors and creditors with a general overview of the office's finances and show accountability for the money it receives. If you have questions about this report or need any additional financial information, please contact Carol Ingram, Business Manager, at the Humboldt County Office of Education, 901 Myrtle Avenue, Eureka, California 95501, or by e-mail at [cigram@humboldt.k12.ca.us](mailto:cigram@humboldt.k12.ca.us).



## **BASIC FINANCIAL STATEMENTS**

HUMBOLDT COUNTY OFFICE OF EDUCATION  
STATEMENT OF NET POSITION  
June 30, 2016

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<b>ASSETS</b>			
Cash and investments (Note 2)	\$ 8,580,461	\$ 18,364	\$ 8,598,825
Receivables	3,478,675	4,501	3,483,176
Prepaid expenses	12,637	-	12,637
HROP house inventory (Note 5)	548,324	-	548,324
Net OPEB asset (Note 10)	272,738	-	272,738
Non-depreciable capital assets (Note 4)	1,472,618	-	1,472,618
Depreciable capital assets, net of accumulated depreciation (Note 4)	<u>12,629,616</u>	<u>-</u>	<u>12,629,616</u>
Total assets	<u>26,995,069</u>	<u>22,865</u>	<u>27,017,934</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred outflows of resources - pensions (Notes 8 and 9)	<u>2,722,366</u>	<u>-</u>	<u>2,722,366</u>
<b>LIABILITIES</b>			
Accounts payable	1,545,127	22,710	1,567,837
Unearned revenue	172,468	-	172,468
Long-term liabilities (Note 6):			
Due within one year	60,000	-	60,000
Due after one year	<u>22,571,248</u>	<u>-</u>	<u>22,571,248</u>
Total liabilities	<u>24,348,843</u>	<u>22,710</u>	<u>24,371,553</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred inflows of resources - pensions (Notes 8 and 9)	<u>1,859,000</u>	<u>-</u>	<u>1,859,000</u>
<b>NET POSITION</b>			
Net investment in capital assets	10,942,234	-	10,942,234
Restricted:			
Legally restricted programs	4,594,819	-	4,594,819
Unrestricted	<u>(12,027,461)</u>	<u>155</u>	<u>(12,027,306)</u>
Total net position	<u>\$ 3,509,592</u>	<u>\$ 155</u>	<u>\$ 3,509,747</u>

See accompanying notes to financial statements.

HUMBOLDT COUNTY OFFICE OF EDUCATION  
STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2016

	Expenses	Program Revenues			Net (Expense) Revenues and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental activities:							
Instruction	\$ 12,415,230	\$ 4,434,230	\$ 4,412,250	\$ 80	\$ (3,568,670)	\$ -	\$ (3,568,670)
Instruction-related services:							
Supervision of instruction	2,541,035	11,331	880,251	-	(1,649,453)	-	(1,649,453)
Instructional library, media and technology	776,514	13,580	241,444	-	(521,490)	-	(521,490)
School site administration	1,983,238	411,944	771,430	-	(799,864)	-	(799,864)
Pupil services:							
Home-to-school transportation	864,585	-	-	-	(864,585)	-	(864,585)
Food services	101,881	1,895	43,972	-	(56,014)	-	(56,014)
All other pupil services	4,002,649	551,753	2,571,625	-	(879,271)	-	(879,271)
General administration:							
Data processing	1,556,408	-	5,820	-	(1,550,588)	-	(1,550,588)
All other general administration	4,734,067	413,588	723,498	-	(3,596,981)	-	(3,596,981)
Plant services	1,126,855	256,295	74,346	-	(796,214)	-	(796,214)
Ancillary services	300,903	14,407	46,308	-	(240,188)	-	(240,188)
Community services	14,893	-	14,140	-	(753)	-	(753)
Enterprise activities	58,338	-	-	-	(58,338)	-	(58,338)
Interest on long-term liabilities	155,819	-	-	-	(155,819)	-	(155,819)
Other outgo	13,873,345	-	13,358,799	-	(514,546)	-	(514,546)
Business-type activities:							
Enterprise activities	199,796	-	-	-	-	(199,796)	(199,796)
Total governmental and business-type activities	<u>\$ 44,705,556</u>	<u>\$ 6,109,023</u>	<u>\$ 23,143,883</u>	<u>\$ 80</u>	<u>(15,252,774)</u>	<u>(199,796)</u>	<u>(15,452,570)</u>
General revenues:							
Taxes and subventions:							
Taxes levied for general purposes					1,851,873	-	1,851,873
Taxes levied for other specific purposes					5,833	-	5,833
Federal and state aid not restricted to specific purposes					9,028,412	-	9,028,412
Interest and investment earnings					72,307	64	72,371
Interagency revenues					2,252,767	-	2,252,767
Miscellaneous					2,418,898	105,844	2,524,742
Special and extraordinary items					79,616	-	79,616
Transfers					(93,793)	93,793	-
Total general revenues					<u>15,615,913</u>	<u>199,701</u>	<u>15,815,614</u>
Change in net position					363,139	(95)	363,044
Net position, July 1, 2015					<u>3,146,453</u>	<u>250</u>	<u>3,146,703</u>
Net position, June 30, 2016					<u>\$ 3,509,592</u>	<u>\$ 155</u>	<u>\$ 3,509,747</u>

See accompanying notes to financial statements.

HUMBOLDT COUNTY OFFICE OF EDUCATION  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2016

	<u>General Fund</u>	<u>Special Education Pass- Through Fund</u>	<u>All Non-Major Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>				
Cash and investments:				
Cash in County Treasury	\$ 8,532,228	\$ -	\$ 46,233	\$ 8,578,461
Cash in revolving fund	2,000	-	-	2,000
Receivables	3,079,320	356,173	43,182	3,478,675
Due from other funds	246,202	-	-	246,202
Prepaid expenditures	<u>12,637</u>	<u>-</u>	<u>-</u>	<u>12,637</u>
Total assets	<u>\$ 11,872,387</u>	<u>\$ 356,173</u>	<u>\$ 89,415</u>	<u>\$ 12,317,975</u>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Accounts payable	\$ 1,405,035	\$ 120,782	\$ 19,310	\$ 1,545,127
Due to other funds	-	176,202	70,000	246,202
Unearned revenue	<u>172,468</u>	<u>-</u>	<u>-</u>	<u>172,468</u>
Total liabilities	<u>1,577,503</u>	<u>296,984</u>	<u>89,310</u>	<u>1,963,797</u>
Fund balances:				
Nonspendable	14,637	-	-	14,637
Restricted	4,535,525	59,189	105	4,594,819
Assigned	1,469,585	-	-	1,469,585
Unassigned	<u>4,275,137</u>	<u>-</u>	<u>-</u>	<u>4,275,137</u>
Total fund balances	<u>10,294,884</u>	<u>59,189</u>	<u>105</u>	<u>10,354,178</u>
Total liabilities and fund balances	<u>\$ 11,872,387</u>	<u>\$ 356,173</u>	<u>\$ 89,415</u>	<u>\$ 12,317,975</u>

See accompanying notes to financial statements.

HUMBOLDT COUNTY OFFICE OF EDUCATION  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET POSITION  
June 30, 2016

Total fund balances - Governmental Funds \$ 10,354,178

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

Capital assets used for governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. The cost of the assets is \$19,945,166 and the accumulated depreciation is \$5,842,932 (Note 4). 14,102,234

HROP house inventory used for governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds (Note 5). 548,324

Other postemployment benefits assets are recognized in the government-wide statements but not recognized in the governmental funds (Note 10). 272,738

Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Long-term liabilities at June 30, 2016 consisted of (Note 6):

Certificates of Participation	\$ (3,160,000)	
Compensated absences	(425,248)	
Net pension liability (Notes 8 and 9)	<u>(19,046,000)</u>	(22,631,248)

In government funds, deferred outflows and inflows of resources relating to pensions are not reported because they are applicable to future periods. In the statement of net position, deferred outflows and inflows of resources relating to pensions are reported (Notes 8 and 9).

Deferred outflows of resources relating to pensions	\$ 2,722,366	
Deferred inflows of resources relating to pensions	<u>(1,859,000)</u>	<u>863,366</u>

Total net position - governmental activities \$ 3,509,592

See accompanying notes to financial statements.

HUMBOLDT COUNTY OFFICE OF EDUCATION  
STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGE IN FUND BALANCES  
GOVERNMENTAL FUNDS  
For the Year Ended June 30, 2016

	<u>General Fund</u>	<u>Special Education Pass- Through Fund</u>	<u>All Non-Major Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>				
Local Control Funding Formula (LCFF):				
State apportionment	\$ 6,438,138	\$ -	\$ -	\$ 6,438,138
Local sources	<u>2,784,826</u>	<u>-</u>	<u>-</u>	<u>2,784,826</u>
Total LCFF	<u>9,222,964</u>	<u>-</u>	<u>-</u>	<u>9,222,964</u>
Federal sources	2,050,771	4,046,193	684,827	6,781,791
Other state sources	7,537,444	8,196,614	6,492	15,740,550
Other local sources	<u>13,077,953</u>	<u>-</u>	<u>821</u>	<u>13,078,774</u>
Total revenues	<u>31,889,132</u>	<u>12,242,807</u>	<u>692,140</u>	<u>44,824,079</u>
<b>Expenditures:</b>				
Current:				
Certificated salaries	7,488,106	-	78,573	7,566,679
Classified salaries	7,248,652	-	39,404	7,288,056
Employee benefits	7,582,368	-	42,083	7,624,451
Books and supplies	926,231	-	12,559	938,790
Contract services and operating expenditures	5,794,633	-	111,956	5,906,589
Other outgo	1,326,418	12,183,618	363,310	13,873,346
Capital outlay	850,737	-	12,781	863,518
Debt service:				
Principal retirement	101,708	-	60,000	161,708
Interest	<u>-</u>	<u>-</u>	<u>155,819</u>	<u>155,819</u>
Total expenditures	<u>31,318,853</u>	<u>12,183,618</u>	<u>876,485</u>	<u>44,378,956</u>
Excess (deficiency) of revenues over (under) expenditures	<u>570,279</u>	<u>59,189</u>	<u>(184,345)</u>	<u>445,123</u>
<b>Other financing sources (uses):</b>				
Transfers in	66,481	-	250,906	317,387
Transfers out	(331,856)	-	(79,324)	(411,180)
Proceeds from sale of land / building	<u>338,104</u>	<u>-</u>	<u>-</u>	<u>338,104</u>
Total other financing sources (uses)	<u>72,729</u>	<u>-</u>	<u>171,582</u>	<u>244,311</u>
Net change in fund balances	643,008	59,189	(12,763)	689,434
Fund balances, July 1, 2015	<u>9,651,876</u>	<u>-</u>	<u>12,868</u>	<u>9,664,744</u>
Fund balances, June 30, 2016	<u>\$ 10,294,884</u>	<u>\$ 59,189</u>	<u>\$ 105</u>	<u>\$ 10,354,178</u>

See accompanying notes to financial statements.

HUMBOLDT COUNTY OFFICE OF EDUCATION  
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND  
 CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS -  
 TO THE STATEMENT OF ACTIVITIES  
 For the Year Ended June 30, 2016

Net change in fund balances - Total Governmental Funds	\$	689,434
Amounts reported for governmental activities in the statement of activities are different because:		
Acquisition of capital assets is an expenditure in the governmental funds, but increases capital assets in the statement of net position (Note 4).	\$	504,556
Depreciation of capital assets is an expense that is not recorded in the governmental funds (Note 4).		(636,938)
Acquisition of HROP house inventory is an expenditure in the governmental funds, but increases HROP house inventory in the statement of net position (Note 5).		426,066
In governmental funds, the entire proceeds from disposal of capital assets and HROP house inventory are reported as revenue. In the statement of activities, only the resulting gain or loss is reported.		(522,940)
Repayment of principal on long-term liabilities is an expenditure in the governmental funds, but decreases the long-term liabilities in the statement of net position (Note 6).		161,708
In governmental funds, OPEB costs are recognized when employer contributions are made. In the statement of activities, OPEB costs are recognized on the accrual basis. (Note 10).		(65,315)
In government funds, pension costs are recognized when employer contributions are made. In the statement of activities, pension costs are recognized on the accrual basis. This year, the difference between accrual-basis pension costs and actual employer contributions was:		(164,328)
In the statement of activities, expenses related to compensated absences are measured by the amounts earned during the year. In the governmental funds, expenditures are measured by the amount of financial resources used (Note 6).	(29,104)	(326,295)
Change in net position of governmental activities	\$	<u>363,139</u>

See accompanying notes to financial statements.

HUMBOLDT COUNTY OFFICE OF EDUCATION  
STATEMENT OF NET POSITION - PROPRIETARY FUND  
OTHER ENTERPRISE FUND - BUSINESS-TYPE ACTIVITIES  
June 30, 2016

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**ASSETS**

Current assets:

Cash in County Treasury (Note 2)	\$ 18,364
Receivables	<u>4,501</u>

Total assets	<u>\$ 22,865</u>
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**LIABILITIES**

Accounts payable	<u>\$ 22,710</u>
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**NET POSITION**

Net position - unrestricted	<u>\$ 155</u>
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See accompanying notes to financial statements.



HUMBOLDT COUNTY OFFICE OF EDUCATION  
STATEMENT OF CHANGE IN  
NET POSITION - PROPRIETARY FUND  
OTHER ENTERPRISE FUND - BUSINESS-TYPE ACTIVITIES  
For the Year Ended June 30, 2016

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Operating revenues:	
Other local revenues	\$ <u>105,908</u>
Operating expenditures:	
Current:	
Classified salaries	100,037
Benefits	56,660
Books and supplies	23,128
Contract services and operating expenditures	<u>19,971</u>
Total operating expenditures	<u>199,796</u>
Operating loss	(93,888)
Non operating revenue:	
Transfers in	<u>93,793</u>
Change in net position	(95)
Total net position, July 1, 2015	<u>250</u>
Total net position, June 30, 2016	<u><u>\$ 155</u></u>

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See accompanying notes to financial statements.

HUMBOLDT COUNTY OFFICE OF EDUCATION  
STATEMENT OF CASH FLOWS - PROPRIETARY FUND  
OTHER ENTERPRISE FUND - BUSINESS-TYPE ACTIVITIES  
For the Year Ended June 30, 2016

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Cash flows from operating activities:	
Cash received from other local revenue sources	\$ 101,407
Cash paid for operating expenses	<u>(177,086)</u>
Net cash used in operating activities	<u>(75,679)</u>
Cash flows from capital and financing activities:	
Transfers in	<u>93,793</u>
Increase in Cash in County Treasury	18,114
Cash in County Treasury, July 1, 2015	<u>250</u>
Cash in County Treasury, June 30, 2016	<u>\$ 18,364</u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	<u>\$ (93,888)</u>
Adjustments to reconcile operating loss to net cash used in operating activities:	
Increase in:	
Receivables	(4,501)
Increase in:	
Accounts payable	<u>22,710</u>
Total adjustments	<u>18,209</u>
Net cash used in operating activities	<u>\$ (75,679)</u>

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See accompanying notes to financial statements.

HUMBOLDT COUNTY OFFICE OF EDUCATION  
STATEMENT OF FIDUCIARY NET POSITION  
TRUST AND AGENCY FUNDS  
June 30, 2016

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	Trust Funds		Agency Fund
	Retiree Benefits	Foundation	Payroll Deduction
<b>ASSETS</b>			
Cash in County Treasury (Note 2)	\$ 1,982,117	\$ 59,325	\$ 11,366,005
Receivables	-	138	-
Total assets	1,982,117	59,463	\$ 11,366,005
<b>LIABILITIES</b>			
Due to districts	-	-	\$ 11,366,005
<b>NET POSITION</b>			
Restricted held in trust	\$ 1,982,117	\$ 59,463	

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See accompanying notes to financial statements.

HUMBOLDT COUNTY OFFICE OF EDUCATION  
STATEMENT OF CHANGE IN FIDUCIARY NET POSITION  
TRUST FUNDS  
For the Year Ended June 30, 2016

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	<u>Retiree Benefits</u>	<u>Foundation</u>
Additions:		
Other local revenues	\$ 12,201	\$ 508
Interdistrict premiums/contributions	<u>432,378</u>	<u>-</u>
Total additions	<u>444,579</u>	<u>508</u>
Deductions:		
Contract services and operating expenditures	<u>408,700</u>	<u>-</u>
Change in fiduciary net position	35,879	508
Net position held in trust, July 1, 2015	<u>1,946,238</u>	<u>58,955</u>
Net position held in trust, June 30, 2016	<u>\$ 1,982,117</u>	<u>\$ 59,463</u>

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See accompanying notes to financial statements.

HUMBOLDT COUNTY OFFICE OF EDUCATION  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2016

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Humboldt County Office of Education (the "County Office") accounts for its financial transactions in accordance with the policies and procedures of the California Department of Education's *California School Accounting Manual*. The accounting policies of the County Office conform to accounting principles generally accepted in the United States of America as prescribed by the *Governmental Accounting Standards Board*. The following is a summary of the more significant policies:

Reporting Entity: The County Office and the Board of Education are the level of government which has governance responsibilities over all activities related to public school education as conducted by the County Office. The County Office is not included in any other governmental "reporting entity" as defined by the *Governmental Accounting Standards Board* since Board members have approval authority, the responsibility to significantly influence operations and primary accountability for fiscal matters.

The County Office receives funding from local, state and federal government sources and must comply with all the requirements of these funding sources.

Basis of Presentation - Financial Statements: The basic financial statements include a Management's Discussion and Analysis (MD & A) section providing an analysis of the County Office's overall financial position and results of operations; financial statements prepared using full accrual accounting for all of the County Office's activities, including infrastructure; and a focus on the major funds in the fund financial statements.

Basis of Presentation - Government-Wide Financial Statements: The Statement of Net Position and the Statement of Activities display information about the reporting government as a whole. Fiduciary funds are not included in the government-wide financial statements. Fiduciary funds are reported only in the Statement of Fiduciary Net Position and the Statement of Change in Fiduciary Net Position.

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

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

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

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(Continued)

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

A - Major Funds

General Fund:

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

Special Education Pass-Through

The Special Education Pass-Through Fund is a special revenue fund that is used to account for proceeds of federal and state revenue sources that are restricted for expenditures for specific purposes. Funds received in this fund are pass-through funds to the school districts within Humboldt County.

B - Other Funds

Special Revenue Funds:

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specific purposes. This classification includes the Child Development and Forest Reserve Funds.

Capital Project Fund:

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

Debt Service Fund:

The Debt Service Fund is a debt service fund used to account for the accumulation of resources for, and the payment of, general long-term liabilities principal, interest, and related costs.

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(Continued)

HUMBOLDT COUNTY OFFICE OF EDUCATION  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2016

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Other Enterprise Fund:

The Other Enterprise Fund is an enterprise fund which is used to account for the County Office's recognize activities related to the Sequoia Conference Center, such as revenues from rentals and catering services and the related payroll and other expenses.

Trust Funds:

The Trust Funds are used to account for funds restricted for specific purposes. This classification includes the Retiree Benefits and Foundation Trust Funds.

Agency Funds:

The Agency Funds are clearing accounts for payroll activity for districts throughout the county.

Basis of Accounting: Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

Accrual: Governmental activities in the government-wide financial statements and fiduciary fund financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

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

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

Receivables: Receivables consist of amounts due from the federal and state governments related to federal and state programs. The County Office determined that no allowance for doubtful accounts was needed as of June 30, 2016. The County Office does not charge interest on past due accounts.

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

Compensated Absences: Compensated absences in the amount of \$425,248 are recorded as a liability of the County Office. The liability is for earned but unused benefits.

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(Continued)

HUMBOLDT COUNTY OFFICE OF EDUCATION  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2016

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Sick Leave Benefits: Sick leave benefits are not recognized as liabilities of the County Office. The County Office's policy is to record sick leave as an operating expenditure in the period taken since such benefits do not vest nor is payment probable; however, unused sick leave is added to the creditable service period for calculation of retirement benefits for all STRS and CalPERS employees, when the employee retires.

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

Net Position: Net position is displayed in three components:

1. Net Investment in Capital Assets – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances (excluding unspent bond proceeds) of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
2. Restricted Net Position - Restrictions of the ending net position indicate the portions of net position not appropriable for expenditure or amounts legally segregated for a specific future use. The restriction for legally restricted programs represents the portion of net position restricted to specific program expenditures. The restriction for retiree benefits represents the portion of net position available for the payment of post retirement benefits. The restriction for the Foundation Trust represents the portion of net position available for scholarships. It is the County Office's policy to use restricted net position first when allowable expenditures are incurred.
3. Unrestricted Net Position - All other net position that does not meet the definition of "restricted" or "net investment in capital assets".

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

A - Nonspendable Fund Balance:

The nonspendable fund balance classification reflects amounts that are not in spendable form, such as revolving fund cash and prepaid expenditures.

B - Restricted Fund Balance:

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

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(Continued)



HUMBOLDT COUNTY OFFICE OF EDUCATION  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2016

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

C - Committed Fund Balance:

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

D - Assigned Fund Balance:

The assigned fund balance classification reflects amounts that the County Office's Board of Education has approved to be used for specific purposes, based on the District's intent related to those specific purposes. The Board of Education can designate personnel with the authority to assign fund balances, however, as of June 30, 2016, no such designation has occurred.

E - Unassigned Fund Balance:

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

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

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

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

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

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

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

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(Continued)

HUMBOLDT COUNTY OFFICE OF EDUCATION  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2016

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

Deferred Outflows/Inflows of Resources: In addition to assets, the Statement of Net Position includes a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s), and as such will not be recognized as an outflow of resources (expense/expenditures) until then. The County Office has recognized a deferred outflow of resources related to the recognition of the pension liability reported in the Statement of Net Position. Amortization for the year ended June 30, 2016 totaled \$268,417.

In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and as such, will not be recognized as an inflow of resources (revenue) until that time. The County Office has recognized a deferred inflow of resources related to the recognition of the pension liability reported which is in the Statement of Net Position. Amortization for the year ended June 30, 2016 totaled \$618,000.

Pensions: For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the State Teachers' Retirement Plan (STRP) and Public Employers Retirement Fund B (PERF B) and additions to/deductions from STRP's and PERF B's fiduciary net position have been determined on the same basis as they are reported by STRP and PERF B. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Substantially all of investments are reported at fair value.

	<u>STRP</u>	<u>PERF B</u>	<u>Total</u>
Deferred outflows of resources	<u>\$ 1,414,608</u>	<u>\$ 1,307,758</u>	<u>\$ 2,722,366</u>
Deferred inflows of resources	<u>\$ 1,007,000</u>	<u>\$ 852,000</u>	<u>\$ 1,859,000</u>
Net pension liability	<u>\$ 10,256,000</u>	<u>\$ 8,790,000</u>	<u>\$ 19,046,000</u>
Pension expense	<u>\$ 1,457,793</u>	<u>\$ 807,791</u>	<u>\$ 2,265,584</u>

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(Continued)

HUMBOLDT COUNTY OFFICE OF EDUCATION  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2016

**NOTE 2 - CASH AND INVESTMENTS**

Cash and investments at June 30, 2016 consisted of the following:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Fiduciary Activities</u>
Pooled Funds:			
Cash in County Treasury	\$ 8,578,461	\$ 18,364	\$ 13,407,447
Deposits:			
Cash in revolving fund	<u>2,000</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 8,580,461</u>	<u>\$ 18,364</u>	<u>\$ 13,407,447</u>

Pooled Funds: In accordance with Education Code Section 41001, the County Office maintains substantially all of its cash in the Humboldt County Treasurer's Pooled Investment Fund. The County is considered to be an involuntary participant in an external investment pool. The fair value of the County's investment in the pool is reported in the financial statements at amounts based upon the County's pro-rata share of the fair value provided by the County Treasurer for the entire portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by the County Treasurer, which is recorded on the amortized cost basis.

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

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

Deposits - Custodial Credit Risk: The County Office limits custodial credit risk by ensuring uninsured balances are collateralized by the respective financial institution. Cash balances held in banks are insured up to \$250,000 by the Federal Deposit Insurance Corporation (FDIC) and are collateralized by the respective financial institution. At June 30, 2016, the carrying amount of the County Office's accounts was \$2,000, and the bank balance was \$1,371, all of which was insured.

Interest Rate Risk: The County Office has a formal investment policy that limits cash and investments maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. At June 30, 2016, the County Office had no significant interest rate risk related to cash and investments held.

Credit Risk: The County Office has a formal investment policy that limits its investment choices in addition to the limitations of state law.

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

(Continued)

HUMBOLDT COUNTY OFFICE OF EDUCATION  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2016

**NOTE 3 - INTERFUND TRANSACTIONS**

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

Interfund Receivables/Payables: Individual fund interfund receivable and payable balances at June 30, 2016 were as follows:

<u>Fund</u>	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
<u>Governmental Activities</u>		
Major Funds:		
General	\$ 246,202	\$ -
Special Education Pass-Through	-	176,202
Non-Major Funds:		
Child Development	-	70,000
Totals	<u>\$ 246,202</u>	<u>\$ 246,202</u>

Transfers: Transfers consist of operating transfers from funds receiving revenue to funds through which the resources are to be expended.

Transfers for the 2015-2016 fiscal year were as follows:

Transfer from the General Fund to the Debt Service Fund to provide debt service payments.	\$ 215,621
Transfer from the General Fund to the Other Enterprise Fund to provide support for start-up costs and excess expenses.	87,898
Transfer from the General Fund to the Special Reserve for Capital Outlay Fund for SCC construction close out costs.	28,337
Transfer from the Child Development Fund to the General Fund for indirect costs.	17,243
Transfer from the Forest Reserve Fund to the General Fund for the County Office's portion of the current year income.	49,238
Transfer from the County School Facilities Fund to the Other Enterprise Fund for start-up costs and excess expenses.	5,895
Transfer from the County School Facilities Fund to the Special Reserve for Capital Outlay Fund for SCC construction close out costs.	6,948
	<u>\$ 411,180</u>

(Continued)

HUMBOLDT COUNTY OFFICE OF EDUCATION  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2016

**NOTE 4 - CAPITAL ASSETS**

A schedule of changes in capital assets for the year ended June 30, 2016 is shown below:

	Balance July 1, <u>2015</u>	Transfers and <u>Additions</u>	Transfers and <u>Deductions</u>	Balance June 30, <u>2016</u>
Non-depreciable:				
Land	\$ 1,320,268	\$ -	\$ -	\$ 1,320,268
Work in progress	5,163,938	217,000	(5,228,588)	152,350
Depreciable:				
Buildings	8,819,481	5,290,410	-	14,109,891
Improvement of sites	631,189	38,088	-	669,277
Equipment	<u>4,094,471</u>	<u>187,646</u>	<u>(588,737)</u>	<u>3,693,380</u>
Totals, at cost	<u>20,029,347</u>	<u>5,733,144</u>	<u>(5,817,325)</u>	<u>19,945,166</u>
Less accumulated depreciation:				
Buildings	(2,672,785)	(332,351)	-	(3,005,136)
Improvement of sites	(140,339)	(32,511)	-	(172,850)
Equipment	<u>(2,717,155)</u>	<u>(272,076)</u>	<u>(324,285)</u>	<u>(2,664,946)</u>
Total accumulated depreciation	<u>(5,530,279)</u>	<u>(636,938)</u>	<u>(324,285)</u>	<u>(5,842,932)</u>
Capital assets, net	<u>\$ 14,499,068</u>	<u>\$ 5,096,206</u>	<u>\$ (5,493,040)</u>	<u>\$ 14,102,234</u>

Depreciation expense was charged to governmental activities as follows:

Instruction	\$ 186,622
Supervision of instruction	15,361
Instructional library, media and technology	41,138
School site administration	8,667
Home-to-school transportation	52,604
Food services	9,656
All other pupil services	36,150
Data processing	60,505
Enterprise activities	54,036
All other general administration	131,402
Plant services	30,490
Ancillary services	<u>10,307</u>
Total depreciation expense	<u>\$ 636,938</u>

(Continued)

HUMBOLDT COUNTY OFFICE OF EDUCATION  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2016

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**NOTE 5 - HUMBOLDT REGIONAL OCCUPATIONAL PROGRAM HOUSE INVENTORY**

The County Office operates a Regional Occupational Program that constructs housing for the purpose of teaching occupational skills to participating students. The houses are later sold as a means of recouping the cost of land and materials. A schedule of the changes in housing inventory for the year ended June 30, 2016 is shown below:

	Balance July 1, <u>2015</u>	<u>Additions</u>	<u>Deductions</u>	Balance June 30, <u>2016</u>
Housing Inventory	<u>\$ 380,746</u>	<u>\$ 426,066</u>	<u>\$ (258,488)</u>	<u>\$ 548,324</u>

**NOTE 6 - LONG-TERM LIABILITIES**

Certificates of Participation:

In July 2013, the County Office issued \$3,280,000 of Certificates of Participation, maturing in August 2043, with coupon interest rates ranging from 2.0% to 5.5% to provide funds to finance the acquisition and construction of conference facilities of the Humboldt County Office of Education and pay costs of executing and delivering the Certificates. The term of the COPs will run until August 2043.

Year Ending <u>June 30,</u>	<u>Payment</u>
2017	\$ 214,619
2018	213,419
2019	217,088
2020	215,463
2021	213,594
2022-2026	1,073,544
2027-2031	1,078,756
2032-2036	1,075,240
2037-2041	1,072,518
2042-2044	<u>645,462</u>
Total payments	6,019,703
Less amount representing interest	<u>(2,859,703)</u>
Net future minimum payments	<u>\$ 3,160,000</u>

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(Continued)

HUMBOLDT COUNTY OFFICE OF EDUCATION  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2016

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**NOTE 6 - LONG-TERM LIABILITIES (Continued)**

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

	Balance July 1, 2014	<u>Additions</u>	<u>Deductions</u>	Balance June 30, 2015	Amounts Due Within One Year
Certificates of Participation	\$ 3,220,000	\$ -	\$ 60,000	\$ 3,160,000	\$ 60,000
Capital leases payable	101,708	-	101,708	-	-
Compensated absences	396,144	29,104	-	425,248	-
Net pension liability (Notes 8 and 9)	<u>15,037,000</u>	<u>4,009,000</u>	<u>-</u>	<u>19,046,000</u>	<u>-</u>
Totals	<u>\$ 18,754,852</u>	<u>\$ 4,038,104</u>	<u>\$ 161,708</u>	<u>\$ 22,631,248</u>	<u>\$ 60,000</u>

Payments on the Certificates of Participation are made from the Debt Service Fund. Payments on the capital leases are made from the General Fund. Payments on the compensated absences and net pension liability are made from the fund for which the related employee worked.

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(Continued)

HUMBOLDT COUNTY OFFICE OF EDUCATION  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2016

**NOTE 7 - FUND BALANCES**

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

	General Fund	Special Education Pass- Through Fund	All Non-Major Funds	Total
Nonspendable:				
Revolving cash fund	\$ 2,000	\$ -	\$ -	\$ 2,000
Prepaid expenditures	<u>12,637</u>	<u>-</u>	<u>-</u>	<u>12,637</u>
Subtotal nonspendable	<u>14,637</u>	<u>-</u>	<u>-</u>	<u>14,637</u>
Restricted:				
Legally restricted programs	<u>4,535,525</u>	<u>59,189</u>	<u>105</u>	<u>4,594,819</u>
Assigned:				
LCAP activities	512,919	-	-	512,919
Facilities reserve	81,265	-	-	81,265
Special Ed. Home to School Transportation	10,000	-	-	10,000
CTE/Student program reserve	136,042	-	-	136,042
Motor pool	67,882	-	-	67,882
INS capital outlay	290,902	-	-	290,902
AB1200	60,485	-	-	60,485
Student program donations	99,774	-	-	99,774
Lottery	<u>210,316</u>	<u>-</u>	<u>-</u>	<u>210,316</u>
Subtotal assigned	<u>1,469,585</u>	<u>-</u>	<u>-</u>	<u>1,469,585</u>
Unassigned:				
Designated for economic uncertainty	<u>4,275,137</u>	<u>-</u>	<u>-</u>	<u>4,275,137</u>
Total fund balances	<u>\$ 10,294,884</u>	<u>\$ 59,189</u>	<u>\$ 105</u>	<u>\$ 10,354,178</u>

**NOTE 8 – NET PENSION LIABILITY – STATE TEACHERS’ RETIREMENT PLAN**

*General Information about the State Teachers’ Retirement Plan*

Plan Description: Teaching-certified employees of the County Office are provided with pensions through the State Teachers’ Retirement Plan (STRP) – a cost-sharing multiple-employer defined benefit pension plan administered by the California State Teachers’ Retirement System (CalSTRS). The Teachers’ Retirement Law (California Education Code Section 22000 et seq.), as enacted and amended by the California Legislature, established this plan and CalSTRS as the administrator. The benefit terms of the plans may be amended through legislation. CalSTRS issues a publicly available financial report that can be obtained at <http://www.calstrs.com/comprehensive-annual-financial-report..>

(Continued)



**NOTE 8 – NET PENSION LIABILITY – STATE TEACHERS' RETIREMENT PLAN (Continued)**

Benefits Provided: The STRP Defined Benefit Program has two benefit formulas:

- CalSTRS 2% at 60: Members first hired on or before December 31, 2012, to perform service that could be creditable to CalSTRS.
- CalSTRS 2% at 62: Members first hired on or after January 1, 2013, to perform service that could be creditable to CalSTRS.

The Defined Benefit Program provides retirement benefits based on members' final compensation, age and years of service credit. In addition, the retirement program provides benefits to members upon disability and to survivors/beneficiaries upon the death of eligible members. There are several differences between the two benefit formulas which are noted below.

*CalSTRS 2% at 60*

CalSTRS 2% at 60 members are eligible for normal retirement at age 60, with a minimum of five years of credited service. The normal retirement benefit is equal to 2.0 percent of final compensation for each year of credited service. Early retirement options are available at age 55 with five years of credited service or as early as age 50 with 30 years of credited service. The age factor for retirements after age 60 increases with each quarter year of age to 2.4 percent at age 63 or older. Members who have 30 years or more of credited service receive an additional increase of up to 0.2 percent to the age factor, known as the career factor. The maximum benefit with the career factor is 2.4 percent of final compensation.

CalSTRS calculates retirement benefits based on a one-year final compensation for members who retired on or after January 1, 2001, with 25 or more years of credited service, or for classroom teachers with less than 25 years of credited service if the employer elected to pay the additional benefit cost prior to January 1, 2014. One-year final compensation means a member's highest average annual compensation earnable for 12 consecutive months calculated by taking the creditable compensation that a member could earn in a school year while employed on a fulltime basis, for a position in which the person worked. For members with less than 25 years of credited service, final compensation is the highest average annual compensation earnable for any three consecutive years of credited service.

*CalSTRS 2% at 62*

CalSTRS 2% at 62 members are eligible for normal retirement at age 62, with a minimum of five years of credited service. The normal retirement benefit is equal to 2.0 percent of final compensation for each year of credited service. An early retirement option is available at age 55. The age factor for retirement after age 62 increases with each quarter year of age to 2.4 percent at age 65 or older.

All CalSTRS 2% at 62 members have their final compensation based on their highest average annual compensation earnable for three consecutive years of credited service.

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**NOTE 8 – NET PENSION LIABILITY – STATE TEACHERS' RETIREMENT PLAN (Continued)**

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

A summary of statutory contribution rates and other sources of contributions to the Defined Benefit Program are as follows:

*Members* - Under CalSTRS 2% at 60, the member contribution rate was 9.20 percent of applicable member earnings for fiscal year 2015-2016. Under CalSTRS 2% at 62, members contribute 50 percent of the normal cost of their retirement plan, which resulted in a contribution rate of 8.15 percent of applicable member earnings for fiscal year 2015-2016.

In general, member contributions cannot increase unless members are provided with some type of "comparable advantage" in exchange for such increases. Under previous law, the Legislature could reduce or eliminate the 2 percent annual increase to retirement benefits. As a result of AB 1469, effective July 1, 2014, the Legislature cannot reduce the 2 percent annual benefit adjustment for members who retire on or after January 1, 2014, and in exchange for this "comparable advantage," the member contribution rates have been increased by an amount that covers a portion of the cost of the 2 percent annual benefit adjustment.

Effective July 1, 2014, with the passage of AB 1469, member contributions for those under the 2% at 60 benefit structure increase from 8.0 percent to a total of 10.25 percent of applicable member earnings, phased in over the next three years. For members under the 2% at 62 benefit structure, contributions will increase from 8.0 percent to 9.205 percent of applicable member earnings, again phased in over three years, if there is no change to normal cost.

*Employers* – 10.73 percent of applicable member earnings.

In accordance with AB 1469, employer contributions will increase from 8.25 percent to a total of 19.1 percent of applicable member earnings phased in over seven years starting in 2014. The new legislation also gives the board limited authority to adjust employer contribution rates from July 1, 2021 through June 2046 in order to eliminate the remaining unfunded actuarial obligation related to service credited to members prior to July 1, 2014. The board cannot adjust the rate by more than 1 percent in a fiscal year, and the total contribution rate in addition to the 8.25 percent cannot exceed 12 percent.

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(Continued)

HUMBOLDT COUNTY OFFICE OF EDUCATION  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2016

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**NOTE 8 – NET PENSION LIABILITY – STATE TEACHERS’ RETIREMENT PLAN (Continued)**

The CalSTRS employer contribution rate increases effective for fiscal year 2015-16 through fiscal year 2045-46 are summarized in the table below:

<u>Effective Date</u>	<u>Prior Rate</u>	<u>Increase</u>	<u>Total</u>
July 01, 2015	8.25%	2.48%	10.73%
July 01, 2016	8.25%	4.33%	12.58%
July 01, 2017	8.25%	6.18%	14.43%
July 01, 2018	8.25%	8.03%	16.28%
July 01, 2019	8.25%	9.88%	18.13%
July 01, 2020	8.25%	10.85%	19.10%
July 01, 2046	8.25%	Increase from prior rate ceases in 2046-47	

The County Office contributed \$789,608 to the plan for the fiscal year ended June 30, 2016.

*State* - 7.391 percent of the members’ creditable earnings from the fiscal year ending in the prior calendar year.

Additionally, beginning October 1, 1998, a statutory contribution rate of 0.524 percent, adjustable annually in 0.25 percent increments up to a maximum of 1.505 percent, of the creditable earnings from the fiscal year ending in the prior calendar year per Education Code Section 22955(b). This contribution is reduced to zero if there is no unfunded actuarial obligation and no normal cost deficit for benefits in place as of July 1, 1990. Based on the actuarial valuation, as of June 30, 2012 there was no normal cost deficit, but there was an unfunded obligation for benefits in place as of July 1, 1990. As a result, the state was required to make quarterly payments starting October 1, 2013, at an additional contribution rate of 1.024 percent. As of June 30, 2014, the state contributed \$200.7 million of the \$267.6 million total amount for fiscal year 2013-14. As a result of AB 1469, the fourth quarterly payment of \$66.9 million was included in an increased first quarter payment of \$94 million for the 2014-15 fiscal year, which was transferred on July 1, 2014.

In accordance with AB 1469, the portion of the state appropriation under Education Code Section 22955(b) that is in addition to the 2.017 percent has been replaced by section 22955.1(b) in order to fully fund the benefits in effect as of 1990 by 2046. The additional state contribution will increase from 1.437 percent in 2014-15 to 4.311 percent in 2016-17. The increased contributions end as of fiscal year 2046-2047.

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(Continued)

HUMBOLDT COUNTY OFFICE OF EDUCATION  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2016

**NOTE 8 – NET PENSION LIABILITY – STATE TEACHERS’ RETIREMENT PLAN (Continued)**

The CalSTRS state contribution rates effective for fiscal year 2015-16 and beyond are summarized in the table below:

<u>Effective Date</u>	<u>Base Rate</u>	<u>AB 1469 Increase For 1990 Benefit Structure</u>	<u>SBMA Funding</u>	<u>Total State Appropriation to DB Program</u>
July 01, 2015	2.017%	2.874%	2.50%	7.391%
July 01, 2016	2.017%	4.311%	2.50%	8.828%
July 01, 2017 to June 30, 2046	2.017%	4.311%*	2.50%	8.828%*
July 01, 2046 and thereafter	2.017%	*	2.50%	4.517%*

\* The new legislation also gives the board limited authority to adjust state contribution rates from July 1, 2017, through June 2046 in order to eliminate the remaining unfunded actuarial obligation associated with the 1990 benefit structure. The board cannot increase the rate by more than 0.50 percent in a fiscal year, and if there is no unfunded actuarial obligation, the contribution rate imposed to pay for the 1990 benefit structure shall be reduced to zero percent. Rates in effect prior to July 1, 2014, are reinstated if necessary to address any remaining 1990 unfunded actuarial obligation from July 1, 2046, and thereafter.

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

At June 30, 2016, the County Office reported a liability for its proportionate share of the net pension liability that reflected a reduction for State pension support provided to the County Office. The amount recognized by the County Office as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the County Office were as follows:

County Office’s proportionate share of the net pension liability	\$ 10,256,000
State’s proportionate share of the net pension liability associated with the County Office	<u>5,424,000</u>
Total	<u><u>\$ 15,680,000</u></u>

The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014. The County Office’s proportion of the net pension liability was based on the County Office’s share of contributions to the pension plan relative to the contributions of all participating school districts, county offices and the State. At June 30, 2015, the County Office’s proportion was 0.015 percent, which was an increase of 0.001 percent from its proportion measured as of June 30, 2014.

(Continued)

HUMBOLDT COUNTY OFFICE OF EDUCATION  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2016

**NOTE 8 – NET PENSION LIABILITY – STATE TEACHERS’ RETIREMENT PLAN** (Continued)

For the year ended June 30, 2016, the County Office recognized pension expense of \$1,457,793 and revenue of \$505,886 for support provided by the State. At June 30, 2016, the County Office reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ -	\$ 171,000
Changes of assumptions	-	-
Net differences between projected and actual earnings on investments	-	836,000
Changes in proportion and differences between County Office contributions and proportionate share of contributions	625,000	-
Contributions made subsequent to measurement date	<u>789,608</u>	<u>-</u>
Total	<u>\$ 1,414,608</u>	<u>\$ 1,007,000</u>

\$789,608 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Years Ended June 30,</u>	
2017	\$ (270,833)
2018	\$ (270,833)
2019	\$ (270,833)
2020	\$ 277,167
2021	\$ 75,167
2022	\$ 72,165

Differences between expected and actual experience, changes in assumptions and changes in proportion and differences between District contributions and proportionate share of contributions are amortized over a closed period equal to the average remaining service life of plan members, which is 7 years as of the June 30, 2015 measurement date. Deferred outflows and inflows related to differences between projected and actual earnings on plan investments are netted and amortized over a closed 5-year period.

(Continued)

HUMBOLDT COUNTY OFFICE OF EDUCATION  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2016

**NOTE 8 – NET PENSION LIABILITY – STATE TEACHERS’ RETIREMENT PLAN** (Continued)

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

Valuation Date	June 30, 2014
Experience Study	July 1, 2006, through June 30, 2010
Actuarial Cost Method	Entry age normal
Investment Rate of Return	7.60%
Consumer Price Inflation	3.00%
Wage Growth	3.75%
Post-retirement Benefit Increases	2.00% simple for DB Not applicable for DBS/CBB

CalSTRS uses custom mortality tables to best fit the patterns of mortality among its members. These custom tables are based on RP2000 series tables adjusted to fit CalSTRS experience. RP2000 series tables are an industry standard set of mortality rates published by the Society of Actuaries. See CalSTRS July 1, 2006 – June 30, 2010 experience analysis for more information.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. The best estimate ranges were developed using capital market assumptions from CalSTRS general investment consultant as an input to the process. Based on the model from CalSTRS consulting actuary’s investment practice, a best estimate range was determined by assuming the portfolio is re-balanced annually and that annual returns are log normally distributed and independent from year to year to develop expected percentiles for the long-term distribution of annualized returns. The assumed asset allocation by PCA is based on board policy for target asset allocation in effect on February 2, 2012, the date the current experience study was approved by the board. Best estimates of 10-year geometric real rates of return and the assumed asset allocation for each major asset class used as input to develop the actuarial investment rate of return are summarized in the following table:

<u>Asset Class</u>	<u>Assumed Asset Allocation</u>	<u>Long-Term* Expected Real Rate of Return</u>
Global Equity	47%	4.50%
Private Equity	12	6.20
Real Estate	15	4.35
Inflation Sensitive	5	3.20
Fixed Income	20	0.20
Cash / Liquidity	1	0.00

\* 10-year geometric average

(Continued)

HUMBOLDT COUNTY OFFICE OF EDUCATION  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2016

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**NOTE 8 – NET PENSION LIABILITY – STATE TEACHERS’ RETIREMENT PLAN (Continued)**

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

Sensitivity of the County Office’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate: The following presents the County Office’s proportionate share of the net pension liability calculated using the discount rate of 7.60 percent, as well as what the County Office’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.60 percent) or 1-percentage-point higher (8.60 percent) than the current rate:

	1% Decrease <u>(6.60%)</u>	Current Discount Rate <u>(7.60%)</u>	1% Increase <u>(8.60%)</u>
County Office’s proportionate share of the net pension liability	<u>\$ 15,486,000</u>	<u>\$ 10,256,000</u>	<u>\$ 5,910,000</u>

Pension Plan Fiduciary Net Position: Detailed information about the pension plan’s fiduciary net position is available in the separately issued CalSTRS financial report.

**NOTE 9 – NET PENSION LIABILITY – PUBLIC EMPLOYER’S RETIREMENT FUND B**

*General Information about the Public Employer’s Retirement Fund B*

Plan Description: The schools cost-sharing multiple-employer defined benefit pension plan Public Employer’s Retirement Fund B (PERF B) is administered by the California Public Employees’ Retirement System (CalPERS). Plan membership consists of non-teaching and non-certified employees of public schools (K-12), community college districts, offices of education, charter and private schools (elective) in the State of California.

The Plan was established to provide retirement, death and disability benefits to non-teaching and noncertified employees in schools. The benefit provisions for Plan employees are established by statute. CalPERS issues a publicly available financial report that can be obtained at <https://www.calpers.ca.gov/docs/forms-publications/cafr-2015.pdf>.

Benefits Provided: The benefits for the defined benefit plans are based on members’ years of service, age, final compensation, and benefit formula. Benefits are provided for disability, death, and survivors of eligible members or beneficiaries. Members become fully vested in their retirement benefits earned to date after five years (10 years for State Second Tier members) of credited service.

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(Continued)

HUMBOLDT COUNTY OFFICE OF EDUCATION  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2016

**NOTE 9 – NET PENSION LIABILITY – PUBLIC EMPLOYER’S RETIREMENT FUND B** (Continued)

**Contributions:** The benefits for the defined benefit pension plans are funded by contributions from members and employers, and earnings from investments. Member and employer contributions are a percentage of applicable member compensation. Member contribution rates are defined by law and depend on the respective employer’s benefit formulas. Employer contribution rates are determined by periodic actuarial valuations or by state statute. Actuarial valuations are based on the benefit formulas and employee groups of each employer. Employer contributions, including lump sum contributions made when agencies first join the PERF, are credited with a market value adjustment in determining contribution rates.

The required contribution rates of most active plan members are based on a percentage of salary in excess of a base compensation amount ranging from zero dollars to \$863 monthly.

Required contribution rates for active plan members and employers as a percentage of payroll for the year ended June 30, 2015 were as follows:

*Members* - The member contribution rate was 6.0 or 7.0 percent of applicable member earnings for fiscal year 2015-16.

*Employers* - The employer contribution rate was 11.847 percent of applicable member earnings.

The District contributed \$805,758 to the plan for the fiscal year ended June 30, 2016.

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

At June 30, 2016, the District reported a liability of \$8,790,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014. The County Office’s proportion of the net pension liability was based on the County Office’s contributions to the pension plan relative to the contributions of all participating school districts and county offices. At June 30, 2015, the County Office’s proportion was 0.060 percent, which was a zero percent change from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the District recognized pension expense of \$807,791. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 502,000	\$ -
Changes of assumptions	-	540,000
Net differences between projected and actual earnings on investments	-	301,000
Changes in proportion and differences between County Office contributions and proportionate share of contributions	-	11,000
Contributions made subsequent to measurement date	<u>805,758</u>	<u>-</u>
Total	<u>\$ 1,307,758</u>	<u>\$ 852,000</u>

(Continued)



HUMBOLDT COUNTY OFFICE OF EDUCATION  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2016

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**NOTE 9 – NET PENSION LIABILITY – PUBLIC EMPLOYER’S RETIREMENT FUND B** (Continued)

\$805,758 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Years Ended <u>June 30,</u>	
2017	\$ (91,667)
2018	\$ (91,667)
2019	\$ (91,666)
2020	\$ (75,000)

Differences between expected and actual experience, changes in assumptions and changes in proportion and differences between District contributions and proportionate share of contributions are amortized over a closed period equal to the average remaining service life of plan members, which is 4 years as of the June 30, 2015 measurement date. Deferred outflows and inflows related to differences between projected and actual earnings on plan investments are netted and amortized over a closed 5-year period.

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

Valuation Date	June 30, 2014
Experience Study	July 1, 2006, through June 30, 2010
Actuarial Cost Method	Entry age normal
Investment Rate of Return	7.65%
Consumer Price Inflation	2.75%
Wage Growth	Varies by entry age and service
Post-retirement Benefit Increases	Contract COLA up to 2.00% until Purchasing Power Protection Allowance Floor on Purchasing Power applies 2.75% thereafter

The mortality table used was developed based on CalPERS specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the 2014 experience study report.

All other actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period from 1997 to 2011, including updates to salary increase, mortality and retirement rates. Further details of the Experience Study can be found at CalPERS’ website.

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(Continued)

HUMBOLDT COUNTY OFFICE OF EDUCATION  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2016

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**NOTE 9 – NET PENSION LIABILITY – PUBLIC EMPLOYER’S RETIREMENT FUND B (Continued)**

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

<u>Asset Class</u>	<u>Long-Term* Assumed Asset Allocation</u>	<u>Expected Real Rate of Return</u>
Global Equity	51%	5.25%
Global Fixed Income	19	0.99
Inflation Sensitive	6	0.45
Private Equity	10	6.83
Real Estate	10	4.50
Infrastructure & Forestland	2	4.50
Liquidity	2	(0.55)

\* 10-year geometric average

Discount Rate: The discount rate used to measure the total pension liability was 7.65 percent. A projection of the expected benefit payments and contributions was performed to determine if assets would run out. The test revealed the assets would not run out. Therefore the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability for the Plan. The results of the crossover testing for the Plan are presented in a detailed report that can be obtained at CalPERS’ website.

The discount rate was 7.50 and 7.65 percent in the June 30, 2013 and June 30, 2014 actuarial reports, respectively.

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

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected cash flows of the Plan. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the Plan’s asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

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(Continued)

HUMBOLDT COUNTY OFFICE OF EDUCATION  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2016

**NOTE 9 – NET PENSION LIABILITY – PUBLIC EMPLOYER’S RETIREMENT FUND B** (Continued)

Sensitivity of the County Office’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate: The following presents the County Office’s proportionate share of the net pension liability calculated using the discount rate of 7.65 percent, as well as what the County Office’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.65 percent) or 1-percentage-point higher (8.65 percent) than the current rate:

	1% Decrease (6.65%)	Current Discount Rate (7.65%)	1% Increase (8.65%)
County Office’s proportionate share of the net pension liability	<u>\$ 14,306,000</u>	<u>\$ 8,790,000</u>	<u>\$ 4,203,000</u>

Pension Plan Fiduciary Net Position: Detailed information about the pension plan’s fiduciary net position is available in the separately issued CalPERS financial report.

**NOTE 10 - OTHER POSTEMPLOYMENT BENEFITS**

In addition to the pension benefits described in Note 8 and 9, the County Office provides postemployment health care benefits to eligible certificated and management employees under a single employer defined benefit OPEB plan. The plan does not issue separate financial statements. Benefit provisions are as follows:

1. For eligible employees hired prior to June 30, 1998 with ten years continuous employment, the employer will pay for the same health benefits as provided to active employees for up to ten years or the Medicare eligibility age.
2. For eligible employees hired between July 1, 1998 and June 30, 2001 with 10 years of continuous employment, the employer will provide an amount not to exceed \$20,000 to be used at the discretion of the retirees as additional compensation or to apply to the purchase of health benefits.
3. For eligible employees hired after July 1, 2001 with 20 years of continuous employment, the employer will provide an amount not to exceed \$25,000 to be used at the discretion of the retirees as additional compensation or to apply to the purchase of health benefits.

The County Office’s annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Cod. Sec. P50.108.109. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

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

Annual required contribution	\$ 497,693
Interest on net OPEB obligation	-
Adjustment to annual required contribution	-
Annual OPEB cost (expense)	497,693
Contributions made	<u>(432,378)</u>
Change in net OPEB obligation	65,315
Net OPEB obligation (asset) - beginning of year	<u>(338,053)</u>
Net OPEB obligation (asset) - end of year	<u>\$ (272,738)</u>

(Continued)

HUMBOLDT COUNTY OFFICE OF EDUCATION  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2016

**NOTE 10 - OTHER POSTEMPLOYMENT BENEFITS (Continued)**

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

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation (Asset)</u>
June 30, 2014	\$ 497,693	100%	\$ (350,406)
June 30, 2015	\$ 497,693	97.5%	\$ (338,053)
June 30, 2016	\$ 497,693	86.9%	\$ (272,738)

As of May 1, 2013, the most recent actuarial valuation date, the plan was 48 percent funded. The actuarial accrued liability for benefits was \$4,343,705, and the actuarial value of assets was \$2,098,828, resulting in an unfunded actuarial accrued liability (UAAL) of \$2,244,877. The covered payroll (annual payroll of active employees covered by the Plan) was \$6,904,215, and the ratio of the UAAL to the covered payroll was 32.5 percent. The County Office has continued funding the ARC. The value of the plan assets as of June 30, 2016 was \$1,982,117. The OPEB plan is currently operated as a pay-as-you-go plan.

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

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

In the May 1, 2013 actuarial valuation, the entry age normal actuarial cost method was used. The actuarial assumptions included a 5.0 percent investment rate (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan on the valuation date, and an annual healthcare cost trend rate of 4.0 percent. Both rates included a 3.0 percent inflation assumption. The actuarial value of asset was determined using techniques that spread the effects of short-term volatility in the market value as of the valuation date. The initial UAAL is being amortized as a level percentage of projected payroll. The remaining amortization period at June 30, 2016, was 18 years.

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

(Continued)

HUMBOLDT COUNTY OFFICE OF EDUCATION  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2016

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**NOTE 11 - JOINT POWERS AGREEMENT**

The County Office is a member with other school districts of two Joint Powers Authorities, North Coast Schools Insurance Group (NCSIG) and North Coast Schools Medical Insurance Group (NCSMIG). NCSIG provides workers' compensation, property and liability coverage for its members. NCSMIG provides medical, dental and vision coverage for its members. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal year. There have been no significant reductions in insurance coverage in the prior year. The following is a summary of financial information for NCSIG at June 30, 2015 and NCSMIG at June 30, 2015, (the latest information available):

	<u>NCSIG</u>	<u>NCSMIG</u>
Total assets	\$ 5,302,396	\$ 7,865,922
Total liabilities	\$ 1,514,380	\$ 6,233,167
Total net position	\$ 3,788,016	\$ 1,632,755
Total revenues	\$ 6,586,906	\$ 43,683,078
Total expenses	\$ 6,533,467	\$ 46,183,626
Change in net position	\$ 53,439	\$ (2,500,548)

The relationship between the County Office and Joint Powers Authorities is such that they are not component units of the County Office for financial reporting purposes.

**NOTE 12 - CONTINGENCIES**

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

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

**REQUIRED SUPPLEMENTARY INFORMATION**

HUMBOLDT COUNTY OFFICE OF EDUCATION  
GENERAL FUND  
BUDGETARY COMPARISON SCHEDULE  
For the Year Ended June 30, 2016

	Budget		Actual	Variance Favorable (Unfavorable)
	Original	Final		
<b>Revenues:</b>				
Local Control Funding Formula (LCFF):				
State apportionment	\$ 7,736,126	\$ 7,262,447	\$ 6,438,138	\$ (824,309)
Local sources	<u>1,683,612</u>	<u>1,801,104</u>	<u>2,784,826</u>	<u>983,722</u>
Total LCFF	<u>9,419,738</u>	<u>9,063,551</u>	<u>9,222,964</u>	<u>159,413</u>
Federal sources	2,293,211	2,094,013	2,050,771	(43,242)
Other state sources	5,895,821	7,897,184	7,537,444	(359,740)
Other local sources	<u>11,031,136</u>	<u>12,651,184</u>	<u>13,077,953</u>	<u>426,769</u>
Total revenues	<u>28,639,906</u>	<u>31,705,932</u>	<u>31,889,132</u>	<u>183,200</u>
<b>Expenditures:</b>				
Current:				
Certificated salaries	7,059,844	7,545,365	7,488,106	57,259
Classified salaries	7,120,086	7,319,742	7,248,652	71,090
Employee benefits	7,009,693	7,584,676	7,582,368	2,308
Books and supplies	869,021	933,208	926,231	6,977
Contract services and operating expenditures	5,513,528	5,822,304	5,794,633	27,671
Other outgo	1,340,551	1,649,350	1,326,418	322,932
Capital outlay	365,000	881,769	850,737	31,032
Debt service:				
Principal retirement	<u>                    </u>	<u>101,708</u>	<u>101,708</u>	<u>                    </u>
Total expenditures	<u>29,277,723</u>	<u>31,838,122</u>	<u>31,318,853</u>	<u>519,269</u>
(Deficiency) excess of revenues (under) over expenditures	<u>(637,817)</u>	<u>(132,190)</u>	<u>570,279</u>	<u>702,469</u>
<b>Other financing sources (uses):</b>				
Transfers in	132,516	237,469	66,481	(170,988)
Transfers out	(301,741)	(548,036)	(331,856)	216,180
Proceeds from sale of land / building	<u>-</u>	<u>338,104</u>	<u>338,104</u>	<u>-</u>
Total other financing sources (uses)	<u>(169,225)</u>	<u>27,537</u>	<u>72,729</u>	<u>45,192</u>
Net change in fund balance	(807,042)	(104,653)	643,008	747,661
Fund balance, July 1, 2015	<u>9,651,876</u>	<u>9,651,876</u>	<u>9,651,876</u>	<u>-</u>
Fund balance, June 30, 2016	<u>\$ 8,844,834</u>	<u>\$ 9,547,223</u>	<u>\$ 10,294,884</u>	<u>\$ 747,661</u>

See accompanying notes to required supplementary information.

HUMBOLDT COUNTY OFFICE OF EDUCATION  
SPECIAL EDUCATION PASS-THROUGH FUND  
BUDGETARY COMPARISON SCHEDULE  
For the Year Ended June 30, 2016

	<u>Budget</u>		<u>Actual</u>	Variance Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>		
Revenues:				
Federal sources	\$ 3,876,491	\$ 4,046,191	\$ 4,046,193	\$ 2
Other state sources	<u>7,503,990</u>	<u>7,885,923</u>	<u>8,196,614</u>	<u>310,691</u>
Total revenues	<u>11,380,481</u>	<u>11,932,114</u>	<u>12,242,807</u>	<u>310,693</u>
Expenditures:				
Current:				
Other outgo	<u>11,380,481</u>	<u>11,932,114</u>	<u>12,183,618</u>	<u>(251,504)</u>
Net change in fund balance	-	-	59,189	59,189
Fund balance, July 1, 2015	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance, June 30, 2016	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 59,189</u>	<u>\$ 59,189</u>

See accompanying notes to required supplementary information.



HUMBOLDT COUNTY OFFICE OF EDUCATION  
 SCHEDULE OF OTHER POSTEMPLOYMENT BENEFITS (OPEB)  
 FUNDING PROGRESS  
 For the Year Ended June 30, 2016

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Actuarial Valuation <u>Date</u>	Actuarial Value of <u>Assets</u>	<u>Schedule of Funding Progress</u>				UAAAL as a Percentage of Covered <u>Payroll</u>
		Unfunded Actuarial Accrued Liability <u>(AAL)</u>	Actuarial Accrued Liability <u>(UAAL)</u>	Funded <u>Ratio</u>	Covered <u>Payroll</u>	
July 1, 2007	\$ -	\$ 4,008,169	\$ 4,008,169	0%	\$ 7,358,080	54.5%
February 1, 2010	\$ 1,580,112	\$ 4,013,580	\$ 2,433,468	39%	\$ 7,062,505	34.4%
May 1, 2013	\$ 2,098,828	\$ 4,343,705	\$ 2,244,877	48%	\$ 6,904,215	32.5%

Actuarial Valuation <u>Date</u>	Annual Required Contribution	<u>Schedule of Employer Contributions</u>		Percentage of ARC Contributed
		Contributions	Contributions	
July 1, 2007	\$ 434,749	\$ 292,594		67%
February 1, 2010	\$ 515,577	\$ 683,756		133%
May 1, 2013	\$ 497,693	\$ 515,577		104%

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See accompanying notes to required supplementary information.

HUMBOLDT COUNTY OFFICE OF EDUCATION  
 SCHEDULE OF THE COUNTY OFFICE'S PROPORTIONATE  
 SHARE OF THE NET PENSION LIABILITY  
 For the Year Ended June 30, 2016

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State Teachers' Retirement Plan  
 Last 10 Fiscal Years

	<u>2015</u>	<u>2016</u>
County Office's proportion of the net pension liability	0.014%	0.015%
County Office's proportionate share of the net pension liability	\$ 8,276,000	\$ 10,256,000
State's proportionate share of the net pension liability associated with the County Office	<u>4,997,000</u>	<u>5,424,000</u>
Total net pension liability	<u>\$ 13,273,000</u>	<u>\$ 15,680,000</u>
County Office's covered-employee payroll	\$ 6,308,000	\$ 7,071,000
County Office's proportionate share of the net pension liability as a percentage of its covered-employee payroll	131.20%	145.04%
Plan fiduciary net position as a percentage of the total pension liability	76.52%	74.02%

The amounts presented for each fiscal year were determined as of the year-end that occurred one year prior.

All years prior to 2015 are not available.

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(Continued)

HUMBOLDT COUNTY OFFICE OF EDUCATION  
SCHEDULE OF THE COUNTY OFFICE'S PROPORTIONATE  
SHARE OF THE NET PENSION LIABILITY  
For the Year Ended June 30, 2016

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Public Employer's Retirement Fund B  
Last 10 Fiscal Years

	<u>2015</u>	<u>2016</u>
County Office's proportion of the net pension liability	0.060%	0.060%
County Office's proportionate share of the net pension liability	\$ 6,761,000	\$ 8,790,000
County Office's covered-employee payroll	\$ 6,252,000	\$ 6,602,000
County Office's proportionate share of the net pension liability as a percentage of its covered-employee payroll	108.14%	133.14%
Plan fiduciary net position as a percentage of the total pension liability	83.38%	79.43%

The amounts presented for each fiscal year were determined as of the year-end that occurred one year prior.

All years prior to 2015 are not available.

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See accompanying notes to required supplementary information.

HUMBOLDT COUNTY OFFICE OF EDUCATION  
SCHEDULE OF THE COUNTY OFFICE'S CONTRIBUTIONS  
For the Year Ended June 30, 2016

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State Teachers' Retirement Plan  
Last 10 Fiscal Years

	<u>2015</u>	<u>2016</u>
Contractually required contribution	\$ 627,904	\$ 789,608
Contributions in relation to the contractually required contribution	<u>627,904</u>	<u>789,608</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
County Office's covered-employee payroll	\$ 7,071,000	\$ 7,359,000
Contributions as a percentage of covered-employee payroll	8.88%	10.73%

All years prior to 2015 are not available.

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(Continued)

HUMBOLDT COUNTY OFFICE OF EDUCATION  
SCHEDULE OF THE COUNTY OFFICE'S CONTRIBUTIONS  
For the Year Ended June 30, 2016

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Public Employer's Retirement Fund B  
Last 10 Fiscal Years

	<u>2015</u>	<u>2016</u>
Contractually required contribution	\$ 777,084	\$ 805,758
Contributions in relation to the contractually required contribution	<u>777,084</u>	<u>805,758</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
County Office's covered-employee payroll	\$ 6,602,000	\$ 6,801,000
Contributions as a percentage of covered-employee payroll	11.77%	11.85%

All years prior to 2015 are not available.

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See accompanying notes to required supplementary information.

HUMBOLDT COUNTY OFFICE OF EDUCATION  
NOTE TO REQUIRED SUPPLEMENTARY INFORMATION  
For the Year Ended June 30, 2016

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**NOTE 1 - PURPOSE OF SCHEDULES**

A - Budgetary Comparison Schedule

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

B - Schedule of Other Postemployment Benefits Funding Progress and Employer Contributions

The Schedule of Funding Progress presents multi-year trend information which compares, over time, the actuarially accrued liability for benefits with the actuarial value of accumulated plan assets. The Schedule of Employer Contributions presents the District's actuarially determined Annual Required Contributions for Other Postemployment Benefits, as well as the actual contributions made by the District.

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

The Schedule of the County Office's Proportionate Share of the Net Pension Liability is presented to illustrate the elements of the County Office's Net Pension Liability. There is a requirement to show information for 10 years. However, until a full 10-year trend is compiled, governments should present information for those years for which information is available.

D - Schedule of the County Office's Contributions

The Schedule of the County Office's Contributions is presented to illustrate the County Office's required contributions relating to the pensions. There is a requirement to show information for 10 years. However, until a full 10-year trend is compiled, governments should present information for those years for which information is available.

E - Changes of benefit terms

There are no changes in benefit terms reported in the Required Supplementary Information.

F - Changes of assumptions

The discount rate for Public Employer's Retirement Fund B was 7.50 and 7.65 percent in the June 30, 2013 and June 30, 2014 actuarial reports, respectively. There were no changes in assumptions reported for the State Teachers' Retirement Plan.

**SUPPLEMENTARY INFORMATION**

COMBINING BALANCE SHEET  
ALL NON-MAJOR FUNDS  
June 30, 2016

	Child Development Fund	Forest Reserve Fund	County School Facilities Fund	Special Reserve for Capital Outlay Projects Fund	Debt Service Fund	Total
<b>ASSETS</b>						
Cash in County Treasury	\$ 46,227	\$ 6	\$ -	\$ -	\$ -	\$ 46,233
Receivables	<u>43,182</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>43,182</u>
Total assets	<u>\$ 89,409</u>	<u>\$ 6</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 89,415</u>
<b>LIABILITIES AND FUND BALANCES</b>						
Liabilities:						
Accounts payable	\$ 19,304	\$ 6	\$ -	\$ -	\$ -	\$ 19,310
Due to other funds	<u>70,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>70,000</u>
Total liabilities	<u>89,304</u>	<u>6</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>89,310</u>
Fund balances, restricted	<u>105</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>105</u>
Total liabilities and fund balances	<u>\$ 89,409</u>	<u>\$ 6</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 89,415</u>

See accompanying notes to supplementary information.



HUMBOLDT COUNTY OFFICE OF EDUCATION  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCES  
 ALL NON-MAJOR FUNDS  
 For the Year Ended June 30, 2016

	Child Development Fund	Forest Reserve Fund	County School Facilities Fund	Special Reserve for Capital Outlay Projects Fund	Debt Service Fund	Total
<b>Revenues:</b>						
Federal sources	\$ 272,332	\$ 412,495	\$ -	\$ -	\$ -	\$ 684,827
State sources	6,492	-	-	-	-	6,492
Other local sources	<u>187</u>	<u>53</u>	<u>80</u>	<u>303</u>	<u>198</u>	<u>821</u>
Total revenues	<u>279,011</u>	<u>412,548</u>	<u>80</u>	<u>303</u>	<u>198</u>	<u>692,140</u>
<b>Expenditures:</b>						
Current:						
Certificated salaries	78,573	-	-	-	-	78,573
Classified salaries	39,404	-	-	-	-	39,404
Employee benefits	42,083	-	-	-	-	42,083
Books and supplies	12,559	-	-	-	-	12,559
Contract services and operating expenditures	89,149	-	-	22,807	-	111,956
Other outgo	-	363,310	-	-	-	363,310
Capital outlay	-	-	-	12,781	-	12,781
Debt service:						
Principal retirement	-	-	-	-	60,000	60,000
Interest	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>155,819</u>	<u>155,819</u>
Total expenditures	<u>261,768</u>	<u>363,310</u>	<u>-</u>	<u>35,588</u>	<u>215,819</u>	<u>876,485</u>
Excess (deficiency) of revenues over (under) expenditures	<u>17,243</u>	<u>49,238</u>	<u>80</u>	<u>(35,285)</u>	<u>(215,621)</u>	<u>(184,345)</u>
<b>Other financing sources (uses):</b>						
Operating transfers in	-	-	-	35,285	215,621	250,906
Operating transfers out	<u>(17,243)</u>	<u>(49,238)</u>	<u>(12,843)</u>	<u>-</u>	<u>-</u>	<u>(79,324)</u>
Total other financing sources (uses)	<u>(17,243)</u>	<u>(49,238)</u>	<u>(12,843)</u>	<u>35,285</u>	<u>215,621</u>	<u>171,582</u>
Net change in fund balances	-	-	(12,763)	-	-	(12,763)
Fund balances, July 1, 2015	<u>105</u>	<u>-</u>	<u>12,763</u>	<u>-</u>	<u>-</u>	<u>12,868</u>
Fund balances, June 30, 2016	<u>\$ 105</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 105</u>

See accompanying notes to supplementary information.

HUMBOLDT COUNTY OFFICE OF EDUCATION  
ORGANIZATION  
June 30, 2016

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Humboldt County Office of Education's area of service is comprised of approximately 3,546 square miles located in Humboldt, Mendocino and Trinity Counties. There were no changes in the service area under the jurisdiction of the County Office of Education during the current reporting period. The Board adopted a resolution to reduce from seven members to five at the December 11, 2013 board meeting.

The Board of Education for the fiscal year ended June 30, 2016 was composed of the following individuals:

BOARD OF EDUCATION

<u>Name</u>	<u>Office</u>	<u>Term Expires</u>
Mary Scott	President	2017
Bill Ruff	Vice President	2017
Marc Rowley	Member	2019
Mary Scott	Member	2017
Robert Siekmann	Member	2019

ADMINISTRATION

Garry T. Eagles, Ph.D.  
Humboldt County Superintendent of Schools

Jon Sapper, Ph.D.r  
Deputy Superintendent

Lynette Kerr  
Chief Business Official

HUMBOLDT COUNTY OFFICE OF EDUCATION  
 SCHEDULE OF AVERAGE DAILY ATTENDANCE  
 For the Year Ended June 30, 2016

	<u>Original Second Period Report</u>	<u>Revised Second Period Report</u>	<u>Annual Report</u>
<u>Elementary</u>			
Probation Referred, On Probation or On Parole	1	1	1
<u>Secondary</u>			
Juvenile Halls, Homes and Camps	28	29	31
Probation Referred, On Probation or On Parole	117	116	130
Total Secondary	145	145	161
<u>District Funded County Programs</u>			
<u>Special Education</u>			
Transition Kindergarten - Third	26	26	27
Fourth - Sixth	21	21	21
Seventh - Eighth	12	12	12
Ninth - Twelfth	33	33	31
Total Special Education	92	92	91
Total County Office	238	238	253

See accompanying notes to supplementary information.

HUMBOLDT COUNTY OFFICE OF EDUCATION  
 SCHEDULE OF EXPENDITURE OF FEDERAL AWARDS  
 For the Year Ended June 30, 2016

<u>Federal Catalog Number</u>	<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Pass- Through Entity Identifying Number</u>	<u>Federal Expend- itures</u>
<u>U.S. Department of Education - Passed through California Department of Education:</u>			
	Special Education Cluster:		
84.027	Special Ed: IDEA Basic Local Assistance, Part B, Sec. 611	13379	\$ 372,209
84.027A	Special Ed: IDEA Preschool Local Entitlement, Part B, Sec 611	13682	205,082
84.173A	Special Ed: IDEA Alternative Dispute Resolution Program	13007	2,044
84.173	Special Ed: IDEA Preschool Grants, Part B, Sec 619	13420	215,645
84.173A	Special Ed: IDEA Preschool Accountability Grants, Part B, Sec 619	14688	37,416
84.173A	Special Ed: IDEA Preschool Staff Development, Part B, Sec 619	13431	1,439
84.173	Special Ed: IDEA Early Intervention Grants	23761	<u>29,564</u>
	Subtotal Special Education Cluster		<u>863,399</u>
84.010	NCLB: Title I, Part A, Basic Grants Low-Income and Neglected	13797	143,753
84.013	NCLB: Title I, Part D, Local Delinquent Programs	13798	101,508
84.158	Workability II, Transition Partnerships	10006	539,810
84.367	NCLB: Title II, Part A, Improving Teacher Quality Local Grants	14341	2,658
84.196	NCLB: Title X, McKinney-Vento Homeless Assistant Local Grants	13697	73,193
84.287	NCLB: Title IV, 21st Century	14349	<u>28,169</u>
	Total U.S. Department of Education		<u>1,752,490</u>

(Continued)

HUMBOLDT COUNTY OFFICE OF EDUCATION  
 SCHEDULE OF EXPENDITURE OF FEDERAL AWARDS  
 For the Year Ended June 30, 2016

<u>Federal Catalog Number</u>	<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Pass- Through Entity Identifying Number</u>	<u>Federal Expend- itures</u>
<u>U.S. Department of Health and Human Services - Passed through California Department of Education:</u>			
93.778	Medi-Cal Billing Option	10013	\$ 239,376
93.575	Child Care and Development Block Grant	13625	<u>272,520</u>
	Total U.S. Department of Health and Human Services		<u>511,896</u>
<u>U.S. Department of Agriculture - Passed through California Department of Education:</u>			
10.665	Forest Reserve Funds	10044	49,238
10.555	National School Lunch Program	13523	<u>40,497</u>
	Total U.S. Department of Agriculture		<u>89,735</u>
	Total expenditure of Federal Awards		<u>\$ 2,354,121</u>

See accompanying notes to supplementary information.

HUMBOLDT COUNTY OFFICE OF EDUCATION  
RECONCILIATION OF UNAUDITED ACTUAL FINANCIAL REPORT  
WITH AUDITED FINANCIAL STATEMENTS  
For the Year Ended June 30, 2016

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

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See accompanying notes to supplementary information.

HUMBOLDT COUNTY OFFICE OF EDUCATION  
SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS  
For the Year Ended June 30, 2016  
(UNAUDITED)

	(Budgeted) <u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
<u>General Fund</u>				
Revenues and other financing sources	\$ <u>30,722,932</u>	\$ <u>32,293,717</u>	\$ <u>29,679,779</u>	\$ <u>27,374,460</u>
Expenditures	31,693,206	31,318,853	29,766,080	27,855,435
Other uses and transfers out	<u>323,936</u>	<u>331,856</u>	<u>1,193,286</u>	<u>1,338,855</u>
Total outgo	<u>32,017,142</u>	<u>31,650,709</u>	<u>30,959,366</u>	<u>29,194,290</u>
Change in fund balances	<u>\$ (1,294,210)</u>	<u>\$ 643,008</u>	<u>\$ (1,279,587)</u>	<u>\$ (1,819,830)</u>
Ending fund balances	<u>\$ 9,000,674</u>	<u>\$ 10,294,884</u>	<u>\$ 9,651,876</u>	<u>\$ 10,931,463</u>
Available reserves	<u>\$ 2,864,391</u>	<u>\$ 2,373,183</u>	<u>\$ 3,592,998</u>	<u>\$ 3,778,062</u>
Designated for economic uncertainties	<u>\$ 2,864,391</u>	<u>\$ 2,373,183</u>	<u>\$ 3,592,998</u>	<u>\$ 3,778,062</u>
Undesignated fund balances	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Available reserves as a percentage of total outgo	<u>8.9%</u>	<u>7.5%</u>	<u>11.6%</u>	<u>12.9%</u>
<u>Total All Funds</u>				
Total long-term liabilities	<u>\$ 22,571,248</u>	<u>\$ 22,631,248</u>	<u>\$ 18,754,852</u>	<u>\$ 3,951,211</u>
Average daily attendance at annual (excluding special education)	<u>154</u>	<u>161</u>	<u>192</u>	<u>186</u>

The General Fund fund balances have decreased by \$2,456,409 over the past three years. The fiscal year 2016-2017 budget projects a decrease of \$1,294,210. For a county office this size, the State recommends available reserves of at least 3 percent of total General Fund expenditures, transfers out, and other uses (total outgo). The County Office met this requirement.

The County Office has incurred operating deficits in two of the past three years. An operating deficit is anticipated during the 2016-2017 fiscal year.

Total long-term liabilities have increased by \$18,680,037 over the past two years.

Average daily attendance has decreased by 31 in comparison to 2014-15. The County Office anticipates a decrease of 7 ADA during fiscal year 2016-2017.

See accompanying notes to supplementary information.

HUMBOLDT COUNTY OFFICE OF EDUCATION  
SCHEDULE OF CHARTER SCHOOLS  
For the Year Ended June 30, 2016

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Charter Schools Chartered by County Office

Northcoast Preparatory and Performing Arts Academy

Included in County Office  
Financial Statements, or  
Separate Report

Separate report.

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See accompanying notes to supplementary information.



HUMBOLDT COUNTY OFFICE OF EDUCATION  
NOTES TO SUPPLEMENTARY INFORMATION  
June 30, 2016

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**NOTE 1 - PURPOSE OF SCHEDULES**

A - Schedule of Average Daily Attendance

Average daily attendance is a measurement of the number of pupils attending classes of the County Office. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionments of state funds are made. This schedule provides information regarding the attendance of students at various grade levels and in different programs. It also includes attendance for regional occupational centers and programs.

B - Schedule of Expenditure of Federal Awards

The Schedule of Expenditure of Federal Awards includes the federal award activity of Humboldt County Office of Education, and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-21, Cost Principles for Educational Institutions or the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The County Office has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

The following schedule provides a reconciliation between revenues reported on the Statement of Revenues, Expenditures and Change in Fund Balance and the related expenditures reported on the Schedule of Expenditure of Federal Awards. The reconciling amounts represent Federal funds that have been recorded as revenues that have not been expended by June 30, 2016.

<u>Description</u>	<u>CFDA Number</u>	<u>Amount</u>
Total Federal revenues, Statement of Revenues, Expenditures and Change in Fund Balances		\$ 6,781,791
Less: Forest reserve funds passed through to districts	10.665	(363,257)
Special education funds passed through to districts	84.027	(4,046,115)
Medi-Cal Billing revenues in excess of expenditures	93.778	<u>(18,298)</u>
Total Schedule of Expenditure of Federal Awards		<u>\$ 2,354,121</u>

C - Reconciliation of Unaudited Actual Financial Report with Audited Financial Statements

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

D - Schedule of Financial Trends and Analysis - Unaudited

This schedule provides information on the County Office's financial condition over the past three years and its anticipated condition for the 2016-2017 fiscal year, as required by the State Controller's Office. The information in this schedule has been derived from audited information.

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(Continued)

HUMBOLDT COUNTY OFFICE OF EDUCATION  
 NOTES TO SUPPLEMENTARY INFORMATION  
 For the Year Ended June 30, 2016

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**NOTE 1 - PURPOSE OF SCHEDULES (Continued)**

E - Schedule of Charter Schools

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

**NOTE 2 - EARLY RETIREMENT INCENTIVE PROGRAM**

Education Code Section 14502 requires certain disclosure in the financial statements of County Offices which adopt Early Retirement Incentive Programs pursuant to Education Code Section 22714 and 44929. Eligible employees must have five or more years of service under the State Teachers' Retirement System and retire during the exclusive periods of participation, May 4, 2016 through June 30, 2016.

Retiree Information

A total of 2 employees have retired in exchange for the additional two years of service credit.

Position <u>Vacated</u>	Age	Service <u>Credit</u>	Salary			Benefits			Total <u>Savings</u>
			<u>Retiree*</u>	Replace- ment	<u>Savings</u>	<u>Retiree*</u>	Replace- ment	<u>Savings</u>	
Teacher	64	15	\$ 63,650	\$ 45,000	\$ 18,650	\$ 26,173	\$ 17,925	\$ 8,248	\$ 26,898
Teacher	63	28	<u>70,628</u>	<u>45,000</u>	<u>25,628</u>	<u>27,033</u>	<u>17,925</u>	<u>9,108</u>	<u>34,736</u>
			<u>\$ 134,278</u>	<u>\$ 90,000</u>	<u>\$ 44,278</u>	<u>\$ 53,206</u>	<u>\$ 35,850</u>	<u>\$ 17,356</u>	<u>\$ 61,634</u>

\* Retiree and replacement salary and benefit costs represent the domino-effect of replacing the retiring employee, plus the cost of replacing the retiree.

Additional Costs

As a result of this early retirement incentive program, the County Office expects to incur additional costs of \$80,071 in administrative fees, present value and any interest.

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

Board of Education  
 Humboldt County Office of Education  
 Eureka, California

**Report on Compliance with State Laws and Regulations**

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

<u>Description</u>	<u>Procedures Performed</u>
Attendance	Yes
Teacher Certification and Misassignments	Yes
Kindergarten Continuance	No, see below
Independent Study	Yes
Continuation Education	No, see below
Instructional Time	No, see below
Instructional Materials	Yes
Ratio of Administrative Employees to Teachers	No, see below
Classroom Teacher Salaries	No, see below
Early Retirement Incentive	Yes
Gann Limit Calculation	Yes
School Accountability Report Card	Yes
Juvenile Court Schools	Yes
Middle or Early College High Schools	No, see below
K-3 Grade Span Adjustment	No, see below
Transportation Maintenance of Effort	Yes
Educator Effectiveness	Yes
California Clean Energy Jobs Act	Yes
After School Education and Safety Program:	
General requirements	No, see below
After school	No, see below
Before school	No, see below
Proper Expenditure of Education Protection Account Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control and Accountability Plan	Yes
Independent Study - Course Based	No, see below
Immunizations	No, see below
Attendance, for charter schools	No, see below
Mode of Instruction, for charter schools	No, see below
Nonclassroom Based Instruction/Independent Study, for charter schools	No, see below
Determination of Funding for NonclassroomBased Instruction, for charter schools	No, see below
Annual Instructional Minutes ClassroomBased, for charter schools	No, see below
Charter School Facility Grant Program	No, see below

(Continued)

The County Office does not operate a Kindergarten Program; therefore, we did not perform any testing of Kindergarten Continuation.

The County Office does not operate a Continuation Education program; therefore, we did not perform any testing of Continuation Education ADA.

The County Office is not a School District; therefore, we did not perform any procedures related to Instructional Time.

We did not perform any procedures related to Ratio of Administrative Employees to Teachers because the procedure is only applicable to school districts.

We did not perform any procedures related to Classroom Teacher Salaries because the procedure is only applicable to school districts.

We did not perform any procedures related to Middle or Early College High Schools because the County Office does not have any Middle or Early College High Schools.

We did not perform any procedures related to K-3 Grade Span Adjustment because the County Office does not receive ADA for kindergarten or grades 1 to 3.

We did not perform any procedures related to After School Education and Safety program because the funding is a pass through to the Districts.

The County Office did not offer an Independent Study-Course Based program, therefore, we did not perform any procedures related to this program.

The County Office submitted all required immunization assessment reports to the California Department of Public Health; therefore, we did not perform any procedures related to this requirement.

The County Office does not have Charter Schools; therefore, we did not perform any of the testing required for Charter Schools.

### ***Management's Responsibility***

Management is responsible for compliance with the requirements of state laws and regulations, as listed above.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on Humboldt County Office of Education's compliance with state laws and regulations as listed above based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and the *2015-16 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* (Audit Guide). Those standards and the Audit Guide require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on Humboldt County Office of Education's compliance with the state laws and regulations listed above occurred. An audit includes examining, on a test basis, evidence about Humboldt 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 with state laws and regulations. However, our audit does not provide a legal determination of Humboldt County Office of Education's compliance.

***Opinion on Compliance with State Laws and Regulations***

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

**Purpose of this Report**

The purpose of this report on compliance is solely to describe the scope of our testing of compliance and the results of that testing based on the requirements of the *2015-16 Guide for Annual Audit of K-12 Local Education Agencies and State Compliance Reporting*. Accordingly, this report is not suitable for any other purpose.

*Crowe Horwath LLP*

Crowe Horwath LLP

Sacramento, California  
December 6, 2016

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

Board of Education  
Humboldt County Office of Education  
Eureka, 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, the business-type activities, each major fund, and the aggregate remaining fund information of Humboldt County Office of Education as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Humboldt County Office of Education's basic financial statements, and have issued our report thereon dated December 6, 2016.

#### **Internal Control Over Financial Reporting**

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

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

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

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(Continued)

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Humboldt 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **Purpose of this Report**

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



Crowe Horwath LLP

Sacramento, California  
December 6, 2016

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE  
FOR EACH MAJOR FEDERAL PROGRAM AND REPORT  
ON INTERNAL CONTROL OVER COMPLIANCE

Board of Education  
Humboldt County Office of Education  
Eureka, California

**Report on Compliance for Each Major Federal Program**

We have audited Humboldt County Office of Education's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Humboldt County Office of Education's major federal programs for the year ended June 30, 2016. Humboldt County Office of Education's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of Humboldt County Office of Education's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Humboldt 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 Humboldt County Office of Education's compliance.

***Opinion on Each Major Federal Program***

In our opinion, Humboldt 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, 2016.

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(Continued)



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

Management of Humboldt 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 Humboldt County Office of Education's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Humboldt County Office of Education's internal control over compliance.

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

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

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

*Crowe Horwath LLP*

Crowe Horwath LLP

Sacramento, California  
December 6, 2016

## **FINDINGS AND RECOMMENDATIONS**

HUMBOLDT COUNTY OFFICE OF EDUCATION  
 SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS  
 Year Ended June 30, 2016

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SECTION I - SUMMARY OF AUDITOR'S RESULTS

**FINANCIAL STATEMENTS**

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? \_\_\_\_\_ Yes   X   No

Significant deficiency(ies) identified not considered  
to be material weakness(es)? \_\_\_\_\_ Yes   X   None reported

Noncompliance material to financial statements  
noted? \_\_\_\_\_ Yes   X   No

**FEDERAL AWARDS**

Internal control over major programs:

Material weakness(es) identified? \_\_\_\_\_ Yes   X   No

Significant deficiency(ies) identified not considered  
to be material weakness(es)? \_\_\_\_\_ Yes   X   None reported

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

Any audit findings disclosed that are required to be  
reported in accordance with 2 CFR 200.516(a)? \_\_\_\_\_ Yes   X   No

Identification of major programs:

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

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

Auditee qualified as low-risk auditee?   X   Yes \_\_\_\_\_ No

**STATE AWARDS**

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

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(Continued)

HUMBOLDT COUNTY OFFICE OF EDUCATION  
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS  
Year Ended June 30, 2016

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SECTION II - FINANCIAL STATEMENT FINDINGS

No matters were reported.

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(Continued)

HUMBOLDT COUNTY OFFICE OF EDUCATION  
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS  
Year Ended June 30, 2016

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SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.

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(Continued)

HUMBOLDT COUNTY OFFICE OF EDUCATION  
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS  
Year Ended June 30, 2016

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SECTION IV - STATE AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.

**STATUS OF PRIOR YEAR  
FINDINGS AND RECOMMENDATIONS**

HUMBOLDT COUNTY OFFICE OF EDUCATION  
STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS  
Year Ended June 30, 2016

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<u>Finding/Recommendation</u>	<u>Current Status</u>	<u>County Office Explanation If Not Implemented</u>
No matters were reported.		