

**COUNTY OF SAN MATEO
SUPERINTENDENT OF SCHOOLS
COUNTY SCHOOL SERVICE FUND**

AUDIT REPORT
JUNE 30, 2016

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COUNTY OF SAN MATEO - SUPERINTENDENT OF SCHOOLS
COUNTY SCHOOL SERVICE FUND

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C. G. UHLENBERG LLP
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

INDEPENDENT AUDITORS' REPORT

Members of the Board of
County of San Mateo
Superintendent of Schools
County School Service Fund
Redwood City, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the County of San Mateo Superintendent of Schools County Schools Service Fund (the "County Office"), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the County Office's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

The County Office's 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, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and *2015-16 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting (K-12 Audit Guide)*, prescribed by the California State Controller's Office. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the County of San Mateo Superintendent of Schools County Schools Service Fund, as of June 30, 2016, and the respective changes in financial position 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 and required supplementary information on pages 4-12 and 51-53 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County Office's financial statements as a whole. The combining and individual nonmajor fund financial statements, state compliance section, other required disclosures – cash clearing accounts section, and the schedule of expenditures of federal awards, which is required by the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), are presented for purposes of additional analysis and are not a required part of the financial statements.

The combining and individual nonmajor fund financial statements, the schedule of average daily attendance, the schedule of instruction time, and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The state and federal award compliance section (except for the schedule of expenditures of federal awards, the schedule of average daily attendance and the schedule of instruction time) and other required disclosures – cash clearing accounts section have 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 them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2016 on our consideration of the County Office's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County Office's internal control over financial reporting and compliance.



Redwood City, California
December 15, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

COUNTY OF SAN MATEO – SUPERINTENDENT OF SCHOOLS
COUNTY SCHOOLS SERVICE FUND

**MANAGEMENT’S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

The Management Discussion and Analysis of the financial performance of the San Mateo County Office of Education provides an overall review of the organization’s financial activities for the fiscal year ended June 30, 2016. The intent of this discussion and analysis is to look at the County Office’s financial performance as a whole. Readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the County Office’s financial performance.

Financial Highlights

Key financial highlights for 2015-16 are as follows.

- The County Office’s net position increased \$14,048,610 or 25%.
- General revenues (primarily property taxes) accounted for \$102,853,314 in revenues or 63% of all revenues. Program-specific revenues in the form of charges for services, operating grants and contributions, and capital grants and contributions accounted for \$59,729,414 or 37% of all revenues, which totaled \$162,582,728.
- Total assets of governmental activities increased by \$26,340,802, or 18%, as current and other assets increased by \$26,775,159, and capital assets decreased by \$434,357.
- Deferred outflow of resources increased by \$7,597,031 or 231% while deferred inflow of resources decreased by \$1,196,960 or 13%.
- Total liabilities of governmental activities increased by \$21,086,183, or 26%, as current liabilities increased by \$13,611,824, and long-term liabilities increased by \$7,474,359.
- The County Office had \$148,534,118 in total expenses, of which \$65,186,833 was passed through to school districts in San Mateo County for Special Education instruction and \$7,562,452 was passed through to the County of San Mateo for the prior year excess property taxes.

Using the Annual Report

This annual report consists of a series of basic financial statements and notes to those statements. These statements are organized to assist the reader in understanding the San Mateo County Office of Education as a financial whole, an entire operating entity. The statements also provide an increasingly detailed look at specific financial activities.

The Statement of Net Position and Statement of Activities comprise the district-wide financial statements and provide information about the activities of the whole County Office, presenting both an aggregate view of the organization’s finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future

COUNTY OF SAN MATEO – SUPERINTENDENT OF SCHOOLS
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**MANAGEMENT’S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

spending. The fund financial statements also look at the County Office’s most significant fund, the General Fund, other major funds, the Special Education Pass-Through Fund and the Special Reserve Fund for Capital Outlay Projects Fund, with all other (non-major) funds presented in total in one column.

The basic financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

Overview of the Financial Statements

Government-wide Financial Statements - Statement of Net Position and the Statement of Activities

While this document contains the six funds used by the County Office to provide programs and activities, it provides a view of the County Office as a whole looks at all financial transactions and asks the question, “How did we do financially during 2015-16?” The Statement of Net Position and Statement of Activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting, similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year’s revenues and expenditures regardless of when cash is received or paid.

The two statements report the County Office’s net position and changes in those assets. This change in net position is important because it informs the reader that, for the County Office as a whole, the financial position of the organization has improved or diminished. The causes of the change may be the result of many factors, some financial, and some not. Non-financial factors include the County Office’s property tax base, current property tax laws in California restricting revenue growth, facility condition, required educational programs and other factors.

In the Statement of Net Position and the Statement of Activities, the County Office reports governmental activities. Governmental activities are the activities in which most of the County Office’s programs and services are reported including, but not limited to, instruction, support services, operation and maintenance of plant, pupil transportation, and extracurricular activities. The County Office does not conduct any business-like activities.

Reporting the County Office’s Most Significant Funds

Fund Financial Statements

The analysis of the San Mateo County Office of Education’s major funds begins on page 15. Fund financial reports provide detailed information about the County Office’s major funds. The County Office uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the County Office’s most significant funds and not the organization as a whole.

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MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

Governmental Funds

Most of the County Office's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in the future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the County Office's general government operations and the basic services it provides. Governmental fund information helps to determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is reconciled in the financial statements.

The County Office's most significant governmental fund is the General Fund.

The County Office as a Whole

Recall that the Statement of Net Position provides the perspective of the County Office as a whole. Table 1 provides a summary that compares the County Office's net position in 2014-15 and 2015-16:

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MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

Table 1 - Summary of Statement of Net Position

	2015	2016	Increase (Decrease)	Percentage Change
Assets				
Current and Other Assets	\$ 127,961,679	\$ 154,736,838	\$ 26,775,159	21%
Capital Assets	16,518,022	16,083,665	(434,357)	-3%
Total Assets	\$ 144,479,701	\$ 170,820,503	\$ 26,340,802	18%
 Deferred Outflow of Resources	 \$ 3,284,426	 \$ 10,881,457	 \$ 7,597,031	 231%
 Liabilities				
Current Liabilities and Other	\$ 26,017,565	\$ 39,629,389	\$ 13,611,824	52%
Long-Term Liabilities	55,538,857	63,013,216	7,474,359	13%
Total Liabilities	\$ 81,556,422	\$ 102,642,605	\$ 21,086,183	26%
 Deferred Inflow of Resources	 \$ 9,043,662	 \$ 7,846,702	 \$ (1,196,960)	 -13%
 Net Position				
Invested in Capital Assets, Net of Debt	\$ 16,518,022	\$ 16,083,665	\$ (434,357)	-3%
Restricted	49,569,679	44,042,399	(5,527,280)	-11%
Unrestricted	(8,923,658)	11,086,589	20,010,247	-224%
Total Net Position	\$ 57,164,043	\$ 71,212,653	\$ 14,048,610	25%

The Total Net Position of governmental activities increased by \$14,048,610 or 25%.

COUNTY OF SAN MATEO – SUPERINTENDENT OF SCHOOLS
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MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

Table 2 shows the changes in net position for fiscal year 2014-15 and 2015-16.

Table 2 - Summary of Changes in Net Position

	2015	2016	Increase (Decrease)	Percentage Change
REVENUES				
Program Revenues:				
Charges for services	\$ 21,285,199	\$ 19,931,016	\$ (1,354,183)	-6%
Operating grants and contributions	37,193,337	39,789,299	2,595,962	7%
Capital grants and contributions	45,561	9,099	(36,462)	-80%
General Revenues:				
Property taxes	83,192,482	86,367,659	3,175,177	4%
Grants and entitlements - unrestricted	7,301,327	8,106,349	805,022	11%
Other	8,868,868	8,379,306	(489,562)	-6%
Total Revenues	157,886,774	162,582,728	4,695,954	3%
PROGRAM EXPENSES				
Instruction	34,710,829	32,318,113	(2,392,716)	-7%
Instruction-related services	16,010,648	18,154,275	2,143,627	13%
Pupil services	6,857,506	6,415,852	(441,654)	-6%
General administration	14,628,917	15,859,525	1,230,608	8%
Plant services	2,026,958	2,532,091	505,133	25%
Passed through to other agencies	75,728,649	72,749,285	(2,979,364)	-4%
Interest on long-term debt	523,460	504,977	(18,483)	-4%
Total Expenses	150,486,967	148,534,118	(1,952,849)	-1%
Increase in Net Position	7,399,807	14,048,610	6,648,803	90%
Beginning Net Position	99,130,756	57,164,043	(41,966,713)	-42%
Restatement to Beginning Net Position	(49,366,520)	-	49,366,520	-100%
Ending Net Position	\$ 57,164,043	\$ 71,212,653	\$ 14,048,610	25%

Governmental Activities

In fiscal year 2015-16, instruction and related pupil services comprised 38% of the County Office's expenditures; pass through to other agencies comprised 49%; general administration, plant services, facilities acquisition and construction, and interest on long-term debt made up the remaining 13%.

The Statement of Activities shows the cost of program services and the grants and charges to school districts offsetting those services. Table 3 shows the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by unrestricted State entitlements, tax revenue, and other unrestricted local revenue.

COUNTY OF SAN MATEO – SUPERINTENDENT OF SCHOOLS
COUNTY SCHOOLS SERVICE FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

Table 3 shows a summary of the net cost of services for fiscal year 2014-15 and 2015-16.

Table 3 - Net Cost of Services

	2015	2016	Change	Percentage Change
Instruction	\$ 18,096,318	\$ 16,123,682	\$ (1,972,636)	-11%
Instruction-related services	9,093,089	8,457,821	(635,268)	-7%
Pupil services	4,794,956	4,626,402	(168,554)	-4%
General administration	13,321,663	14,608,384	1,286,721	10%
Plant services	1,839,754	2,358,025	518,271	28%
Passed through to other agencies	44,293,630	42,125,413	(2,168,217)	-5%
Interest and Fiscal Charges	523,460	504,977	(18,483)	-4%
Total Expenses	\$ 91,962,870	\$ 88,804,704	\$ (3,158,166)	-3%

Instruction expenditures include activities directly dealing with the teaching of pupils and the interaction between teacher and pupil.

Instruction-related services include administrative, technical, and logistical support to facilitate and enhance instructional activities.

Pupil services include guidance and counseling, psychological services, attendance and social work services, health services, speech pathology and audiology services, home to school transportation and food services activities.

General administration services include agency-wide administrative activities that are accounted in the general fund such as governing board and superintendent services, business support services, and centralized data processing.

Plant services include activities concerned with the keeping of the physical plant open, comfortable, and safe for use and keeping the grounds, buildings, and equipment in working condition and a satisfactory state of repair.

Facilities acquisition and construction include activities concerned with capital projects, such as the purchase of buildings and land, remodeling of buildings, and the improvement of sites.

Passed through to other agencies includes transfers of apportionments to school districts.

Interest and fiscal charges involve the transactions associated with the payment of interest and other related charges to debt of the County Office. The total remaining debt service interest liability is included.

COUNTY OF SAN MATEO – SUPERINTENDENT OF SCHOOLS
COUNTY SCHOOLS SERVICE FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

The County Office's Funds

The County Office's governmental funds report a combined fund balance of \$115,707,807, which is \$13,181,536 or 13% more than last year's total of \$102,526,271. Table 4 provides an analysis of the fund balances and the total change in fund balances from the prior year.

Table 4 - Summary of Fund Balances

	2015	2016	Change	Percentage Change
General Fund	\$ 75,798,373	\$ 86,413,607	\$ 10,615,234	14.00%
Child Development Fund	5,119	15,687	10,568	206.45%
Foundation Fund	242,837	242,388	(449)	-0.18%
Deferred Maintenance Fund	2,642,123	3,364,437	722,314	27.34%
Special Reserve Fund for Capital Projects	22,707,776	24,532,546	1,824,770	8.04%
County School Facilities Fund	1,130,043	1,139,142	9,099	0.81%
Total Fund Balances	\$ 102,526,271	\$ 115,707,807	\$ 13,181,536	12.86%

The increase in the Special Reserve Fund for Capital Projects is due to RDA dissolutions.

The change in General Fund, Child Development Fund, Foundation Fund, Deferred Maintenance Fund, and County School Facilities Fund are due to routine financial activities.

General Fund Budgeting Highlights

The County Office's budget is prepared according to California law, and the modified accrual basis of accounting.

During the course of the 2015-16 fiscal year, the County Office amended its General Fund budget three times. The County Office uses program budgeting and the budgeting process is designed to tightly control total program budgets, yet provide flexibility for program management. Prior to year-end, the County Office revised appropriations as needed to match expenditures plus encumbrances.

The County Office of Education is considered an "Excess Tax" County. This means the County Office received property taxes in excess of the Revenue Limit allowed. Per Education Code 2558(e), once the County Office has funded all allowable programs, the excess property taxes cannot be spent and are held and used as property taxes in the subsequent year. Beginning 2014-15 Education Code 2578, under LCFF, the Excess Tax will be placed into a Supplemental Revenue Augmentation Fund for the purposes of offsetting trial court costs within San Mateo County. SMCOE continues each year to receive property taxes in excess of the allowable LCFF. For 2015-16 the amount is \$14,541,499.

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MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

Capital Assets

At the end of the fiscal year 2015-16, the County Office had \$16,083,665 invested in land, buildings, vehicles, and other equipment net of depreciation.

Table 5 shows fiscal year 2015-16 balances compared to 2014-15.

Table 5 - Summary of Capital Assets Net of Depreciation

	2015	2016	Change	Percentage Change
Land	\$ 985,019	\$ 985,019	\$ -	0%
Buildings and Improvements	14,488,644	13,661,501	(827,143)	-6%
Furniture and Equipment	793,758	600,717	(193,041)	-24%
Construction in progress	250,601	836,428	585,827	234%
Total Capital Assets - Net	\$ 16,518,022	\$ 16,083,665	\$ (434,357)	-3%

Overall capital assets decreased by \$434,357 from fiscal year 2014-15 to fiscal year 2015-16. Decreases were due to depreciation. Increase in construction in progress was mainly due to the fire alarm projects.

Long Term Debt

At June 30, 2016, the County Office's most significant outstanding long-term debt was a \$9,890,000 balance remaining for the refinancing of Certificates of Participation (COPs) used to fund the purchase of the administration building in 1991; and the purchase/modernization of the COE facility on Rollins Road in Burlingame. The Certificates of Participation (COP) were refinanced from a variable rate to a fix rate during the 2008-09 fiscal year.

Table 6 - Summary of Long-Term Debt

	2015	2016	Change	Percentage Change
Certificates of participation	\$ 10,430,000	\$ 9,890,000	\$ (540,000)	-5%
Compensated absences	837,892	865,698	27,806	3%
Total Long-Term Debt	\$ 11,267,892	\$ 10,755,698	\$ (512,194)	-5%

COUNTY OF SAN MATEO – SUPERINTENDENT OF SCHOOLS
COUNTY SCHOOLS SERVICE FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

Factors Bearing on the County Office's Future

The San Mateo County Office of Education (SMCOE) provides and/or coordinates significant educational programs from Special Education for students to Beginning Teacher Assessment for teacher improvement. SMCOE provide the leadership and services that contribute to all students' success while closing the gap of achievement.

SMCOE will continue to adjust its services based upon district needs, legislative mandates, leadership opportunities and available resources. To that end, the County Office is committed to openness and transparency with its clients and constituents. As issues arise or in anticipation of issues, the Office has established processes that invite participation by district, school and community representatives.

Beginning in 2013-14, a new funding model, known as the Local Control Funding Formula (LCFF), became law. The intent of the LCFF is to provide equitable revenues for all county offices. SMCOE is considered 'at Target' for LCFF funding. SMCOE, a high funded county office will experience "flat funding" for a significant amount of years.

SMCOE is already in process to develop long term plans on how it will meet the challenge of providing quality services to the districts within San Mateo County.

SMCOE will continue to provide special education services to districts, with the emphasis being on serving the low incidence disability groups and the most severely disabled students. The County Office will encourage and support districts to serve students close to home whenever possible, in the least restrictive environment.

California continues to fund education near the bottom of the national average. Education is challenged to provide high standard education at this minimum level funding. The San Mateo County Office of Education will continue to budget conservatively and evaluate its programs and services to maximize the benefit for the students of San Mateo County.

SMCOE will also continue to provide to districts services for students placed in our Court and Community Schools programs. These students are considered the most at risk students in the County.

Contacting the County Office's Financial Management

This financial report is designed to provide our citizens, taxpayers, parents, investors, and creditors with a general overview of the County Office's finances and to show the County Office's accountability for the money it receives. If you have questions regarding this report or need additional financial information, please contact Ms. Margie Gustafson, Administrator Internal Business Services, Fiscal and Operational Services at the San Mateo County Office of Education, 101 Twin Dolphin Drive, Redwood City, CA 94065-1064, 650-802-5602, mgustafson@smcoe.org.

BASIC FINANCIAL STATEMENTS

COUNTY OF SAN MATEO - SUPERINTENDENT OF SCHOOLS
COUNTY SCHOOL SERVICE FUND

STATEMENT OF NET POSITION
JUNE 30, 2016

	Governmental Activities
Assets	
Cash and investments	\$ 124,694,785
Cash and investments - restricted	1,046,891
Accounts receivable	28,941,483
Stores inventories	10,490
Prepaid expenses	43,189
Capital assets (net)	16,083,665
Total Assets	\$ 170,820,503
Deferred Outflow of Resources	\$ 10,881,457
Liabilities	
Accounts payable	\$ 35,565,770
Other liabilities	3,463,261
Accrued interest	40,358
Long-term debts:	
Due within one year	560,000
Due after one year	10,195,698
Post employment benefit	4,523,390
Net pension liabilities	48,294,128
Total Liabilities	\$ 102,642,605
Deferred Inflow of Resources	\$ 7,846,702
Net Position	
Invested in capital assets, net of related debt	\$ 16,083,665
Restricted for:	
Educational programs	8,601,341
Capital project	5,653,557
Debt service	1,046,891
Child development	15,687
Clean energy	50,637
Excess Property Taxes, EC Sec 2558(e)	28,674,286
Unrestricted	11,086,589
Total Net Position	\$ 71,212,653

The notes to the financial statements are an integral part of this statement

COUNTY OF SAN MATEO - SUPERINTENDENT OF SCHOOLS
COUNTY SCHOOL SERVICE FUND

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

		Program Revenues			Net (Expense)
			Operating	Capital	Revenue and
	Expenses	Charges for	Grants and	Grants and	Changes in
		Services	Contributions	Contributions	Net Position
Governmental activities					
Instruction	\$ 32,318,113	\$ 4,215,630	\$ 11,969,702	\$ 9,099	\$ (16,123,682)
Instruction-related services:					
Supervision of instruction	15,413,100	1,049,901	7,959,572	-	(6,403,627)
Instruction library, media and technology	126,781	-	-	-	(126,781)
School site administration	2,614,394	493,252	193,729	-	(1,927,413)
Pupil services:					
Home-to-school transportation	4,915,562	191,589	803,656	-	(3,920,317)
Food services	43,831	2,774	157	-	(40,900)
All other pupil services	1,456,459	285,209	506,065	-	(665,185)
General administration:					
Data processing	5,479,562	-	-	-	(5,479,562)
All other general administration	10,379,963	547,670	703,471	-	(9,128,822)
Plant services	2,532,091	152,309	21,757	-	(2,358,025)
Passed through to other agencies	72,749,285	12,992,682	17,631,190	-	(42,125,413)
Indirect interest on long-term debt	504,977	-	-	-	(504,977)
Total governmental activities	\$ 148,534,118	\$ 19,931,016	\$ 39,789,299	\$ 9,099	(88,804,704)
General revenues					
Taxes and subventions:					
Taxes levied for general purposes					84,434,923
Taxes levied for other specific purposes					1,932,736
Federal and state aid not restricted to specific purposes					8,106,349
Interest and investment earnings					843,022
Miscellaneous					7,536,284
Total general revenues					102,853,314
Change in net position					14,048,610
Net position - beginning					57,164,043
Net position ending					\$ 71,212,653

The notes to the financial statements are an integral part of this statement

COUNTY OF SAN MATEO - SUPERINTENDENT OF SCHOOLS
COUNTY SCHOOL SERVICE FUND

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2016

	General Fund	Special Education Pass-Through Fund	Special Reserve Fund for Capital Outlay Projects	Other Nonmajor Governmental Funds	Total Governmental Funds
Assets:					
Cash and investments	\$ 89,322,123	\$ 3,890,000	\$ 25,693,873	\$ 5,788,789	\$ 124,694,785
Cash and investments - restricted	-	-	1,046,891	-	1,046,891
Accounts receivable	9,604,731	17,325,313	54,440	1,956,999	28,941,483
Due from other funds	6,400,646	-	-	30	6,400,676
Stores inventories	10,490	-	-	-	10,490
Prepaid expenditures	43,189	-	-	-	43,189
Total Assets	\$ 105,381,179	\$ 21,215,313	\$ 26,795,204	\$ 7,745,818	\$ 161,137,514
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	\$ 17,034,751	\$ 17,325,313	\$ -	\$ 1,205,706	\$ 35,565,770
Due to other funds	30	3,890,000	2,262,658	247,988	6,400,676
Other liabilities	1,932,791	-	-	1,530,470	3,463,261
Total Liabilities	18,967,572	21,215,313	2,262,658	2,984,164	45,429,707
Fund Balances:					
Nonspendable:					
Revolving fund	3,275	-	-	-	3,275
Stores inventories	10,490	-	-	-	10,490
Prepaid expenditures	43,189	-	-	-	43,189
Restricted for:					
Educational programs	8,601,341	-	-	-	8,601,341
Capital projects	-	-	4,514,415	1,139,142	5,653,557
Debt service	-	-	1,046,891	-	1,046,891
Child development	-	-	-	15,687	15,687
Clean energy	50,637	-	-	-	50,637
Excess Property Taxes, EC Sec 2558(e)	28,674,286	-	-	-	28,674,286
Committed for:					
Deferred maintenance	-	-	-	3,364,437	3,364,437
Debt service	6,902,727	-	-	-	6,902,727
Assigned for:					
Capital projects	27,626,880	-	18,971,240	-	46,598,120
Postemployment benefits	9,453,638	-	-	-	9,453,638
Educational programs	-	-	-	242,388	242,388
Unassigned					
Economic uncertainties	3,835,305	-	-	-	3,835,305
Unappropriated	1,211,839	-	-	-	1,211,839
Total Fund Balances	86,413,607	-	24,532,546	4,761,654	115,707,807
Total Liabilities and Fund Balances	\$ 105,381,179	\$ 21,215,313	\$ 26,795,204	\$ 7,745,818	\$ 161,137,514

The notes to the financial statements are an integral part of this statement

COUNTY OF SAN MATEO - SUPERINTENDENT OF SCHOOLS
COUNTY SCHOOL SERVICE FUND

RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET POSITION
JUNE 30, 2016

Total fund balances - Governmental funds	\$ 115,707,807
Amounts reported for governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of the assets is \$28,615,398 and the accumulated depreciation is \$12,531,733	16,083,665
Interest payable on long-term debt does not require the use of current financial resources and, therefore, are not reported in the governmental funds.	(40,358)
Deferred outflows of resources and deferred inflows of resources are not reported in governmental funds	
Deferred outflows of resources	10,881,457
Deferred inflows of resources	(7,846,702)
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 year-end consists of the following:	
Other postemployment benefits	(4,523,390)
Compensated absences	(865,698)
Net pension liabilities	(48,294,128)
Certificates of participation	<u>(9,890,000)</u>
	<u>\$ 71,212,653</u>

The notes to the financial statements are an integral part of this statement

COUNTY OF SAN MATEO - SUPERINTENDENT OF SCHOOLS
COUNTY SCHOOL SERVICE FUND

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	General Fund	Special Education Pass-Through Fund	Special Reserve Fund for Capital Outlay Projects	Other Nonmajor Governmental Funds	Total Governmental Funds
Revenues:					
Local Control Funding Formula	\$ 42,925,212	\$ -	\$ -	\$ 700,000	\$ 43,625,212
Federal	1,811,640	16,895,876	-	295,745	19,003,261
Other state	10,661,400	-	-	5,350,960	16,012,360
Other local	31,989,789	46,915,072	2,117,812	2,919,222	83,941,895
Total revenues	87,388,041	63,810,948	2,117,812	9,265,927	162,582,728
Expenditures:					
Instruction	28,707,015	-	-	3,955,859	32,662,874
Instruction-related services:					
Supervision of instruction	11,242,994	-	-	4,393,909	15,636,903
Instruction library, media and technology	126,487	-	-	-	126,487
School site administration	2,665,375	-	-	-	2,665,375
Pupil services:					
Home-to-school transportation	4,905,779	-	-	-	4,905,779
Food services	43,831	-	-	-	43,831
All other pupil services	1,527,096	-	-	-	1,527,096
General administration:					
Data processing	5,366,690	-	-	-	5,366,690
All other general administration	10,170,457	-	-	174,627	10,345,084
Plant services	1,739,185	-	-	-	1,739,185
Facilities acquisition and construction	585,827	-	-	-	585,827
Passed through to other agencies	8,938,337	63,810,948	-	-	72,749,285
Debt service:					
Principal	351,000	-	189,000	-	540,000
Interest and fees	328,829	-	177,947	-	506,776
Total expenditures	76,698,902	63,810,948	366,947	8,524,395	149,401,192
Excess (deficiency) of revenues over (under) expenditures	10,689,139	-	1,750,865	741,532	13,181,536
Other financing sources (uses):					
Transfers in	-	-	73,905	-	73,905
Transfers out	(73,905)	-	-	-	(73,905)
Total other financing sources (uses)	(73,905)	-	73,905	-	-
Net change in fund balance	10,615,234	-	1,824,770	741,532	13,181,536
Fund balances - beginning	75,798,373	-	22,707,776	4,020,122	102,526,271
Fund balances - ending	\$ 86,413,607	\$ -	\$ 24,532,546	\$ 4,761,654	\$ 115,707,807

The notes to the financial statements are an integral part of this statement

COUNTY OF SAN MATEO - SUPERINTENDENT OF SCHOOLS
COUNTY SCHOOL SERVICE FUND

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

Total net change in fund balances - governmental funds \$ 13,181,536

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which additions to capital assets of \$585,827 is less than depreciation expense of \$1,020,184 in the period. (434,357)

The governmental funds report debt proceeds as an other financing source, while repayment of debt principal is reported as an expenditure.

Repayment of debt principle is added back to fund balance 540,000

The amounts below included in the Statement of activities do not provide (or require the use of) current financial resources and therefore are not reported as revenue or expenditures in governmental funds (net change):

Pension expenses	1,387,196
Other postemployment benefits	(599,758)
Compensated absences	(27,806)
Interest payable	<u>1,799</u>

Changes in net position of governmental activities \$ 14,048,610

The notes to the financial statements are an integral part of this statement

COUNTY OF SAN MATEO - SUPERINTENDENT OF SCHOOLS
COUNTY SCHOOL SERVICE FUND

NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

Accounting Policies

The County of San Mateo Superintendent of Schools County Office of Education (the "County Office") accounts for its financial transactions in accordance with the policies and procedures of the Department of Education's *California School Accounting Manual*. The accounting policies of the County Office conform to generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board and the American Institute of Certified Public Accountants.

Reporting Entity

The County Office is the level of government primarily accountable for activities related to public education. The governing authority consists of seven elected officials who, together, constitute the Board of Trustees. The County Office's combined financial statements include the accounts of all its operations. The County Office evaluated whether any other entity should be included in these financial statements. The basic, but not the only, criterion for including a governmental department, agency, institution, commission, public authority, or other governmental organization in a governmental unit's reporting entity for general purpose financial reports is the ability of the governmental unit's elected officials to exercise oversight responsibility over such agencies. Oversight responsibility implies that one governmental unit is dependent on another and that the dependent unit should be reported as part of the other. Oversight responsibility is derived from the governmental unit's power and includes, but is not limited to:

- Financial interdependency
- Selection of governing authority
- Designation of management
- Ability to significantly influence operations
- Accountability for fiscal matters

Accordingly, for the fiscal year ended June 30, 2016, the County Office does not have any component units and is not a component unit of any other reporting entity.

Basis of Presentation

Government-wide Financial Statements:

The government-wide financial statements (i.e., the statement of net position and the statement of changes in net position) report information on all of the non-fiduciary activities of the County Office. Eliminations have been made to minimize the effect of interfund activities.

COUNTY OF SAN MATEO - SUPERINTENDENT OF SCHOOLS
COUNTY SCHOOL SERVICE FUND

NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund and fiduciary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements, therefore, include reconciliation with brief explanations to better identify the relationship between the government wide statements and the statements for the governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the County Office's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. The County Office does not allocate indirect expenses to functions in the statement of activities. Program revenues include charges paid by the recipients of goods or services offered by a program, as well as grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the County Office, with certain exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the County Office.

Fund Financial Statements:

Fund financial statements report detailed information about the County Office. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major governmental fund is presented in a separate column, and all nonmajor funds are aggregated into one column. Fiduciary funds are reported by fund type.

The accounting and financial treatment applied to a fund are determined by its measurement focus. All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. The Statement of Revenues, Expenditures, and Changes in Fund Balances for these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

Fiduciary funds are reported using the economic resources measurement focus.

Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Fiduciary funds use the accrual basis of accounting.

COUNTY OF SAN MATEO - SUPERINTENDENT OF SCHOOLS
COUNTY SCHOOL SERVICE FUND

NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

Revenues - Exchange and Non-exchange Transactions:

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded under the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. "Available" means the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the County Office, "available" means collectible within the current period or within 60 days after year-end.

Non-exchange transactions, in which the County Office receives value without directly giving equal value in return, include property taxes, grants, and entitlements. Under the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and entitlements is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are to be used or the fiscal year when use is first permitted; matching requirements, in which the County Office must provide local resources to be used for a specific purpose; and expenditure requirements, in which the resources are provided to the County Office on a reimbursement basis. Under the modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Unearned Revenue:

Unearned revenue arises when assets are received before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements are met are recorded as unearned revenue. On governmental fund financial statements, receivables associated with non-exchange transactions that will not be collected within the availability period have also been recorded as unearned revenue.

Expenses/Expenditures:

On the accrual basis of accounting, expenses are recognized at the time a liability is incurred. On the modified accrual basis of accounting, expenditures are generally recognized in the accounting period in which the related fund liability is incurred, as under the accrual basis of accounting. However, under the modified accrual basis of accounting, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments are recorded only when payment is due. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds. When both restricted and unrestricted resources are available for use, it is the County Office's policy to use restricted resources first, than unrestricted resources as they are needed.

Fund Accounting

COUNTY OF SAN MATEO - SUPERINTENDENT OF SCHOOLS
COUNTY SCHOOL SERVICE FUND

NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

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 or retained earnings, revenues, and expenditures or expenses, as appropriate. 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. The County Office's accounts are organized into major, nonmajor, and fiduciary funds as follows:

Major Governmental Funds:

The *General Fund* is the general operating fund of the County Office. It is used to account for all financial resources except those required to be accounted for in another fund.

The *Special Education Pass-Through Fund* is used for SELPA Administrative Unit that receive special education pass-through revenues and that have administrative involvement in allocating and distribution those revenues to other member LEAs.

The *Special Reserve Fund for Capital Outlay Projects* is used to account for general fund monies and proceeds from certificates of participation to be used for capital outlay.

Non-major Governmental Funds:

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted or committed for purposes other than debt service or capital projects. The restricted or committed resources need to comprise a substantial portion of the inflows reported in the special revenue fund. The County Office maintains three non-major special revenue funds:

- The *Child Development Fund* is used to account separately for federal, state and local revenue to operate child development programs.
- The *Foundation Fund* is used to account for donations, gifts and bequest that may be used for purposes that support the programs of the COE.

Capital Projects Funds are used to account for resources restricted, committed or assigned for capital outlays. The County Office maintains a non-major capital projects fund:

- The *County School Facilities Fund* is used to account for the acquisition and construction of major governmental fixed assets.

Fiduciary Funds:

Agency Funds are used to account for assets of others for which the County Office acts as an agent.

COUNTY OF SAN MATEO - SUPERINTENDENT OF SCHOOLS
COUNTY SCHOOL SERVICE FUND

NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

Budgets and Budgetary Accounting

By State law and County Board of Education Election, the County Governing Board must adopt a budget no later than July 1. A public hearing must be conducted to receive comments prior to adoption. The San Mateo County Office of Education's Governing Board satisfied these requirements.

These budgets have been revised by the County Office of Education's Governing Board and County Superintendent during the year to give consideration to unanticipated income and expenditures. It is this final revised budget that is presented in the financial statements.

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

During the year ended June 30, 2016, the County Office has an excess of outlays over final appropriations of \$2,762,720 in its General Fund. The negative variance is mainly due to the repayment of prior year excess property tax in the amount of \$7,562,452 which was paid out of restricted fund balances.

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 payroll, 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.

Cash and Investments

In accordance with *Education Code* Section 41001, the County Schools Service Fund maintains substantially all of its cash in the San Mateo County Treasury. The County Treasury pools these funds with those of other governments in San Mateo County and invests the cash. These pooled funds are carried at cost, which approximates market value. Interest earned is deposited quarterly into participating funds. Any investment losses are proportionately shared by all funds in the pool.

The County Treasury is authorized to deposit cash and invest excess funds by California *Government Code* Section 53648 et seq. The funds maintained by the county are either secured by federal depository insurance or are collateralized.

COUNTY OF SAN MATEO - SUPERINTENDENT OF SCHOOLS
COUNTY SCHOOL SERVICE FUND

NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

Stores Inventories and Prepaid Expenditures

Inventories are recorded using the purchases method, in that inventory acquisitions are initially recorded as expenditures. Reported inventories are equally offset by a fund balance reserve, which indicates that these amounts are not “available for appropriation and expenditure” even though they are a component of net current assets.

Inventories are valued at the lower of cost (first-in, first-out) or market. Inventory in the General consist of expendable supplies held for consumption.

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

Capital Assets

Capital assets are those purchased or acquired with an original cost of \$5,000 or more and are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend the assets’ lives are not capitalized, but are expensed as incurred. Depreciation on all capital assets is computed using a straight-line basis over the following estimated useful lives:

Asset Class	Examples	Estimated Useful Life in Years
Land		NA
Land improvements	Paving, flagpoles, retaining walls	10 to 20
Building and structures		25 to 50
Equipment	Copiers, mixers, steamers, ovens, school buses, forklifts, lawn tractors	6 to 10
Intangible	Software	5 to 10

Compensated Absences

All vacation pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

Accumulated sick leave benefits are not recognized as liabilities of the County Office. The County Office’s policy is to record sick leave as an operating expense in the period taken, since such

COUNTY OF SAN MATEO - SUPERINTENDENT OF SCHOOLS
COUNTY SCHOOL SERVICE FUND

NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

benefits do not vest, nor is payment probable; however, unused sick leave is added to the creditable service period for calculation of retirement benefits when the employee retires.

The General Fund is primarily responsible for the repayment of the compensated absences.

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective-interest method. Bonds payable are reported net of applicable bond premium or discount. Bond issuance costs are written off as expenditures in the year the bond is issued.

In the fund financial statements, governmental funds recognize bond premiums and discounts as well as bond issuance costs, during the current period. The face amount of the debt issued, premiums, or discounts are reported as other financing sources/uses.

Pensions

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

Fund Balance Classifications

The County Office maintains a minimum unassigned fund balance of not less than two percent of budgeted general fund expenditures and other financing uses as a reserve for economic uncertainties. The County Office believes a reserve of this level is prudent to maintain a high bond rating and to protect the County Office from the effects of fluctuations in property tax revenues to which local governments are vulnerable. Because amounts in the nonspendable, restricted, committed, and assigned categories are subject to varying constraints on their use, the reserve for economic uncertainties consists of balances that are otherwise unassigned.

In accordance with Government Accounting Standards Board 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, the County Office classifies governmental fund balances as follows:

- Non-spendable includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.

COUNTY OF SAN MATEO - SUPERINTENDENT OF SCHOOLS
COUNTY SCHOOL SERVICE FUND

NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

- Restricted includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.
- Committed includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end. Committed fund balances are imposed by the County Office's board of education.
- Assigned includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund balance may be assigned by the Superintendent, Deputy Superintendent, and Associate Superintendent of Fiscal Services.
- Unassigned includes positive fund balance within the general fund which has not been classified within the above mentioned categories and negative fund balances in other governmental funds.

The County Office uses restricted/committed amounts to be spent first when both restricted and unrestricted fund balances are available unless there are legal documents/contracts that prohibit doing this, such as a grant agreement requiring dollar for dollar spending. Additionally, the County Office would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

Net Position

Net position represents the difference between assets and liabilities. Net position invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the County Office or through external restrictions imposed by creditors, grantors, laws or regulations of other governments. The County Office applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

Capital Projects restrictions will be used for the acquisition and construction of capital facilities.

Educational program restrictions reflect the amounts to be expended for federal and state funded educational programs.

Unrestricted net position reflects net position that is not subject to any donor-imposed restrictions. This class also includes restricted gifts whose donor-imposed restrictions were met during the fiscal year.

COUNTY OF SAN MATEO - SUPERINTENDENT OF SCHOOLS
COUNTY SCHOOL SERVICE FUND

NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

Property Taxes

Secured property taxes attach as an enforceable lien on property as of January 1. Taxes are payable in two installments on December 15 and April 15. Unsecured property taxes are payable in one installment on or before October 31. The County of San Mateo bills and collects the taxes for the County Office. Tax revenues are recognized by the County Office when received.

Risk Management

The County Office is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The County Office has formed San Mateo County Schools Insurance Group (SMCSIG), a public entity risk pool currently operating as a common risk management and insurance program. The County Office pays premiums to SMCSIG for its property, casualty, workers' compensation, dental, and liability insurance. The joint power agreement of SMCSIG provides that SMCSIG will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of self-insured levels.

Accounting Estimates

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

Implemented New Accounting Pronouncements and Change in Accounting Principle

In February 2015, the GASB issued Statement No. 72, *Fair Value Measurement and Application*, which is effective for financial statements for periods beginning after June 15, 2015. This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The implementation of this Statement does not have major impact to the County Office's financial statements.

Upcoming Accounting and Reporting Changes

The County Office is currently analyzing its accounting practices to determine the potential impact on the financial statements for the following GASB Statements:

COUNTY OF SAN MATEO - SUPERINTENDENT OF SCHOOLS
COUNTY SCHOOL SERVICE FUND

NOTES TO THE BASIC FINANCIAL STATEMENTS
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In June 2015, the GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, which is effective for financial statements for periods beginning after June 15, 2016. The objective of this Statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency.

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which is effective for financial statements for periods beginning after June 15, 2017. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, as amended*, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, establishes new accounting and financial reporting requirements for OPEB plans.

In December 2015, the GASB issued Statement No. 79, *Certain External Investment Pools and Pool Participants*, which is effective for financial statements for periods beginning after December 15, 2015. This Statement addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. If an external investment pool meets the criteria in this Statement and measures all of its investments at amortized cost, the pool's participants also should measure their investments in that external investment pool at amortized cost for financial reporting purposes. If an external investment pool does not meet the criteria in this Statement, the pool's participants should measure their investments in that pool at fair value, as provided in paragraph 11 of Statement 31, as amended.

In March 2016, the GASB issued Statement No. 82, *Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73*, which is effective for financial statements for periods beginning after June 15, 2016. This Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions

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and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

NOTE 2 - CASH AND INVESTMENTS

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

Deposit or Investment	Available for Operations	Committed	Restricted	Total
Cash deposit with banks	\$ 3,275	\$ -	\$ -	\$ 3,275
Investment in:				
Money market funds	-	6,902,727	1,046,891	7,949,618
County treasury investment pool	117,788,783	-	-	117,788,783
Total Cash and Investments	<u>\$ 117,792,058</u>	<u>\$ 6,902,727</u>	<u>\$ 1,046,891</u>	<u>\$ 125,741,676</u>

Cash deposit with banks

Cash balances in banks are insured up to \$250,000 by the Federal Deposit Insurance Corporation ("FDIC"). These accounts are held within various financial institutions. As of June 30, 2016, the bank balance of the County Office's accounts with banks was \$3,275, which was fully insured by FDIC.

Investment in County Treasury

The County Office is considered to be an involuntary participant in an external investment pool as the County Office is required to deposit all receipts and collections of monies with their County Treasurer (Education Code Section 41001). The fair value of the County Office's investment in the pool is reported in the financial statements at amounts based upon the County Office's pro rata share of the fair value provided by the County Treasurer for the entire portfolio (in relation to the amortized cost of 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. As of June 30, 2016, the fair market value approximates amortized cost.

Investment in Money market funds

Cash and investments with fiscal agent are either committed or required to be held by outside fiscal agents under the provisions of various debt issues or other internally imposed restrictions. These cash and investments are used for debt service or sinking fund purposes. See Note 8.

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Policies and Practices

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

Limitations as they relate to interest rate risk, credit risk, and concentration of credit risk are described below:

1. Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The County Office manages its exposure to interest rate risk by investing in the County Treasury. As of June 30, 2016, the County Office maintains an investment with the San Mateo County Investment Pool, which has a fair market value of approximately \$4.532 billion and an amortized book value of approximately \$4.513 billion. The average weighted maturity for this pool is 1.06 years.

2. Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The investments' rating in the Money Market Funds and the San Mateo County Investment Pool, if available, were A or better by S&P Rating.

3. Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the County Office's deposits may not be returned to it. The County Office does not have a policy for custodial credit risk for deposits. However, the California Government code requires that a financial institution secure deposits made by State or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under State law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured

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deposits. As of June 30, 2016, none of the County Office's bank balance was exposed to custodial credit risk because it was fully insured.

Concentration of Credit Risk

The investment policy of the County Office contains no limitations on the amount that can be invested in any one issuer beyond the amount stipulated by the California Government code.

NOTE 4 - RECEIVABLES

Receivables consisted of the following as of June 30, 2016:

	General Fund	Special Education Pass-Through Fund	Special Reserve Fund for Capital Outlay Projects	Nonmajor Governmental Funds	Total
Federal Government:					
Special Education	\$ 1,159,712	\$ 17,325,313	\$ -	\$ -	\$ 18,485,025
Child Development	-	-	-	217,213	217,213
Other Federal	504,175	-	-	-	504,175
State Government:					
Special Education	2,656,299	-	-	-	2,656,299
Child Development	-	-	-	779,531	779,531
Other State	267,557	-	-	2,519	270,076
Other Resources	4,375,715	-	54,440	7,906	4,438,061
Local Resources Restricted	641,273	-	-	949,830	1,591,103
Total Accounts Receivable	\$ 9,604,731	\$ 17,325,313	\$ 54,440	\$ 1,956,999	\$ 28,941,483

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NOTE 5 - INTERFUND TRANSACTIONS

Interfund receivables and payables consisted of the following as of June 30, 2016:

Due to (Payable in)	Due from (Receivable in)		
	General Fund	Nonmajor Governmental Funds	Total Due To
General Fund	\$ -	\$ 30	\$ 30
Special Education Pass-Through Fund	3,890,000	-	3,890,000
Special Reserve Fund for Capital Outlay Projects	2,262,658	-	2,262,658
Nonmajor Governmental Funds	247,988	-	247,988
Total Due From	<u>\$ 6,400,646</u>	<u>\$ 30</u>	<u>\$ 6,400,676</u>

The purposes of significant interfund balances are as follow:

Due from (Receivable in)	Due to (Payable in)	Amount	Purpose
General Fund	Special Education Pass-Through Fund	\$ 3,890,000	Return excess FY 14-15 SELPA from Special Education Fund back to General Fund
General Fund	Special Reserve Fund for Capital Outlay Projects	\$ 2,262,658	General Fund Revenue was recorded in the Special Reserve Fund in error

Interfund transfers consist of operating transfers from funds receiving revenue to funds through which the resources are to be expended. Interfund transfers from General Fund to Special Reserve Fund for Capital Outlay Projects amounted to \$73,905 for the year ended June 30, 2016. The transfers were intended for future capital projects.

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NOTE 6 - CAPITAL ASSETS AND DEPRECIATION

Capital assets consisted of the following as of June 30, 2016:

Governmental Activities	Balance June 30, 2015	Additions	Transfers	Balance June 30, 2016
Capital assets:				
Land - non depreciable	\$ 985,019	\$ -	\$ -	\$ 985,019
Buildings and improvements	21,416,831	-	-	21,416,831
Equipment and vehicles	5,377,120	-	-	5,377,120
Construction in progress	250,601	585,827	-	836,428
 Total capital assets	 28,029,571	 585,827	 -	 28,615,398
Less accumulated depreciation for:				
Buildings and improvements	6,928,187	827,143	-	7,755,330
Equipment and vehicles	4,583,362	193,041	-	4,776,403
 Total accumulated depreciation	 11,511,549	 1,020,184	 -	 12,531,733
 Capital assets - net	 <u>\$ 16,518,022</u>	 <u>\$ (434,357)</u>	 <u>\$ -</u>	 <u>\$ 16,083,665</u>

Depreciation expense was charged to governmental activities as follows:

Instruction	\$ 27,545
Instruction library, media and technology	294
Data processings	75,218
All other general administration	134,600
Plant services	782,527
 Total depreciation expense	 <u>\$ 1,020,184</u>

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NOTE 7 - SCHEDULE OF CHANGES IN LONG-TERM DEBT

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

	Balance June 30, 2015	Additions	Reduction	Balance June 30, 2016	Due within one year
Certificates of participation	\$ 10,430,000	\$ -	\$ (540,000)	\$ 9,890,000	\$ 560,000
Compensated absences	837,892	27,806	-	865,698	-
	<u>\$ 11,267,892</u>	<u>\$ 27,806</u>	<u>\$ (540,000)</u>	<u>\$ 10,755,698</u>	<u>\$ 560,000</u>

NOTE 8 - CERTIFICATES OF PARTICIPATION

In June of 2009, the County Office issued \$13,350,000 in 2009 Refunding Certificates of Participation (2009 COP) with interest rate from 1.25% to 5.25%. The 2009 COP was issued to advance refund \$9,020,000 of outstanding Series A Certificates of Participation (Series A COP) with an average interest rate of 5% and \$4,325,000 of outstanding Series B Certificates of Participation (Series B COP) with an average interest rate of 6%. The net proceeds of \$13,478,647 (after payment of \$332,719 in underwriting fees, insurance, and other issuance costs) plus an additional \$1,159,424 of Series A COP and Series B COP reserve fund monies were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the Series A COP and Series B COP. As a result, the Series A COP and Series B COP are considered to be defeased and the liabilities for the Series A COP and Series B COP have been removed from the government-wide statement of net position.

In April 2014, the County Office determined it is best to retire the 2009 COPS as soon as possible to save on interest payments. The Office sets aside \$2,300,000 annually until 2019 with such funds to be placed in a sinking fund with fiscal agent and to be used to repay the balance owed on the 2009 COPS in 2019. As of June 30, 2016, the sinking fund has a balance of \$6,902,727 which is classified as committed fund balances.

Total interest expenditures incurred during the year ended June 30, 2016 were \$505,889.

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The certificates mature through 2035 as follows:

<u>Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 560,000	484,291	\$ 1,044,291
2018	585,000	461,891	1,046,891
2019	605,000	438,491	1,043,491
2020	635,000	411,266	1,046,266
2021	665,000	379,516	1,044,516
2022-2026	1,930,000	1,556,734	3,486,734
2027-2031	2,450,000	1,036,850	3,486,850
2032-2035	2,460,000	330,751	2,790,751
Total Debt Service	<u>\$ 9,890,000</u>	<u>\$ 5,099,790</u>	<u>\$ 14,989,790</u>

NOTE 9 - OPERATING LEASES

The County Office leases numerous locations throughout San Mateo County with lease terms in excess of one year. None of these agreements contain purchase options. All the agreements contain a termination clause providing for cancellation after a specified number of days written notice to lessors, but it is unlikely that the County Office will cancel any of the agreements prior to the expiration date. Minimum lease commitments on long-term agreements are summarized as follows:

<u>Fiscal Year Ending</u>	<u>Property Leases</u>	<u>Equipment Leases</u>	<u>Total</u>
2017	\$ 49,004	\$ 434,184	\$ 483,188
2018	50,489	434,184	484,673
2019	38,702	302,344	341,046
2020	-	58,701	58,701
Total Minimum Lease	<u>\$ 138,195</u>	<u>\$ 1,229,413</u>	<u>\$ 1,367,608</u>

NOTE 10 - CASH CLEARING ACCOUNTS

The County Office maintains several cash clearing accounts to facilitate handling of vendors' invoice warrants, payroll and employees' deductions for all the districts in the County Office.

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NOTE 11 - REVOLVING FUNDS

Commercial revolving fund invoice warrants are prepared as follows:

The school districts using the on-line accounts payable system prepare a voucher on their terminal. The County Office audits district entries using terminals in the County Office, and comparing district entries to copies of district entry documents. Using the terminal, the County Office signals the computer to print warrants for approved vouchers. Bank tapes and warrant registers are prepared at the same time. Warrants and registers are returned to the districts. Warrant registers, bank tapes and copies of entry documents are sent to the County Controller.

Payroll warrants are prepared at one source for all San Mateo County School employees. Payroll data is entered by each district using the on-line payroll system and warrants are issued by the processing center. District reimbursement, based on gross salary, is made by journal transfers into the payroll revolving fund. Transfers are made from the payroll revolving fund to the various employees' deduction trust accounts. Warrants are drawn to the employees for their net salaries then clear the payroll revolving fund.

NOTE 12 - JOINT POWERS AGREEMENT

The County Office participates in a Joint Powers Agreement (JPA) entity, the San Mateo County Schools Insurance Group. The insurance group arranges for and provides property, casualty, workers' compensation and liability insurance for its twenty-four (24) member school districts. The County Office pays a premium based on the level of coverage requested as well its own claims experience. For the year ended June 30, 2016, the premium paid by the County Office to the JPA amounted to \$2,158,538.

The JPA is governed by a board consisting of a representative from each member. The governing board controls the operations of the JPA independent of any influence by the County Office beyond the County Office's representation on the governing board.

The JPA is independently accountable for its fiscal matters. The insurance group maintains its own accounting records. Budgets are not subject to any approval other than that of the governing board. Member Counties share surpluses and deficits proportionately to their participation in the JPA.

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The relationship between the County Office and the JPA is such that the JPA is not a component unit of the County Office for financial reporting purposes. The following is a summary of the JPA's financial statement information as of June 30, 2016:

	<u>SMCSIG</u>
Total assets	\$ 22,030,490
Deferred Outflow of Resource	\$ 443,058
Total liabilities	\$ 10,785,422
Deferred Inflow of Resource	\$ 282,729
Net position	\$ 11,405,397
Total operating income	\$ 40,497,248
Total operating expenses	\$ 39,473,157

NOTE 13 - COMMITMENTS AND CONTINGENCIES

Litigation

The County Office is subject to various claims and possible litigation. However, management believes, based on consultation with legal counsel, any pending claims will not have a material adverse effect on the County Office's financial position or results of operations.

Federal and State Allowances, Awards and Grants

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

NOTE 14 - EMPLOYEE RETIREMENT SYSTEMS

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

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California Public Employees' Retirement System (CalPERS)

A. General Information about the Pension Plan

(1) Plan Description

The County Office contributes to CalPERS, a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. Benefit provisions under the Plans are established by State statute and County Office resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

(2) Benefit Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law. The Plan's provisions and benefits in effect at June 30, 2016, are summarized as follows:

Hire date	Prior to January 1, 2013	On or after January 1, 2013
Benefit formula	2% @ 55	2% @ 62
Benefit vesting schedule	5 Years	5 Years
Benefit payments	Monthly for Life	Monthly for Life
Earliest retirement age	50	52
Monthly benefits as a % of eligible compensation	1.10-2.50%	1.00-2.50%
Required employee contribution rates	7.00%	6.00%
Required employer contribution rates	11.847%	11.847%

(3) Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for both Plans are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially

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determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The County Office is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

For the year ended June 30, 2016, the employer contributions recognized as part of pension expense for the Plan was \$2,024,827. The employee contributions were \$1,186,445. \$318,726 out of the \$1,186,445 was paid and recognized as pension expense by the employer.

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

As of June 30, 2016, the County Office reported net pension liabilities for its proportionate shares of the net pension liability of \$25,568,834.

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

Proportion - June 30, 2014	0.1800%
Proportion - June 30, 2015	0.1735%
Change	-0.0065%

For the year ended June 30, 2016, the County Office recognized pension expense of \$2,226,494. At June 30, 2016, the County Office reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

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	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 2,343,555	\$ -
Changes in assumptions	-	1,370,283
Differences between expected and actual experiences	1,274,579	-
Change in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions	472,800	-
Net differences between projected and actual earnings on plan investments	<u>3,662,828</u>	<u>4,426,460</u>
	<u>\$ 7,753,762</u>	<u>\$ 5,796,743</u>

\$2,343,555 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Fiscal year Ended June 30	Recognized to Pension Expense
2016	\$ (471,551)
2017	(471,550)
2018	(468,250)
2019	<u>1,024,815</u>
	<u>\$ (386,536)</u>

Actuarial Assumptions

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

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Valuation Date	June 30, 2014
Measurement Date	June 30, 2015
Actuarial Cost Method	Entry-Age Normal
Actuarial Assumptions:	
Discount Rate	7.65%
Inflation	2.75%
Payroll Growth	(1)
Investment Rate of Return	7.50% (2)
Mortality	(3)

Note (1) Varies by entry age and service

Note (2) Net of pension plan investment and administrative expenses, including inflation

Note (3) Derived from using CalPERS' Membership Data for all Funds

The mortality assumptions and all other actuarial assumptions used in the June 30, 2014 CalPERS valuation were based on the results of a 2014 actuarial experience study for the period 1997 to 2011. Further details of the Experience Study can found on the CalPERS website.

Discount Rate

The discount rate used to measure the total pension liability for the CalPERS plan was 7.65 percent. A projection of expected benefit payments and contributions was performed to determine if the 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 CalPERS plan. The results of the crossover testing for the Plan are presented in a detailed report that can be obtained on CalPERS' website.

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, staff took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all of the funds' 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 for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return

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was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

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

Asset Class	New	Real Return	Real Return
	Strategic Allocation	Years 1 - 10 (1)	Years 11+ (2)
Global Equity	47.00%	5.25%	5.71%
Global Fixed Income	19.00%	0.99%	2.43%
Inflation Sensitive	6.00%	0.45%	3.36%
Private Equity	12.00%	6.83%	6.95%
Real Estate	11.00%	4.50%	5.13%
Infrastructure and Forestland	3.00%	4.50%	5.09%
Liquidity	2.00%	-0.55%	-1.05%
Total	100.00%		

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

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

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

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

1% Decrease	6.65%
Net Pension Liability	\$ 41,615,407
Current Discount Rate	7.65%
Net Pension Liability	\$ 25,568,834
1% Increase	8.65%
Net Pension Liability	\$ 12,225,036

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Pension Plan Fiduciary Net Position

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

State Teachers' Retirement System (STRS)

A. General Information about the Pension Plan

(1) Plan Description

The County Office contributes to the STRS, a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by STRS. The plan provides retirement, disability, and survivor benefits to beneficiaries. Benefit provisions are established by state statutes, as legislatively amended, within the State Teachers' Retirement Law.

STRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the STRS annual financial report may be obtained from the STRS, 7667 Folsom Boulevard, Sacramento, California 95826.

(2) Benefit Provided

Hire date	Prior to January 1, 2013	On or after January 1, 2013
Benefit formula	2% @ 60	2% @ 62
Benefit vesting schedule	5 Years	5 Years
Benefit payments	Monthly for Life	Monthly for Life
Earliest retirement age	50	55
Monthly benefits as a % of eligible compensation	2.00%	2.00%
Required employee contribution rates	9.20%	8.56%
Required employer contribution rates	10.73%	10.73%

(3) Contribution

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.

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 the next seven years. The new

COUNTY OF SAN MATEO - SUPERINTENDENT OF SCHOOLS
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NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

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.

State of California contributes 2.017 percent of the members' creditable earnings from the fiscal year ending in the prior calendar year. 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 2046-47.

For the year ended June 30, 2016, the employer contributions recognized as part of pension expense for the Plan was \$1,475,163. State of California's on-behalf contribution was \$1,073,291, which was recognized as other State revenue and pension expense. The employee contributions were \$1,261,420.

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

As of June 30, 2016, the County Office reported net pension liabilities for its proportionate shares of the net pension liability of \$22,725,294.

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

Proportion - June 30, 2014	0.0350%
Proportion - June 30, 2015	0.0338%
Change	-0.0012%

For the year ended June 30, 2016, the County Office recognized pension expense of \$1,271,937. At June 30, 2016, the County Office reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

COUNTY OF SAN MATEO - SUPERINTENDENT OF SCHOOLS
COUNTY SCHOOL SERVICE FUND

NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 2,542,072	\$ -
Differences between expected and actual experiences		348,617
Change in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions	585,622	
Net differences between projected and actual earnings on plan investments	-	1,701,342
	<u>\$ 3,127,694</u>	<u>\$ 2,049,959</u>

\$2,542,072 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Fiscal year Ended June 30	Recognized to Pension Expense
2016	\$ (678,577)
2017	(678,577)
2018	(678,577)
2019	436,617
2020	25,557
2021-2022	109,220
	<u>\$ (1,464,337)</u>

Actuarial Assumptions

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

Valuation Date	June 30, 2013
Measurement Date	June 30, 2014
Actuarial Cost Method	Entry-Age Normal
Actuarial Assumptions:	
Discount Rate	7.60%
Inflation	3.00%

COUNTY OF SAN MATEO - SUPERINTENDENT OF SCHOOLS
COUNTY SCHOOL SERVICE FUND

NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

Payroll Growth	3.75%
Investment Rate of Return	7.60%
Mortality	(1)

Note (1) Custom mortality tables used by STRS are based on RP2000 series tables adjusted to fit STRS experience. RP2000 series tables are an industry standard set of mortality rates published by the Society of Actuaries. See STRS July 1, 2006 – June 30, 2010 Experience Analysis for more information.

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 increases per AB 1469 as disclosed earlier. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.60 percent) and assuming that contributions, benefit payments, and administrative expense occur midyear. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

The 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 STRS general investment consultant (Pension Consulting Alliance - PCA) as an input to the process. Based on the model from STRS consulting actuary's investment practice, a best estimate range was determined by assuming the portfolio is re-balanced annually and that annual returns are lognormally 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:

COUNTY OF SAN MATEO - SUPERINTENDENT OF SCHOOLS
COUNTY SCHOOL SERVICE FUND

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JUNE 30, 2016

Asset Class	Assumed Asset Allocation	Long-Term (1) Expected Real Rate of Return
Global Equity	47.00%	4.50%
Fixed Income	20.00%	0.20%
Inflation Sensitive	5.00%	3.20%
Private Equity	12.00%	6.20%
Real Estate	15.00%	4.35%
Liquidity	1.00%	0.00%
Total	<u>100.00%</u>	

Note (1) 10-year geometric average

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

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

1% Decrease	6.60%
Net Pension Liability	\$ 34,313,425
Current Discount Rate	7.60%
Net Pension Liability	\$ 22,725,294
1% Increase	8.60%
Net Pension Liability	\$ 13,094,622

Pension Plan Fiduciary Net Position

Detailed information about the Plan's fiduciary net position is available in the separately issued STRS financial reports.

COUNTY OF SAN MATEO - SUPERINTENDENT OF SCHOOLS
COUNTY SCHOOL SERVICE FUND

NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 15 - OTHER POSTEMPLOYMENT BENEFITS

Under GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* (GASB 45), the County Office recognizes the cost of postemployment healthcare in the year when employee services are received, reports the accumulated liability from prior years, and provides information useful in assessing potential demands on the County Office's future cash flows. Because the County Office adopted the requirements of GASB Statement No. 45 prospectively, recognition of the liability accumulated from prior years will be phased in over thirty years.

Plan Description

The County Office administers a single-employer defined benefit healthcare plan for different employee groups. The plan does not issue financial statements. The details of the plan are as follows:

<u>Employee group</u>	<u>CSEA 789</u>	<u>Certificated</u>	<u>CSEA 158</u>	<u>Management</u>	<u>CSEA 887</u>
Benefit types provided	Medical or dental	Medical or dental	Medical or dental	Medical or dental	Medical or dental
Duration of benefits	10 years but not beyond age 65	10 years but not beyond age 65	10 years but not beyond age 65	10 years but not beyond age 65	10 years but not beyond age 65
Required service	10 years	10 years	10 years	10 years	10 years
Minimum age	PERS retirement	STRS retirement	PERS retirement	PERS or STRS retirement	PERS retirement
Dependent coverage	Yes	Yes	Yes	Yes	Yes
Contribution %	100%	100%	100%	100%	100%
Cap.	\$200 per month plus statutory minimum contribution to CalPERS medical plan	\$275 per month plus statutory minimum contribution to CalPERS medical plan	\$200 per month plus statutory minimum contribution to CalPERS medical plan	\$200 per month plus statutory minimum contribution to CalPERS medical plan	\$200 per month plus statutory minimum contribution to CalPERS medical plan

Those retirees not qualifying for or exhausting the above benefits are eligible for statutory minimum County Office contributions to the CalPERS medical plan subject to applicable laws.

COUNTY OF SAN MATEO - SUPERINTENDENT OF SCHOOLS
COUNTY SCHOOL SERVICE FUND

NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

Funding Policy

The contribution requirements of plan members and the County Office are established and may be amended by the County Office. The required contribution is based on projected pay-as-you-go financing requirements, with an additional amount to prefund benefits as determined by the County Office. For the year ended June 30, 2016, the County Office contributed \$478,981 to the plan, which represented the County Office's portion of the current premiums.

Funded Status and Funding Progress

As of May 1, 2015, the most recent actuarial valuation date, the plan was 0% funded. The actuarial accrued liability (AAL) for benefits was \$12,131,879, and the actuarial value of plan assets was \$0, resulting in a total unfunded actuarial accrued liability (UAAL) of \$12,131,879. Of this amount \$9,610,064 is the initial UAAL and \$2,521,815 is the residual UAAL. The covered payroll (annual payroll of active employees covered by the plan) was \$30,228,802 and the ratio of UAAL to the covered payroll was 40%. 11 out of 272 eligible retirees were not included in the actuarial valuation due to incomplete information. Management believes the discrepancy does not materially affect the financial statement.

Annual OPEB Cost and Net OPEB Obligation

For the year ended June 30, 2016, the County Office's annual OPEB cost was \$1,078,739. The County Office's annual OPEB costs and the net OPEB obligation for the year ended June 30, 2016 were as follows:

Annual required contribution	\$ 465,713
Initial UAAL Amortization	488,315
Residual UAAL Amortization	<u>124,711</u>
Annual OPEB costs	1,078,739
Contributions made	<u>(478,981)</u>
Change in net OPEB obligation	599,758
Net OPEB obligation, beginning of year	<u>3,923,632</u>
Net OPEB obligation, end of year	<u><u>\$ 4,523,390</u></u>

COUNTY OF SAN MATEO - SUPERINTENDENT OF SCHOOLS
COUNTY SCHOOL SERVICE FUND

NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

Trend Information

The following is a summary of the County Office's three-year trend information as required by GASB No. 45.

Year	Annual OPEB Cost	Actual Employer Contribution	Percentage Contributed	Net OPEB Obligation
2014	1,090,765	501,904	46%	3,298,340
2015	1,078,739	453,447	42%	3,923,632
2016	1,078,739	478,981	44%	4,523,390

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and 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. Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. 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, 2015 actuarial valuation, the entry age normal actuarial cost method was used. The actuarial assumptions used in the valuation are as follows:

1. Investment return of 4.5% per annum
2. Projected salary increases of 2.75%.
3. The annual healthcare cost trend rate of 4% is the ultimate rate.
4. Total inflation is assumed to increase 2.75% annually.
5. Amortization method: Level percentage of payroll.

The County Office's initial unfunded liability as of 2010 is being amortized as a level percentage of projected payrolls over a closed period of 30 years. The residual unfunded actual accrued liability is amortized as a level percentage of projected payrolls over an open period of 25 years. Future changes in the UAAL will be amortized on an open period from inception.

**REQUIRED SUPPLEMENTARY
INFORMATION**

COUNTY OF SAN MATEO - SUPERINTENDENT OF SCHOOLS
COUNTY SCHOOL SERVICE FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - BUDGET AND ACTUAL (GAAP)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>(GAAP Basis)</u>	<u>Final Budget</u>
				<u>Positive -</u>
				<u>(Negative)</u>
Revenues:				
Local Control Funding Formula	\$ 38,494,220	\$ 38,494,220	\$ 42,925,212	\$ 4,430,992
Federal	1,991,507	1,991,507	1,811,640	(179,867)
Other state	7,108,788	7,108,788	10,661,400	3,552,612
Other local	36,087,249	36,087,249	31,989,789	(4,097,460)
Total revenues	<u>83,681,764</u>	<u>83,681,764</u>	<u>87,388,041</u>	<u>3,706,277</u>
Expenditures:				
Certificated salaries	15,674,059	15,674,059	15,289,879	384,180
Classified salaries	16,748,821	16,748,821	16,201,764	547,057
Employee benefits	11,244,439	11,244,439	10,670,894	573,545
Books and supplies	1,844,004	1,844,004	1,360,215	483,789
Services and other operating expenditures	24,024,820	24,024,820	30,534,609	(6,509,789)
Capital outlay	185,000	185,000	585,827	(400,827)
Pass-throughs and other outgo	508,762	508,762	2,055,714	(1,546,952)
Total expenditures	<u>70,229,905</u>	<u>70,229,905</u>	<u>76,698,902</u>	<u>(6,468,997)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>13,451,859</u>	<u>13,451,859</u>	<u>10,689,139</u>	<u>(2,762,720)</u>
Other financing sources (uses):				
Transfers in	-	-	-	-
Transfers out	<u>(73,905)</u>	<u>(73,905)</u>	<u>(73,905)</u>	<u>-</u>
Total other financing sources (uses)	<u>(73,905)</u>	<u>(73,905)</u>	<u>(73,905)</u>	<u>-</u>
Net change in fund balance	13,377,954	13,377,954	10,615,234	(2,762,720)
Fund balances - beginning	<u>75,798,373</u>	<u>75,798,373</u>	<u>75,798,373</u>	<u>-</u>
Fund balances - ending	<u>\$ 89,176,327</u>	<u>\$ 89,176,327</u>	<u>\$ 86,413,607</u>	<u>\$ (2,762,720)</u>

COUNTY OF SAN MATEO - SUPERINTENDENT OF SCHOOLS
COUNTY SCHOOL SERVICE FUND

SCHEDULE OF THE COUNTY OFFICE'S PROPORTIONATE
SHARE OF THE NET PENSION LIABILITY - LAST 10 YEARS (1)
JUNE 30, 2016

CalPERS

	2016	2015
Proportion of the net pension liability	0.17346%	0.18000%
Proportionate share of the net pension liability	\$ 25,568,834	\$ 20,434,383
Covered-employee payroll	\$ 17,092,983	\$ 16,850,232
Proportionate share of the net pension liability as a percentage of covered-employee payroll	149.59%	121.27%
Plans fiduciary net position as a percentage of the total pension liability	80.03%	83.38%

STRS

	2016	2015
Proportion of the net pension liability	0.03376%	0.03500%
Proportionate share of the net pension liability	\$ 22,725,294	\$ 20,452,950
Covered-employee payroll	\$ 13,786,674	\$ 15,061,800
Proportionate share of the net pension liability as a percentage of covered-employee payroll	164.84%	135.79%
Plans fiduciary net position as a percentage of the total pension liability	74.83%	76.52%

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

COUNTY OF SAN MATEO - SUPERINTENDENT OF SCHOOLS
COUNTY SCHOOL SERVICE FUND

SCHEDULE OF CONTRIBUTIONS - LAST 10 YEARS (1)
JUNE 30, 2016

CalPERS

	2016	2015
Actuarially Determined Contribution (2)	\$ 2,343,555	\$ 1,971,620
Contributions in relation to the actuarially determined contribution (2)	<u>2,343,555</u>	<u>1,971,620</u>
Contribution deficiency (excess)	<u>-</u>	<u>-</u>
Covered-employee payroll	\$ 17,092,983	\$ 16,850,232
Contributions as a percentage of covered-employee payroll	13.71%	11.70%

STRS

	2016	2015
Actuarially Determined Contribution	\$ 1,468,781	\$ 1,312,806
Contributions in relation to the actuarially determined contribution	<u>1,468,781</u>	<u>1,312,806</u>
Contribution deficiency (excess)	<u>-</u>	<u>-</u>
Covered-employee payroll	\$ 13,786,674	\$ 15,061,800
Contributions as a percentage of covered-employee payroll	10.65%	8.72%

Note (1): Fiscal year 2015 was the 1st year of implementation, therefore only two years are shown.
Note (2): Employers are assumed to make contributions equal to the actuarially determined contribution. However, some employers may choose to make additional contributions towards their side fund or their unfunded liability. Employer contributions for such plans exceed the actuarially determined contributions. CalPERS has determined that employer obligations referred to as "side funds" do not conform to the circumstances described in paragraph 120 of GASB 68, therefore are not considered separately financed specific liabilities.

Notes to Schedule:

Valuation Date: June 30, 2014
Assumptions Used: See Notes 14 to the Basic Financial Statements

SUPPLEMENTARY INFORMATION

COUNTY OF SAN MATEO - SUPERINTENDENT OF SCHOOLS
COUNTY SCHOOL SERVICE FUND

COMBINING BALANCE SHEET
NONMAJOR FUNDS
JUNE 30, 2016

	<u>Special Revenue Funds</u>			<u>Capital Projects Funds</u>	Totals
	Child Development Fund	Deferred Maintenance Fund	Foundation Fund	County School Facilities Fund	
Assets					
Cash and investments	\$ 1,052,036	\$ 3,357,507	\$ 242,623	\$ 1,136,623	\$ 5,788,789
Accounts receivable	1,946,574	6,930	976	2,519	1,956,999
Due from other funds	-	-	30	-	30
Total Assets	\$ 2,998,610	\$ 3,364,437	\$ 243,629	\$ 1,139,142	\$ 7,745,818
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	\$ 1,205,706	\$ -	\$ -	\$ -	\$ 1,205,706
Due to other funds	246,747	-	1,241	-	247,988
Other liabilities	1,530,470	-	-	-	1,530,470
Total Liabilities	2,982,923	-	1,241	-	2,984,164
Fund balances:					
Restricted for capital projects	-	-	-	1,139,142	1,139,142
Restricted for child development	15,687	-	-	-	15,687
Committed for deferred maintenance	-	3,364,437	-	-	3,364,437
Assigned for educational programs	-	-	242,388	-	242,388
Total Fund Balances	15,687	3,364,437	242,388	1,139,142	4,761,654
Total Liabilities and Fund Balances	\$ 2,998,610	\$ 3,364,437	\$ 243,629	\$ 1,139,142	\$ 7,745,818

COUNTY OF SAN MATEO - SUPERINTENDENT OF SCHOOLS
COUNTY SCHOOL SERVICE FUND

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
NONMAJOR FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	Special Revenue Funds			Capital Projects Fund	
	Child Development Fund	Deferred Maintenance Fund	Foundation Fund	County School Facilities Fund	Totals
Revenues:					
Revenue limit	\$ -	\$ 700,000	\$ -	\$ -	\$ 700,000
Federal	295,745	-	-	-	295,745
Other state	5,350,960	-	-	-	5,350,960
Other local	2,847,302	22,314	40,507	9,099	2,919,222
Total revenues	8,494,007	722,314	40,507	9,099	9,265,927
Expenditures:					
Instruction	3,955,859	-	-	-	3,955,859
Supervision of instruction	4,352,953	-	40,956	-	4,393,909
General administration:	174,627	-	-	-	174,627
Total expenditures	8,483,439	-	40,956	-	8,524,395
Excess (deficiency) of revenues over (under) expenditures	10,568	722,314	(449)	9,099	741,532
Net change in fund balances	10,568	722,314	(449)	9,099	741,532
Fund balances - beginning	5,119	2,642,123	242,837	1,130,043	4,020,122
Fund balances - ending	\$ 15,687	\$ 3,364,437	\$ 242,388	\$ 1,139,142	\$ 4,761,654

**STATE AND FEDERAL AWARD
COMPLIANCE SECTION**

COUNTY OF SAN MATEO - SUPERINTENDENT OF SCHOOLS
COUNTY SCHOOL SERVICE FUND

HISTORY AND ORGANIZATION
JUNE 30, 2016

The County School Service Fund was created by the State of California's Legislature during the fiscal year 1946-47 to permit counties within the state to carry on activities which would serve to equalize the educational opportunities of all children and to provide certain services which would serve to coordinate the efforts of all school districts with respect to education and business administration.

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

<u>NAME AND TITLE</u>	<u>AREA</u>	<u>TERM EXPIRES</u>
Susan Alvaro, Member Half Moon Bay, California	1	2018
Beverly Gerard, Member Daly City, California	2	2018
Hector Camacho, Jr. Member South San Francisco, California	3	2018
Rod Hsiao, Member San Mateo, California	4	2016
Jim Cannon, President Burlingame, California	5	2016
Ted Lempert, Member San Carlos, California	6	2016
Joe Ross, Vice President Menlo Park, California	7	2016

COUNTY SUPERINTENDENT OF SCHOOLS
Anne E. Campbell

DEPUTY SUPERINTENDENTS
Gary Waddell (Instructional Services)
Denise Porterfield (Business Services)

ASSOCIATE SUPERINTENDENTS
Nancy Magee (Student Services)
Sue Wieser (Human Resources)

See the accompanying notes to supplementary information.

COUNTY OF SAN MATEO - SUPERINTENDENT OF SCHOOLS
COUNTY SCHOOL SERVICE FUND

SCHEDULE OF AVERAGE DAILY ATTENDANCE
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

Program\Grade Span	TK/K-3	4-6	7-8	Elementary	High School 9-12	Other	Total
Second Period Report:							
Special Education Schools	25.33	36.85	32.62		120.60		215.40
Juvenile Court Schools				4.09	100.91		105.00
Community School					10.70		10.70
Adults in Correctional Facilities						16.83	16.83
Total	<u>25.33</u>	<u>36.85</u>	<u>32.62</u>	<u>4.09</u>	<u>232.21</u>	<u>16.83</u>	<u>347.93</u>

Annual Report:

Special Education Schools	25.33	37.02	34.33		118.08		214.76
Juvenile Court Schools				3.75	104.99		108.74
Community School					10.32		10.32
Adults in Correctional Facilities						16.00	16.00
Total	<u>25.33</u>	<u>37.02</u>	<u>34.33</u>	<u>3.75</u>	<u>233.39</u>	<u>16.00</u>	<u>349.82</u>

See accompanying notes to supplementary information

COUNTY OF SAN MATEO - SUPERINTENDENT OF SCHOOLS
COUNTY SCHOOL SERVICE FUND

SCHEDULE OF INSTRUCTIONAL TIME
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

Grade Level	1986-87 Minutes Requirements	2015-16 Actual Minutes	Number of Days Traditional Calendar	Number of Days Multitrack Calendar	Status
Kindergarten	36,000	43,200	180	0	Complied
Grade 1	50,400	51,120	180	0	Complied
Grade 2	50,400	51,120	180	0	Complied
Grade 3	50,400	51,120	180	0	Complied
Grade 4	54,000	51,120	180	0	Complied
Grade 5	54,000	51,120	180	0	Complied
Grade 6	54,000	54,670	180	0	Complied
Grade 7	54,000	62,040	180	0	Complied
Grade 8	54,000	62,040	180	0	Complied
Grade 9	64,800	65,640	180	0	Complied
Grade 10	64,800	65,640	180	0	Complied
Grade 11	64,800	65,640	180	0	Complied
Grade 12	64,800	65,640	180	0	Complied

Note 1: The County Office met or exceeded their LCFF target or participated in longer day funding and must maintain instructional minutes as required by Education Code 46207(a) or 46201(b)

Note 2: The County Office shows the school with the lowest number of minutes offered at each grade level.

Note 3: The number of instructional days offered during the year audited is 175 days.

See accompanying notes to supplementary information

COUNTY OF SAN MATEO - SUPERINTENDENT OF SCHOOLS
COUNTY SCHOOL SERVICE FUND

SCHEDULE OF CHARTER SCHOOLS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

The County Office did not have any oversight responsibility for any charter schools for the fiscal year ended June 30, 2016.

See the accompanying notes to supplementary information.

COUNTY OF SAN MATEO - SUPERINTENDENT OF SCHOOLS
COUNTY SCHOOL SERVICE FUND

SCHEDULE OF EXCESS SICK LEAVE
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

Education Audit Appeals Panel Section 19833.5 (a)(3) or (a)(3)(b) Disclosure

The San Mateo County Office of Education provides 12.75 sick leave days to CalSTRS members who are managers. CalSTRS members that are in the teaching and related staff are provided 10 sick leave days per school year.

See the accompanying notes to supplementary information.

COUNTY OF SAN MATEO-SUPERINTENDENT OF SCHOOLS
COUNTY SCHOOL SERVICE FUND

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

PROGRAM NAME	FEDERAL CATALOG NUMBER	PASS THROUGH NUMBER	PROGRAM EXPENDITURE
U. S. DEPARTMENT OF EDUCATION			
Passed Through California Department of Education			
<i>Title I Cluster</i>			
NCLB: Title I, Part A, Basic Grants Low-Income and Neglected	84.010	14329	\$ 133,811
NCLB: Title I, Part D, Local Delinquent Programs	84.010	14357	217,879
<i>Total Title I Cluster</i>			<u>351,690</u>
<i>Special Education Cluster</i>			
Special Ed: IDEA Basic Local Assistance Entitlement, Part B*	84.027	13379	15,728,038
Special Ed: IDEA Preschool Grants, Part B*	84.173	13430	385,020
Special Ed: IDEA Preschool Local Entitlement, Part B*	84.027A	13682	778,271
Special Ed: IDEA Preschool Staff Development, Part B*	84.173A	13431	4,547
Special Ed: Alternative Dispute Resolution, Part B*	84.173A	13007	12,015
Special Ed: IDEA Mental Health Allocation Plan, Part B*	84.027A	14468	1,031,264
Special Ed: IDEA Behavioral Intervention, Part B*	84.027A	01110	27,178
<i>Total Special Education Cluster</i>			<u>17,966,333</u>
Special Ed: IDEA Early Intervention Grants, Part C	84.181	23761	201,820
NCLB: Title II, Part A, Teacher's Quality	84.367	14341	4,640
NCLB: Title II, Part B, CA Math and Science Partnerships	84.366	14512	104,572
NCLB: Title III, LEP	84.365	14346	13,908
NCLB: Education for Homeless Children and Youth	84.196A	14332	<u>68,815</u>
TOTAL U. S. DEPARTMENT OF EDUCATION			<u><u>18,711,778</u></u>
U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed Through California Department of Education			
<i>CCDF Cluster</i>			
Child Dev: Federal Child Care, Center-Based (CCTR)	93.596/93.575	15136	37,077
Child Dev: Quality Improvement Activities CIMS-8610	93.575	14869	202,021
Child Dev: Local Planning Councils CLPC-8039	93.575	13946	56,647
<i>Total CCDF Cluster</i>			<u>295,745</u>
Medi-Cal Billing Option	93.778	10013	<u>30,679</u>
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			<u>326,424</u>
TOTAL FEDERAL PROGRAMS			<u><u>\$ 19,038,202</u></u>

* Audited as major program

Note: The accompanying schedule of expenditures of federal awards is prepared on the accrual basis of accounting.

See accompanying notes to supplementary information

COUNTY OF SAN MATEO - SUPERINTENDENT OF SCHOOLS
COUNTY SCHOOL SERVICE FUND

RECONCILIATION OF THE SCHEDULE OF
FEDERAL FINANCIAL ASSISTANCE TO THE SCHOOL DISTRICTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	<u>PROGRAM REVENUES</u>	<u>PROGRAM EXPENDITURES</u>
TOTAL FEDERAL REVENUES	\$ 19,003,261	\$ 19,038,202
PASS-THROUGH TO DISTRICTS:		
Special Education	<u>16,895,876</u>	<u>16,895,876</u>
TOTAL FEDERAL REVENUE (COUNTY OFFICE)	<u>\$ 2,107,385</u>	<u>\$ 2,142,326</u>

See the accompanying notes to supplementary information.

COUNTY OF SAN MATEO - SUPERINTENDENT OF SCHOOLS
COUNTY SCHOOL SERVICE FUND

RECONCILIATION OF THE ANNUAL FINANCIAL AND BUDGET REPORT (SACS)
TO THE AUDITED FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	GENERAL FUND	SPECIAL RESERVE FUND FOR OTHER THAN CAPITAL OUTLAY PROJECTS	SPECIAL RESERVE FUND FOR POSTEMPLOYMENT BENEFITS
JUNE 30, 2016 ANNUAL FINANCIAL AND BUDGET REPORT (SACS) FUND BALANCES	\$ 49,333,089	\$ 27,626,880	\$ 14,215,292
ADJUSTMENTS AND RECLASSIFICATIONS:			
ADJUSTMENTS REQUIRED BY GASB 54:			
SPECIAL RESERVE FUND FOR OTHER THAN CAPITAL OUTLAY:			
CASH	27,570,156	(27,570,156)	-
ACCOUNTS RECEIVABLE	56,724	(56,724)	-
DUE FROM OTHER FUNDS	-	-	-
SPECIAL RESERVE FUND FOR POSTEMPLOYMENT BENEFITS			
CASH	9,433,477	-	(9,433,477)
ACCOUNTS RECEIVABLE	20,161	-	(20,161)
JUNE 30, 2016 AUDITED FINANCIAL STATEMENTS FUND BALANCES	<u>\$ 86,413,607</u>	<u>\$ -</u>	<u>\$ 4,761,654</u>

See the accompanying notes to supplementary information.

COUNTY OF SAN MATEO - SUPERINTENDENT OF SCHOOLS
COUNTY SCHOOL SERVICE FUND

NOTES TO STATE AND FEDERAL AWARD COMPLIANCE SECTIONS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

1. PURPOSE OF SCHEDULES

A. Schedule of Average Daily Attendance

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

B. Schedule of Financial Trends and Analysis

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

C. Schedule of Expenditures of Federal and State Awards

Uniform Guidance requires a disclosure of the financial activities of all federally funded programs. To comply with Uniform Guidance and state requirements, this schedule was prepared for the County Office.

D. Reconciliation of Annual Financial and Budget Report with Audited Financial Statements

This schedule provides the information necessary to reconcile the fund balances of all funds reported in SACS to the audited financial statements.

E. Schedule of Excess Sick Leave

This schedule discloses the County Office's sick leave provided to CalSTRS members.

2. RESULTS OF RECONCILIATIONS OF EXPENDITURES PER SCHEDULE OF GRANT ACTIVITY WITH THE COUNTY OFFICE'S ACCOUNTING SYSTEM

There were no material unreconciled differences between the County Office's records and the Schedule of Expenditures of Federal and State Awards.

COUNTY OF SAN MATEO - SUPERINTENDENT OF SCHOOLS
COUNTY SCHOOL SERVICE FUND

NOTES TO STATE AND FEDERAL AWARD COMPLIANCE SECTIONS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

3. BASIS OF PRESENTATION – SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the County Office. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and audit Requirements for Federal Awards* (Uniform Guidance), Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

4. EARLY RETIREMENT INCENTIVE PROGRAM

The County Office has not adopted an early retirement incentive program, pursuant to Education Code Sections 22714 and 44929, whereby the service credit to eligible employees is increased to two years.

OTHER REQUIRED DISCLOSURES

COUNTY OF SAN MATEO - SUPERINTENDENT OF SCHOOLS
COUNTY SCHOOL SERVICE FUND

CASH CLEARING ACCOUNTS
SCHEDULE OF CASH RECEIPTS AND DISBURSEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(UNAUDITED)

ACCOUNT	Balance June 30, 2015	Receipts and Transfers In	Disbursements and Transfers Out	Balance June 30, 2016
Commercial Revolving	\$ 18,916,400	\$ 743,854,168	\$ 740,881,267	\$ 21,889,301
Payroll Revolving	7,033,775	625,496,461	625,239,823	7,290,413
Retirement Contribution	1,095,023	101,776,651	101,477,409	1,394,265
Federal Tax Trust	6,088	60,133	65,756	465
STRS Trust	2,521	259,540	257,017	5,044
PERS Trust	2,755,627	35,010,819	34,916,396	2,850,050
OASDI Trust	16,098	72,506	70,641	17,963
State Tax Trust	2,491	15,942	18,433	-
SDI Payroll Trust	-	574	574	-
Voluntary Deduction TF	-	58,389,763	58,389,763	-
Deferred Net Pay Trust	27,485,106	28,539,691	29,004,295	27,020,502
Total	<u>\$ 57,313,129</u>	<u>\$ 1,593,476,248</u>	<u>\$ 1,590,321,374</u>	<u>\$ 60,468,003</u>

These are the revolving funds that serve as the cash clearing accounts for Countywide K-12 payroll and vendor warrant processing. These funds are held in the County Treasury and are not part of the County School Service Fund.

COUNTY OF SAN MATEO - SUPERINTENDENT OF SCHOOLS
COUNTY SCHOOL SERVICE FUND

FOUNDATION FUND - SPECIAL TRUST FUNDS
SCHEDULE OF CHANGES IN ASSETS AND LIABILITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(UNAUDITED)

	Balance June 30, 2015	Contributions	Interest	Disbursements	Balance June 30, 2016
17TH DISTRICT PTA - Community	\$ 544	\$ 1,367	\$ 8	\$ 919	\$ 1,000
17TH DISTRICT PTA - COURT	2,514	1,366	-	3,880	-
17TH DISTRICT PTA - FOSTER YOUTH	2,758	867	29	-	3,654
ASSN SUPT BAY AREA	30,961	-	223	3,428	27,756
AUTO BODY	5,779	-	47	-	5,826
BASIL WILLETT BOOKS	2,388	-	-	2,388	-
BAY AREA COLLISION	28,899	-	234	-	29,133
BELMONT-REDWOOD SHORES PTA COUNCIL (Comm)	-	750	4	250	504
BILL DOLYNUIK SCIENCE FAIR	4,776	-	39	-	4,815
CADIGAN OUTDOOR ED	2,746	-	23	-	2,769
CAFE/VENDING	62,440	-	505	60	62,885
CAMP GLENWOOD COASTSIDE HOSPITALITY (Court)	720	-	5	66	659
COMMUNITY SCHOOL (Comm.)	-	1,200	7	338	869
COURT SCHOOLS - LITERACY R. HSIAO (Court)	585	-	5	-	590
DONA SELBY SCHOLARSHIP (Comm.)	-	-	-	-	-
EARLY CHILDHOOD	220	-	2	-	222
ECE ENRICHMENT FUND	2,429	12	12	1,006	1,447
ECE KITCHEN PROJECT	-	-	-	-	-
ELEMENTARY	1,337	50	11	-	1,398
FOSTER YOUTH - RALSTON PTA (Foster Yourth)	-	-	-	-	-
GATEWAY CENTER (Comm.)	3,817	-	21	1,200	2,638
GATEWAY LIBRARY FUND (Comm.)	191	-	-	191	-
GATEWAY ROOTS TO HEALTH (Comm.)	-	-	-	-	-
GIRL SCOUTS OF NORTHERN CALIFORNIA - FOSTER	-	-	-	-	-
INFANT	1,247	-	10	-	1,257
INTEGRATED DSL	-	-	-	-	-
JOHN DEMEO SCHOLARSHIP	4,136	-	32	175	3,993
JUDY MOOMAUGH-LIBRARY	526	-	4	-	530
LEE CHIC ENDOWMENT FUND (Comm.)	3,191	-	26	-	3,217
MCBRIBE GATEWAY T SHIRTS (Comm.)	493	-	-	485	8
MOTHER DAUGHTER UNITED WAY	536	-	4	-	540
PALO VERDES SWIMMING BENDLE	2,266	-	18	-	2,284
PAT EVANS MEMORIAL (Court)	-	-	-	-	-
PHILANTHROPIC VENTURES COMMUNITY (Comm)	131	-	-	131	-
PHILANTHROPIC VENTURES COURT SCHOOL (Court)	259	-	2	-	261
PROBATION- SCHOLARSHIP (Court & Community)	-	-	-	-	-
RALSTON MIDDLE SCHOOL PTA (Comm)	-	250	1	100	151
READING IS FUN	115	-	1	-	116
REDWOOD SHORES ELEMENTARY PTA - FOSTER YO	-	300	2	-	302
ROBYN BINGHAM MEMORIAL	1,160	-	3	778	385
ROP ADMINISTRATION	5,309	-	43	23	5,329
RUSSELL KENT OUTDOOR ED	47,182	31,090	452	22,449	56,275

Continued

COUNTY OF SAN MATEO - SUPERINTENDENT OF SCHOOLS
COUNTY SCHOOL SERVICE FUND

FOUNDATION FUND - SPECIAL TRUST FUNDS
SCHEDULE OF CHANGES IN ASSETS AND LIABILITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(UNAUDITED)

	Balance June 30, 2015	Contributions	Interest	Disbursements	Balance June 30, 2016
RUTH O'SHEA FUND COMM SCHLS (Comm.)	484	570	-	1,054	-
SANDPIPER ELEMENTARY SCHOOL PTA (Comm)	-	500	3	165	338
SARB	549	-	4	-	553
SCIENCE FAIR	1,561	-	13	-	1,574
SCOTTISH RITE/CT SCHLS (Court)	-	-	-	-	-
SECONDARY	2,260	-	18	69	2,209
STUDENT SERVICES ROP	1,757	-	14	-	1,771
TARGET- SPEC ED	250	58	2	-	310
TARGET-COMM SCHLS (Comm.)	1,827	81	2	1,652	258
VISUAL ARTS	1,962	100	17	-	2,079
VISUAL HANDICAPPED	3,551	-	29	-	3,580
VOICES AGAINST VIOLENCE (Comm.)	742	-	5	149	598
WALK ON COACHES	3,616	-	29	-	3,645
WALTER JOHNSON FUTURES	262	-	2	-	264
WORKABILITY	4,360	-	35	-	4,395
	<u>4,360</u>	<u>-</u>	<u>35</u>	<u>-</u>	<u>4,395</u>
TOTALS	<u>\$ 242,836</u>	<u>\$ 38,561</u>	<u>\$ 1,946</u>	<u>\$ 40,956</u>	<u>\$ 242,387</u>

Concluded

OTHER INDEPENDENT AUDITORS' REPORTS



C. G. UHLENBERG LLP
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

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

Members of the Board of
County of San Mateo
Superintendent of Schools
County School Service Fund
Redwood City, California

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the County of San Mateo Superintendent of Schools County School Service Fund (the "County Office") as of and for the year ended June 30, 2016, which collectively comprise the County Office's basic financial statements and have issued our report thereon dated December 15, 2016.

Internal Control over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weakness or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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. We consider the following deficiency described in the accompanying schedule of audit findings and recommendations to be material weakness: 2016-01

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the County Office'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*.

County Office's Response to Findings

The County Office's response to the findings identified in our audit is described in the accompanying schedule of audit findings and recommendations. County Office's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

A handwritten signature in black ink that reads "C. D. Uhlenberg LLP". The signature is written in a cursive, flowing style.

Redwood City, California
December 15, 2016



C. G. UHLENBERG LLP
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH THE UNIFORM GUIDANCE**

Members of the Board of County of San Mateo
Superintendent of Schools County School Service Fund
Redwood City, California

Report on Compliance for Each Major Federal Program

We have audited the compliance of the County of San Mateo Superintendent of Schools County School Service Fund (the "County Office") with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016. The County Office's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

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

Report on Internal Control over Compliance

Management of the County Office is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the County Office's internal control over compliance with requirements that could have a direct and material effect on a major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our 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 County Office's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. 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.

Restricted Use

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

C. J. Uhlenberg LLP

December 15, 2016
Redwood City, California



C. G. UHLENBERG LLP
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

Members of the Board of
County of San Mateo
Superintendent of Schools
County School Service Fund
Redwood City, California

Report on Compliance

We have audited the compliance of the County of San Mateo Superintendent of Schools County School Service Fund's (the "County Office") with the requirements as identified in the *Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting (K-12 Audit Guide)* applicable to the County Office's government programs as noted below for the year ended June 30, 2016.

Management's Responsibility

Compliance with the requirements referred to above is the responsibility of the County Office's management.

Auditor's Responsibility

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

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting (K-12 Audit Guide)*, published by the Education Audit Appeals Panel. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the applicable government programs noted below. An audit includes examining, on a test basis, evidence about the County Office's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the County Office's compliance with those requirements.

Opinion

In our opinion, the County Office complied, in all material respects, with the applicable compliance requirements for the year ended June 30, 2016.

In connection with the audit referred to above, the following chart displays each compliance requirement and states which audit procedures were not performed due to inapplicability:

<u>Description</u>	<u>Procedures not performed</u>
Local Education Agencies other than Charter Schools:	
Attendance	
Teacher certification and misassignments	
Kindergarten continuance	Inapplicable
Independent study	
Continuation education	Inapplicable
Instructional time	
Instructional materials	
Ratios of administrative employees to teachers	Inapplicable
Classroom teacher salaries	Inapplicable
Early retirement incentive	Inapplicable
Gann limit calculation	
School accountability report card	
Juvenile court schools	
Middle or early college high schools	Inapplicable
K-3 Grade span adjustment	Inapplicable
Transportation maintenance of effort	
School Districts, County Offices of Education, and Charter Schools:	
Educator effectiveness	Inapplicable
California clean energy jobs act	
After school education and safety program	Inapplicable
Proper expenditure of education protection account funds	
Unduplicated local control funding formula pupil counts	
Local control and accountability plan	
Independent study – course based	Inapplicable
Immunizations	Inapplicable
Charter Schools:	
Attendance	Inapplicable
Mode of instruction	Inapplicable
Nonclassroom-based instruction/independent study for charter schools	Inapplicable
Determination of funding for nonclassroom-based instruction	Inapplicable
Annual instructional minutes – classroom based	Inapplicable
Charter school facility grant program	Inapplicable

Restricted Use

The purpose of this report is solely to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion 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.

C. D. Whelley CPA

December 15, 2016
Redwood City, California

FINDINGS AND RECOMMENDATIONS

COUNTY OF SAN MATEO - SUPERINTENDENT OF SCHOOLS
COUNTY SCHOOL SERVICE FUND

SCHEDULE OF AUDIT FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2016

Section I - Summary of Auditor's Results

Financial Statements

Type of auditors report issued:	unqualified	
Internal control over financial reporting:		
Material weakness(es) identified?	<u> X </u> Yes	<u> </u> No
Significant deficiencies identified not considered to be material weaknesses?	<u> </u> Yes	<u> X </u> None reported
Noncompliance material to financial statements noted?	<u> </u> Yes	<u> X </u> No

Federal Awards

Internal control over major programs:		
Material weakness(es) identified?	<u> </u> Yes	<u> X </u> No
Significant deficiencies identified not considered to be material weaknesses?	<u> </u> Yes	<u> X </u> None reported
Type of auditor's report issued on compliance for major programs:	unqualified	
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)	<u> </u> Yes	<u> X </u> No

Identification of major programs:

CFDA Numbers	Name of Federal Programs
84.027	Special Ed: IDEA Basic Local Assistance Entitlement, Part B
84.173	Special Ed: IDEA Preschool Grants, Part B
84.027A	Special Ed: IDEA Preschool Local Entitlement, Part B
84.173A	Special Ed: IDEA Preschool Staff Development, Part B
84.173A	Special Ed: Alternative Dispute Resolution, Part B
84.027A	Special Ed: IDEA Mental Health Allocation Plan, Part B
84.027A	Special Ed: IDEA Behavioral Intervention, Part B

Dollar threshold used to distinguish between Type A and Type B programs:	\$571,146	
Auditee qualified as low-risk auditee?	<u> </u> Yes	<u> X </u> No

State Awards

Internal control over state programs:		
Material weakness(es) identified?	<u> </u> Yes	<u> X </u> No
Significant deficiencies identified not considered to be material weaknesses?	<u> </u> Yes	<u> X </u> None reported
Type of auditor's report issued on compliance for state programs:	unqualified	

COUNTY OF SAN MATEO - SUPERINTENDENT OF SCHOOLS
COUNTY SCHOOL SERVICE FUND

SCHEDULE OF AUDIT FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2016

Section II - Financial Statement Findings

FINDING 2016-1: Material Weakness in Internal Control over Financial Reporting – Journal entry review process (Code: 30000)

CRITERIA: The County Office's accounting policy and procedures requires all journal entries to be reviewed and approved before posting.

CONDITION: We noticed certain journal entries were posted in error, resulting in material misstatements in the financial statements.

EFFECT OF CONDITION: The errors resulted in two types of misstatement. The first misstatement understated revenue and overstated fund balance by approximately \$900,000 in the General Fund. The second type of misstatement overstated both revenue and expenditures by a total of approximately \$470,000 each, primarily in a nonmajor fund.

CAUSE OF CONDITION: Due to the workload being redistributed among staff, the journal entry review was inadvertently missed.

RECOMMENDATION: We understand it is impossible for a reviewer to catch every single mistake. However, we recommend that management design a process that ensures significant entries over a certain threshold dollar amount are reviewed by management. The process may either require a different reviewer or involve one more level of reviewing. This way, it is less likely for a journal entry error to cause material misstatements in the financial statements.

COUNTY OFFICE RESPONSE: The County Office agrees with the finding and will implement a review process for journal entries over \$500,000. Although the fund balance was overstated, no funds were allocated or spent as a result of this error.

Section III - Federal Award Findings and Questioned Costs

None noted.

Section IV - State Award Findings and Questioned Costs

None noted.

COUNTY OF SAN MATEO - SUPERINTENDENT OF SCHOOLS
COUNTY SCHOOL SERVICE FUND

STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS
JUNE 30, 2016

Section II - Financial Statement Findings

No findings noted.

Section III - Federal Award Findings and Questioned Costs

No findings noted.

Section IV - State Award Findings and Questioned Costs

No findings noted.