

**HUMBOLDT COUNTY OFFICE OF EDUCATION  
COUNTY OF HUMBOLDT  
EUREKA, CALIFORNIA**

**AUDIT REPORT**

**JUNE 30, 2017**



HUMBOLDT COUNTY OFFICE OF EDUCATION

JUNE 30, 2017

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HUMBOLDT COUNTY OFFICE OF EDUCATION

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HUMBOLDT COUNTY OFFICE OF EDUCATION

JUNE 30, 2017

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## FINANCIAL SECTION





**STEPHEN ROATCH ACCOUNTANCY CORPORATION**  
*Certified Public Accountants*

**INDEPENDENT AUDITOR'S REPORT**

Board of Education  
Humboldt County Office of Education  
Eureka, California

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Humboldt County Office of Education, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the County Office's basic financial statements as listed in the table of contents.

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

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

**Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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, the business-type activities, each major fund, and the aggregate remaining fund information of the Humboldt County Office of Education, as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### Other Matters

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require management's discussion and analysis on pages 4 through 13, the budgetary comparison information on pages 61 and 62, schedule of funding progress on page 63, schedule of changes in the net OPEB liability and related ratios on page 64, schedule of investment returns on page 65, schedules of proportionate share of the net pension liability on pages 66 and 67, and schedules of contributions on pages 68 and 69 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 Humboldt County Office of Education's basic financial statements. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, and is also not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 8, 2017 on our consideration of the Humboldt County Office of Education's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Humboldt County Office of Education's internal control over financial reporting and compliance.

*Stephen Roatch Accountancy Corporation*

STEPHEN ROATCH ACCOUNTANCY CORPORATION  
Certified Public Accountants

December 8, 2017

**HUMBOLDT COUNTY OFFICE OF EDUCATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

(PREPARED BY COUNTY OFFICE MANAGEMENT)

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

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

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

**Program Divisions**

Educational Services offers a variety of school district leadership support, teacher and classroom program support, alternative education and student programs and services. Services rendered under this division include but are not limited to Local Control Accountability Plan activities, the Cooperative Consolidated Application (CO-OP), administration of the After School Consortium, Foster and Homeless Youth programs, Court and Community Schools, as well as Career Technical Education (CTE) support. This unit also facilitates inter-district transfers and expulsion appeals to the County Board of Education as well as the work of the Special Education Local Plan Area (SELPA), which serves school districts in Humboldt and Del Norte Counties. HCOE Special Education services also include Special Day Classes, Infant/Preschool and itinerant services, and Nursing. In 2016-17, HCOE continued to expand its role in providing Psychologists, Speech Services, Occupational Therapy and Behaviorists to districts in response to the shortage of providers and the variable hours needed by each school site.

Alternative Education, which includes Court and Community School classes, are housed in five different locations throughout the county and served a cumulative total of 747 students over the course of the year. The Special Beginnings program provides in-home itinerant services and Special Day Classes (SDC's) for children with moderate disabilities from birth to age five. During 2016-17, a total of 345 children were served throughout the county at public and private preschools and the five SDC sites. Glen Paul School and its ten offsite classes provide services to children with severe disabilities and served 135 students over the duration of the year. Home-to-school transportation is also provided for special needs students attending county office or school district educational programs. Career Technical Education support services are provided to middle and high school districts, and the Workability/Transitional Partnership Program (TPP) takes place at high schools and community schools throughout the county.

Business Services supports educational programs by performing financial and operational activities, including the preparation and audit of payroll, retirement and accounts payable for school districts and the county office. Personnel are also assigned to perform accounting and budgetary services, prepare financial reports and provide fiscal oversight of school districts. Technology infrastructure provides internet access for students and staff, financial systems and state financial reporting systems. Printing, graphic and web design services for school districts, county office and governmental agencies are also provided. The North Coast Schools Insurance Groups provide self-funded health benefit programs to educational agencies in Humboldt, Del Norte, Siskiyou and Lake counties, as well as property, liability and workers compensation insurance to schools in Humboldt County. Maintenance of county office facilities is also provided through this division.

**HUMBOLDT COUNTY OFFICE OF EDUCATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

(PREPARED BY COUNTY OFFICE MANAGEMENT)

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**Guiding Principles for Budget Development**

Each year the Humboldt County Office of Education prepares its annual budget plan using Guiding Principles to help it align the uses of its financial resources with its mission and organization priorities. For 2016-17, those Principles were as follows:

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

**Assumptions Used for Budget Development**

The County's Board of Education adopted the budget for fiscal year 2016-17 on June 8, 2016. The assumptions used during the budget development process included the following:

- Local Control Funding Formula, with a Cost of Living Adjustment (COLA) of 0.47% and full funding at the LCFF target
- Step and column cost increases on all salaries.
- Health and welfare budgeted to increase by 12.4% above 2015-16 costs
- Projected June 30, 2017 local reserves of \$2,446,697 or 7.65%

**Reserves**

Humboldt County Office of Education is required by the State of California to maintain a minimum Reserve for Economic Uncertainty equal to 3% of its county school service fund expenditures and obligations. Because the minimum reserve would not allow us to react thoughtfully to potential instability in state funding or maintain current services, especially in the areas of countywide staff development, library/media services, facilities, and technology in times of economic hardship, the office strives to maintain the reserves necessary to support these and other programs. At June 30, 2017, the available reserve was 12.4%.

**HUMBOLDT COUNTY OFFICE OF EDUCATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

(PREPARED BY COUNTY OFFICE MANAGEMENT)

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**Local Control Funding Formula Trends**

The primary source of Unrestricted revenue for the Humboldt County Office of Education is the Local Control Funding Formula, which is a weighted student formula based on total countywide Average Daily Attendance (ADA), the number of school districts within the county, Court & Community School ADA, the percentages of English Language Learners, Foster Youth and those receiving Free and Reduced Meals in Court & Community School programs, and an add-on for Home to School Transportation based on funding for that program in 2012-13. Changes to any of these data elements can have a significant impact on the financial resources of the office.

Fortunately, our data indicates that countywide school district enrollment, which generally corresponds to ADA, fluctuated up or down by 1.3% or less from October 2013 to October 2016. This trend indicates that countywide enrollment is stable rather than declining, and therefore ADA is likely to be constant as well.

In addition, while the number of school districts within the county has remained fairly consistent over the last several years, the large number of small rural districts within the county makes the likelihood of district unification or lapse higher for HCOE than it would be for county offices in urban areas with fewer districts. Any unification or lapse in district status, would significantly reduce revenues for HCOE.

Changes to environmental factors have reduced Court and Community School attendance. Specifically, several school districts expanded their alternative education programs several years ago, which resulted in fewer students attending county operated community schools, and this shift continued in 2016-17. In addition, Humboldt County Probation Department is continuing its implementation of alternative sentencing practices, which have resulted in smaller populations at juvenile hall and probation and therefore fewer students attending court school programs. Specifically, average daily attendance was 128 for community schools and 26 for court schools, representing an overall decline of approximately 4% from the prior year.

**Events During the Fiscal Year**

During 2016-17, external and internal events resulted in changes to HCOE's financial and structural position. Below are some of the noteworthy environmental and organizational factors that impacted the county office.

- The most significant organizational change to occur during 2016-17 was the transition of the Superintendent and Deputy Superintendent positions.
  - Superintendent Garry Eagles retired as of June 30, 2017 and was replaced by acting Superintendent, Dr. Chris Hartley, who was sworn in on March 31, 2017.
  - Deputy Superintendent, Jon Sapper, also retired on June 30, 2017, and the Administrative Cabinet was restructured to include Heidi Moore as Assistant Superintendent of Educational Services.

**HUMBOLDT COUNTY OFFICE OF EDUCATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

(PREPARED BY COUNTY OFFICE MANAGEMENT)

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**Events During the Fiscal Year (Concluded)**

- Reserves for Local Consideration increased by \$498,927 to equal 12.4% of total County School Service Fund expenditures. This increase to reserve balances was realized based on reductions to other Unrestricted fund balances. Overall, Unrestricted funds decreased \$385,036.
- In response to the needs of districts and to the increasing population of students requiring additional services, HCOE has continued to expand its role as provider. As a result, Charges for Services revenues and related Instruction and Student Support expenses increased significantly over the prior year.
  - Charges for Services increased over \$707,000, primarily for Special Education, Nursing, and Professional Development.
  - Instruction related expenses increased by \$1.08 million.
  - Student Support Services expenses increased by \$1.3 million.
- Receivables and payables increased to reflect \$1.14 million of federal IDEA funds not yet received from the federal government or paid out to SELPA members at year end.
- Adjustments pursuant to Governmental Accounting Standards Board (GASB) Statement 68, which required government agencies to recognize Net Pension Liability (NPL) as well as Deferred Inflows and Outflows of Resources related to pensions, reduced Net Position by approximately \$498,000 in 2016-17. This change included an increase to Long-term Liabilities of \$3.9 million, which was largely offset by changes to Deferred Inflows and Outflows of resources.

**Overview of the Financial Statements**

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

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

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

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

**HUMBOLDT COUNTY OFFICE OF EDUCATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

(PREPARED BY COUNTY OFFICE MANAGEMENT)

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

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

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

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

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

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

<b><u>Summary Statement of Net Position</u></b>		
	2017	2016
Current and Other Assets	\$ 13,690,417	\$ 12,915,700
Capital Assets	<u>13,917,477</u>	<u>14,102,234</u>
Total Assets	27,607,894	27,017,934
Deferred Outflows of Resources - Pensions	5,897,055	2,722,366
Current Liabilities	3,456,296	1,740,305
Long-Term Debt	<u>26,503,298</u>	<u>22,631,248</u>
Total Liabilities	29,959,594	24,371,553
Deferred Inflows of Resources - Pensions	1,537,023	1,859,000
Net Position:		
Net Investment in Capital Assets	10,817,477	10,942,234
Restricted	5,076,603	4,594,819
Unrestricted	<u>(13,885,748)</u>	<u>(12,027,306)</u>
Total Net Position	<u>\$ 2,008,332</u>	<u>\$ 3,509,747</u>



**HUMBOLDT COUNTY OFFICE OF EDUCATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

(PREPARED BY COUNTY OFFICE MANAGEMENT)

**Summary of the Humboldt County Office of Education's Fiscal Position (Concluded)**

Net position as of June 30, 2017 was \$2 million, representing a decline of \$1.5 million from the previous year. This change is the cumulative result of increased revenues and deferred outflows as well as increased expenditures and reduced deferred inflows. Of our final Net Position, negative \$13.8 million is defined as unrestricted by the state of California. The restricted net position is reported separately to show legal constraints from debt covenants, state legislation and other restrictions that limit their use. The following analysis focuses on the net position and the change in net position from governmental and business type activities.

The negative \$13.8 million unrestricted net position from governmental activities represents the *accumulated* results of all past years' operations and is also inclusive of the Net Pension Liability and related Deferred Inflows and Outflows of Resources for STRS and PERS. The cumulative effect as a result of GASB 68 is a reduction to HCOE's Net Position of \$18 million. However, it is important to keep in mind that this government-wide financial statement-only transaction impacts total assets and liabilities, but does not include any cash outflow aside from standard PERS and STRS contributions.

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

<b>Summary Statement of Activities</b>		
	2017	2016
<b>Program Revenues:</b>		
Charges for Services	\$ 6,816,042	\$ 6,109,023
Operating Grants & Contributions	24,160,184	23,143,883
Capital Grants & Contributions	0	80
<b>Total Program Revenues</b>	<b>30,976,226</b>	<b>29,252,986</b>
<b>General Revenues:</b>		
Unrestricted Federal & State Aid	7,395,398	9,028,412
Property Taxes	1,890,383	1,857,706
Other General Revenues	5,049,128	4,929,496
<b>Total Revenues</b>	<b>45,311,135</b>	<b>45,068,600</b>
<b>Expenses:</b>		
Instruction-Related	18,796,068	17,716,017
Student Support Services	6,306,296	4,969,115
Administration	6,259,821	6,290,475
Plant Services	1,132,775	1,126,855
Other	834,903	729,749
Pass-Through to School Districts	13,482,687	13,873,345
<b>Total Expenses</b>	<b>46,812,550</b>	<b>44,705,556</b>
Changes in Net Position	(1,501,415)	363,044
Net Position, Beginning	3,509,747	3,146,703
Net Position, Ending	<b>\$ 2,008,332</b>	<b>\$ 3,509,747</b>

**HUMBOLDT COUNTY OFFICE OF EDUCATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

(PREPARED BY COUNTY OFFICE MANAGEMENT)

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

### **Fund Financial Statements**

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

**Governmental Funds** – All basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for a future period. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial* assets that can be readily converted to cash. The governmental fund statements provide a detailed *short-term* view of the operations and the basic services provided. Governmental fund information helps determine whether there are more or fewer financial resources available for the future. HCOE has the following Governmental Funds: County School Service Fund 01, Special Education Pass-Through Fund 10, Child Development Fund 12, Forest Reserve Fund 16, Special Reserve Funds 17 and 20, County School Facilities Fund 35, Special Reserve for Capital Outlay Fund 40, and Debt Service Fund 56.

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

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

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

### **Governmental Fund Balance Changes**

As of June 30, 2017, our total governmental funds combined balance was \$9.7 million. This decrease of \$595,278 over the prior fiscal year was due to the following:

1. The County School Service Fund decreased \$500,042.
2. The Special Reserve Funds 17/20 decreased by \$95,131.
3. All other non-major funds decreased \$105.

**HUMBOLDT COUNTY OFFICE OF EDUCATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

(PREPARED BY COUNTY OFFICE MANAGEMENT)

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**Reporting the Humboldt County Office of Education's Significant Funds (Concluded)**

**Trust and Agency Fund Balance Changes**

As of June 30, 2017, trust funds had a combined ending fund balance of \$2,016,554. We account for the amounts set aside for retiree health benefits and the funds received as a bequest from the Burman Estate as trust funds. A payroll clearing account fund is used to report county-wide payroll related activity and is treated as an agency fund.

**County School Service Fund Budgetary Highlights**

Over the course of the year, HCOE revises its budget for each fund as it attempts to deal with unexpected changes in revenues and expenditures. The final amendment to the County School Service Fund budget was approved by the Board of Education on August 9, 2017. Typically, we summarize favorable and unfavorable variances of each major revenue and expenditure category in excess of \$100,000 and 5% in the County School Service Fund; however, no variances exceeded this threshold, so additional explanation is not needed.

A schedule showing the County Office's original and final budget amounts compared with the amounts actually earned and expended in the County School Service Fund is presented in our annual report on page 61.

**County School Service Fund Expenses by Category**

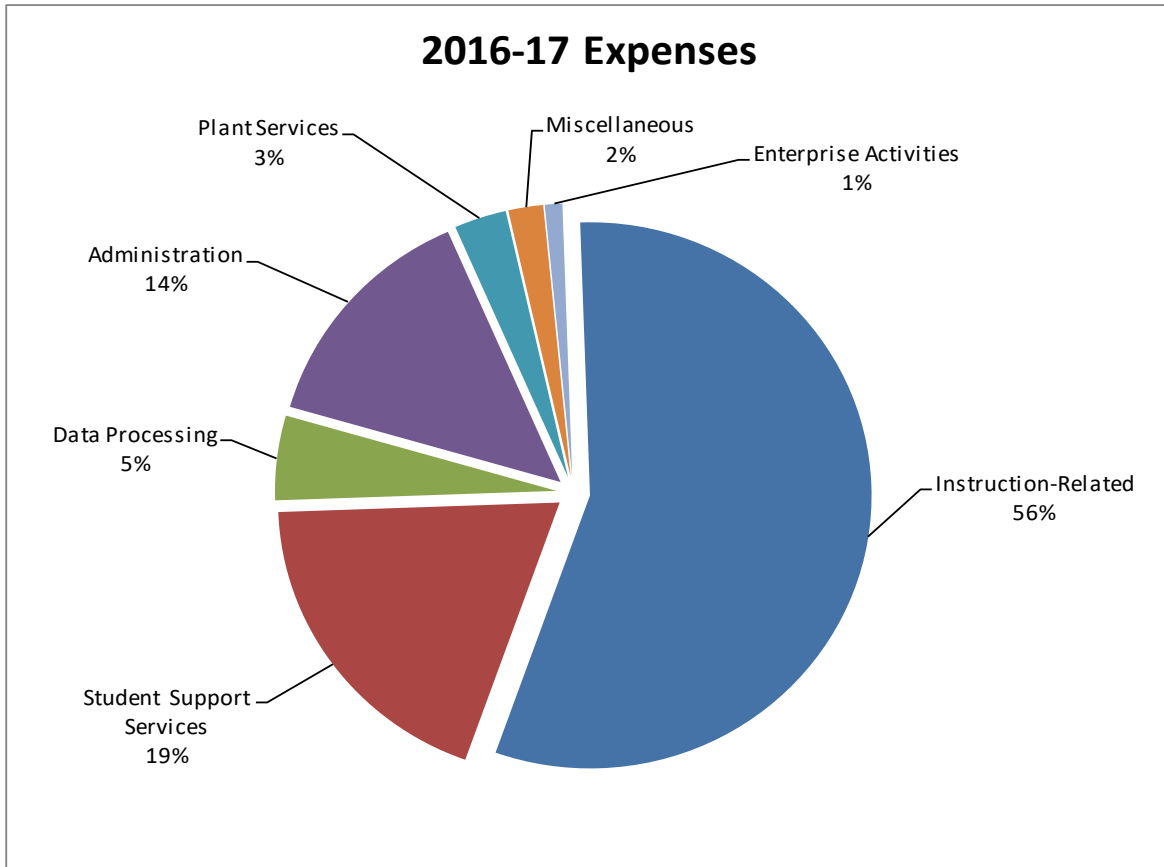
In the pie chart on the following page, we have presented County School Service Fund expenses, which are categorized as follows:

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

**HUMBOLDT COUNTY OFFICE OF EDUCATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017  
(PREPARED BY COUNTY OFFICE MANAGEMENT)**

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**County School Service Fund Expenses by Category (Concluded)**



**Capital Assets (Net of Depreciation)**

At June 30, 2017, the County Office owned a broad range of capital assets, including land, buildings, site improvements and equipment totaling approximately \$13.9 million after accumulated depreciation.

A schedule showing the County Office's capital assets and accumulated depreciation by category and depreciation expense by function is provided in our annual report on page 40.

**Long-Term Debt**

In July 2013, HCOE issued \$3.28 million in Certificates of Participation, the proceeds of which were used to fund construction of the Sequoia Conference Center. The first principal payment was made in July 2014, with full amortization to be recognized in August of 2043. Coupon rates on these COPs are variable and range from 2.0% to 5.5% over the period of amortization. The outstanding balance of COP principal payments as of June 30, 2017 was \$3,100,000.

The County Office's long-term obligations also include compensated absences payable (not including health benefits) in the amount of \$422,505 and Net Pension Liability of \$23,040,793 as of June 30, 2017.

**HUMBOLDT COUNTY OFFICE OF EDUCATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017  
(PREPARED BY COUNTY OFFICE MANAGEMENT)**

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**Contacting Financial Management**

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

**HUMBOLDT COUNTY OFFICE OF EDUCATION**  
**STATEMENT OF NET POSITION**  
**JUNE 30, 2017**

	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Totals</b>
<b><u>Assets</u></b>			
Deposits and Investments (Note 2)	\$ 8,325,961	\$ 4,203	\$ 8,330,164
Receivables (Note 3)	4,755,734	9,869	4,765,603
Prepaid Expenses (Note 1I)	59,674		59,674
OPEB Asset (Note 1I)	264,089		264,089
HROP House Inventory (Note 6)	270,887		270,887
Capital Assets: (Note 5)			
Land	1,320,268		1,320,268
Sites and Improvements	669,277		669,277
Buildings and Improvements	14,215,654		14,215,654
Furniture and Equipment	3,447,847		3,447,847
Work-in-Progress	289,409		289,409
Less: Accumulated Depreciation	(6,024,978)		(6,024,978)
Total Assets	<u>27,593,822</u>	<u>14,072</u>	<u>27,607,894</u>
<b><u>Deferred Outflows of Resources</u></b>			
Pension Deferrals (Note 9)	5,897,055		5,897,055
Total Deferred Outflows of Resources	<u>5,897,055</u>	<u>0</u>	<u>5,897,055</u>
<b><u>Liabilities</u></b>			
Accounts Payable and Other Current Liabilities	3,232,515	13,827	3,246,342
Unearned Revenue (Note 1I)	149,954		149,954
Long-Term Liabilities:			
<i>Portion Due or Payable Within One Year:</i>			
Certificates of Participation	60,000		60,000
<i>Portion Due or Payable After One Year:</i>			
Compensated Absences (Note 1I)	422,505		422,505
Certificates of Participation (Note 7)	3,040,000		3,040,000
Net Pension Liabilities (Note 9)	23,040,793		23,040,793
Total Liabilities	<u>29,945,767</u>	<u>13,827</u>	<u>29,959,594</u>
<b><u>Deferred Inflows of Resources</u></b>			
Pension Deferrals (Note 9)	1,537,023		1,537,023
Total Deferred Inflows of Resources	<u>1,537,023</u>	<u>0</u>	<u>1,537,023</u>
<b><u>Net Position</u></b>			
Net Investment in Capital Assets	10,817,477		10,817,477
Restricted:			
For Educational Programs	4,420,519		4,420,519
For Other Purposes	655,839	245	656,084
Unrestricted	(13,885,748)		(13,885,748)
Total Net Position	<u>\$ 2,008,087</u>	<u>\$ 245</u>	<u>\$ 2,008,332</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

**HUMBOLDT COUNTY OFFICE OF EDUCATION  
STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

Functions	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position		Totals
		Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	
<b><u>Governmental Activities</u></b>						
Instruction	\$ 12,461,633	4,490,762	\$ 4,698,612	\$ (3,272,259)		\$ (3,272,259)
Instruction-Related Services:						
Supervision of Instruction	3,280,167	8,185	1,096,360	(2,175,622)		(2,175,622)
Instructional Library and Technology	799,218	14,232	166,807	(618,179)		(618,179)
School Site Administration	2,255,050	453,533	987,360	(814,157)		(814,157)
Pupil Services:						
Home-to-School Transportation	871,952			(871,952)		(871,952)
Food Services	131,215	\$ 4,340	64,750	(62,125)		(62,125)
Other Pupil Services	5,303,129	1,067,367	2,777,286	(1,458,476)		(1,458,476)
General Administration:						
Data Processing Services	1,493,208		7,162	(1,486,046)		(1,486,046)
Other General Administration	4,766,613	467,139	683,717	(3,615,757)		(3,615,757)
Plant Services	1,132,775	297,347	205,517	(629,911)		(629,911)
Ancillary Services	332,919	13,137	43,935	(275,847)		(275,847)
Community Services	14,660		12,315	(2,345)		(2,345)
Enterprise Activities	58,269			(58,269)		(58,269)
Interest on Long-Term Debt	154,619			(154,619)		(154,619)
Other Outgo	13,482,687		13,416,363	(66,324)		(66,324)
Total Governmental Activities	46,538,114	6,816,042	24,160,184	(15,561,888)		(15,561,888)
<b><u>Business-Type Activities</u></b>						
Enterprise Activities	\$ 274,436				\$ (274,436)	(274,436)
Totals	\$ 46,812,550	\$ 6,816,042	\$ 24,160,184	(15,561,888)	(274,436)	(15,836,324)
<b><u>General Revenues</u></b>						
Taxes Levied for General Purposes				1,884,276		1,884,276
Taxes Levied for Specific Purposes				6,107		6,107
Federal and State Aid - Unrestricted				7,395,398		7,395,398
Interest and Investment Earnings				107,035	116	107,151
Transfers from Other Agencies				2,538,187		2,538,187
Miscellaneous				2,218,800	184,990	2,403,790
Transfers				(89,420)	89,420	0
Total General Revenues				14,060,383	274,526	14,334,909
Change in Net Position				(1,501,505)	90	(1,501,415)
Net Position - July 1, 2016				3,509,592	155	3,509,747
Net Position - June 30, 2017				\$ 2,008,087	\$ 245	\$ 2,008,332

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

**HUMBOLDT COUNTY OFFICE OF EDUCATION  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2017**

	<b>County School Service</b>	<b>Special Education Pass-Through</b>	<b>Non-Major Governmental Funds</b>	<b>Total Governmental Funds</b>
<b><u>Assets</u></b>				
Deposits and Investments (Note 2)	\$ 8,152,417	\$ 103,367	\$ 70,177	\$ 8,325,961
Receivables (Note 3)	3,444,935	1,273,353	37,446	4,755,734
Prepaid Expenditures (Note 11)	59,674			59,674
Total Assets	<u>\$ 11,657,026</u>	<u>\$ 1,376,720</u>	<u>\$ 107,623</u>	<u>\$ 13,141,369</u>
<b><u>Liabilities and Fund Balances</u></b>				
Liabilities:				
Accounts Payable	\$ 1,898,529	\$ 1,317,531	\$ 16,455	\$ 3,232,515
Unearned Revenue (Note 11)	58,786		91,168	149,954
Total Liabilities	<u>1,957,315</u>	<u>1,317,531</u>	<u>107,623</u>	<u>3,382,469</u>
Fund Balances: (Note 11)				
Nonspendable	61,674			61,674
Restricted	4,420,519	59,189		4,479,708
Assigned	1,014,937			1,014,937
Unassigned	4,202,581			4,202,581
Total Fund Balances	<u>9,699,711</u>	<u>59,189</u>	<u>0</u>	<u>9,758,900</u>
Total Liabilities and Fund Balances	<u>\$ 11,657,026</u>	<u>\$ 1,376,720</u>	<u>\$ 107,623</u>	<u>\$ 13,141,369</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS



**HUMBOLDT COUNTY OFFICE OF EDUCATION  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE  
STATEMENT OF NET POSITION  
JUNE 30, 2017**

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**Total Fund Balances - Governmental Funds** \$ 9,758,900

Amounts reported for governmental activities in the statement of net position are different from amounts reported in governmental funds due to the following:

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

Capital Assets	\$ 19,942,455	
Accumulated Depreciation	(6,024,978)	
Net		13,917,477

Contributions to OPEB plans that are in excess of the actuarial determined annual OPEB expense, result in OPEB Assets that are not financial resources and therefore are not reported as assets in governmental funds. The amount of OPEB Assets recognized at year-end was: 264,089

HROP house inventory used for governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. 270,887

Deferred outflows and inflows of resources relating to pensions: In governmental funds, deferred outflows and inflows of resources relating to pensions are not reported because they are applicable to future periods. In the statement of net position, deferred outflows and inflows of resources relating to pensions are reported. 4,360,032

Long-term liabilities: In governmental funds, only current liabilities are reported. In the statement of net position, all liabilities, including long-term liabilities, are reported. Long-term liabilities reported at the end of the period are:

Compensated Absences	\$ 422,505	
Certificates of Participation	3,100,000	
Net Pension Liability - CalSTRS	11,854,995	
Net Pension Liability - CalPERS	11,185,798	
Total		(26,563,298)

**Total Net Position - Governmental Activities** \$ 2,008,087

**HUMBOLDT COUNTY OFFICE OF EDUCATION  
STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

	<u>County School Service</u>	<u>Special Education Pass-Through</u>	<u>Non-Major Governmental Funds</u>	<u>Total Governmental Funds</u>
<b><u>Revenues</u></b>				
LCFF Sources:				
State Apportionment / Transfers	\$ 7,206,688			\$ 7,206,688
Local Taxes	1,884,276			1,884,276
Total LCFF Sources	9,090,964			9,090,964
Federal Revenue	1,906,760	\$ 4,193,377	\$ 288,907	6,389,044
State Revenue	8,056,568	7,652,964	26,099	15,735,631
Local Revenue	13,910,384		6	13,910,390
Total Revenues	32,964,676	11,846,341	315,012	45,126,029
<b><u>Expenditures</u></b>				
Current:				
Instruction	11,966,280			11,966,280
Supervision of Instruction	3,024,318		190,804	3,215,122
Instructional Library and Technology	739,030			739,030
School Site Administration	2,191,936			2,191,936
Home-To-School Transportation	824,713			824,713
Food Services	121,407			121,407
Other Pupil Services	5,081,073		91,424	5,172,497
Data Processing Services	1,429,937			1,429,937
Other General Administration	4,736,382		18,975	4,755,357
Plant Services	1,096,862			1,096,862
Facilities Acquisition and Construction	503,184			503,184
Ancillary Services	319,961			319,961
Community Services	14,658			14,658
Other Outgo	1,624,194	11,846,341	12,152	13,482,687
Debt Service:				
Principal Retirement			60,000	60,000
Interest and Issuance Costs			154,619	154,619
Total Expenditures	33,673,935	11,846,341	527,974	46,048,250
Excess of Revenues				
(Under) Expenditures	(709,259)	0	(212,962)	(922,221)
<b><u>Other Financing Sources (Uses)</u></b>				
Operating Transfers In	1,762		220,726	222,488
Operating Transfers Out	(304,039)		(7,869)	(311,908)
Other Sources	416,363			416,363
Total Other Financing Sources (Uses)	114,086	0	212,857	326,943
Net Change in Fund Balances	(595,173)		(105)	(595,278)
Fund Balances - July 1, 2016	10,294,884	59,189	105	10,354,178
Fund Balances - June 30, 2017	\$ 9,699,711	\$ 59,189	\$ 0	\$ 9,758,900

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

**HUMBOLDT COUNTY OFFICE OF EDUCATION  
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

**Net Change in Fund Balances - Governmental Funds** \$ (595,278)

Amounts reported for governmental activities in the statement of activities are different from amounts reported in governmental funds due to the following:

Capital outlay: In governmental funds, the costs of capital assets are reported as expenditures in the period when the assets are acquired. In the statement of activities, costs of capital assets are allocated over their useful lives as depreciation expense. The difference between capital outlay expenditures and depreciation expense for the period is:

Capital Outlays	\$ 475,229	
Depreciation Expense	(620,240)	
Net	(145,011)	(145,011)

Compensated absences: In governmental funds, compensated absences are measured by the amounts paid during the period. In the statements of activities, compensated absences are measured by the amounts earned during the fiscal year. The difference between amounts paid and amounts earned was: 2,743

Other Post Employment Benefits (OPEB): OPEB costs are recognized when employer contributions are made. In the statement of activities, OPEB costs are recognized on the accrual basis. This year, the difference between OPEB and actual employer contributions was: (8,649)

Pension liabilities: In governmental funds, pension costs are recognized when employer contributions are made. In the statement of activities, pensions costs are recognized on the accrual basis. This year, the difference between accrual basis pension costs and actual employer contributions was: (498,127)

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

Certificates of Participation		60,000
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Acquisition of HROP House inventory is an expenditure in the governmental funds, but increases HROP house inventory in the statement of net position. 172,294

In governmental funds, the entire proceeds from disposal of HROP house inventory is reported as revenue. In the statement of activities, only the resulting gain or loss is reported. (449,731)

In governmental funds, the entire proceeds from disposal of capital assets are reported as revenue. In the statement of activities, only the resulting gain or loss is reported. (39,746)

**Change in Net Position of Governmental Activities** \$ (1,501,505)

HUMBOLDT COUNTY OFFICE OF EDUCATION  
STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
JUNE 30, 2017

	Business-Type Activities
	Enterprise Fund
	Sequoia Conference Center
<b><u>Assets</u></b>	
Deposits and Investments (Note 2)	\$ 4,203
Receivables (Note 3)	9,869
Total Assets	14,072
<b><u>Liabilities</u></b>	
Accounts Payable	13,827
Total Liabilities	13,827
<b><u>Net Position</u></b>	
Unrestricted	245
Total Net Position	\$ 245

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

HUMBOLDT COUNTY OFFICE OF EDUCATION  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION  
PROPRIETARY FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	<b>Business-Type Activities</b>
	<b>Enterprise Fund</b>
	<b>Sequoia Conference Center</b>
<b><u>Operating Revenues</u></b>	
Local Revenues	\$ 184,990
Total Operating Revenues	184,990
<b><u>Operating Expenses</u></b>	
Classified Salaries	138,964
Employee Benefits	86,193
Books and Supplies	17,080
Contract Services	32,199
Total Operating Expenses	274,436
Operating Income (Loss)	(89,446)
<b><u>Non-Operating Activities</u></b>	
Interest	116
Transfers In	89,420
Non-Operating Income (Loss)	89,536
Change in Net Position	90
Net Position - July 1, 2016	155
Net Position - June 30, 2017	\$ 245

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

**HUMBOLDT COUNTY OFFICE OF EDUCATION  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

	<b>Business-Type Activities</b>
	<b>Enterprise Fund</b>
	<b>Sequoia Conference Center</b>
<b><i>Cash Flows From Operating Activities:</i></b>	
Cash Received from Local Revenue Sources	\$ 179,622
Payments for Salaries and Benefits	(225,157)
Payments to Suppliers for Goods and Services	(58,162)
Net Cash Provided (Used) by Operating Activities	(103,697)
<b><i>Cash Flows From Investing Activities:</i></b>	
Interest	116
Net Cash Provided by Investing Activities	116
<b><i>Cash Flows From Financing Activities:</i></b>	
Transfers In	89,420
Net Cash Provided by Financing Activities	89,420
Net Increase (Decrease) in Cash	(14,161)
Deposits and Investments - July 1, 2016	18,364
Deposits and Investments - June 30, 2017	\$ 4,203
<b><i>Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:</i></b>	
Operating Income (Loss)	\$ (89,446)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:	
Changes in Operating Assets and Liabilities:	
Increase:	
Receivables	(5,368)
Decrease:	
Accounts Payable	(8,883)
Net Cash Provided (Used) by Operating Activities	\$ (103,697)

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

**HUMBOLDT COUNTY OFFICE OF EDUCATION  
STATEMENT OF NET POSITION  
FIDUCIARY FUNDS  
JUNE 30, 2017**

	<u>Trust Funds</u>		<u>Agency Fund</u>	<u>Total Fiduciary Funds</u>
	<u>Retiree Benefits</u>	<u>Foundation</u>	<u>Payroll Deduction</u>	
<b><u>Assets</u></b>				
Deposits and Investments (Note 2)	\$ 1,943,797	\$ 59,860	\$ 4,832,196	\$ 6,835,853
Receivables	12,522	375		12,897
Total Assets	<u>1,956,319</u>	<u>60,235</u>	<u>4,832,196</u>	<u>6,848,750</u>
<b><u>Liabilities</u></b>				
Due to Districts			4,832,196	4,832,196
Total Liabilities	<u>0</u>	<u>0</u>	<u>4,832,196</u>	<u>4,832,196</u>
<b><u>Net Position</u></b>				
Restricted	<u>1,956,319</u>	<u>60,235</u>	<u>0</u>	<u>2,016,554</u>
Total Net Position	<u>\$ 1,956,319</u>	<u>\$ 60,235</u>	<u>\$ 0</u>	<u>\$ 2,016,554</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

**HUMBOLDT COUNTY OFFICE OF EDUCATION  
STATEMENT OF CHANGES IN NET POSITION  
FIDUCIARY FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

	Trust Funds		
	Retiree Benefits	Foundation	Totals
<b><u>Additions</u></b>			
Premiums and Contributions	\$ 493,567		\$ 493,567
Other Local Revenues		\$ 125	125
Interest	34,515	897	35,412
Total Additions	528,082	1,022	529,104
<b><u>Deductions</u></b>			
Contract Services	553,880	250	554,130
Total Deductions	553,880	250	554,130
Change in Net Position	(25,798)	772	(25,026)
<b><u>Net Position</u></b>			
Net Position - July 1, 2016	1,982,117	59,463	2,041,580
Net Position - June 30, 2017	\$ 1,956,319	\$ 60,235	\$ 2,016,554

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS



**HUMBOLDT COUNTY OFFICE OF EDUCATION**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES**

**A. Financial Reporting Entity**

The Humboldt County Office of Education (the "County Office") is a public educational agency operating under the applicable laws and regulations of the State of California. The County Office and Board of Education are the level of government which has governance responsibilities over all activities related to public school education as conducted by the County Office.

The County Office 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 as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants (AICPA).

The County Office is not included in any other governmental "reporting entity" as defined by the *Governmental Accounting Standards Board* since Board members have approval authority, the responsibility to significantly influence operations and primary accountability for fiscal matters.

Component units are legally separate organizations for which the County Office is financially accountable. Component units may also include organizations that are fiscally dependent on the County Office in that the County Office approves their budget, the issuance of their debt or the levying of their taxes. In addition, component units are other legally separate organizations for which the County Office is not financially accountable but the nature and significance of the organization's relationship with the County Office is such that exclusion would cause the County Office's financial statements to be misleading or incomplete. The County Office has identified no organizations that are required to be reported as component units.

**B. Basis of Presentation**

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

**Government-wide Financial Statements:**

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the non-fiduciary activities of the County Office. The government-wide financial 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.

**HUMBOLDT COUNTY OFFICE OF EDUCATION**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basis of Presentation (Concluded)

Government-wide Financial Statements (Concluded):

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 which 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 non-major funds are aggregated into one column. Fiduciary funds are reported by fund type.

The accounting and financial treatment applied to a fund is 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.

All proprietary fund types are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the proprietary fund's Statement of Net Position. The Statement of Revenues, Expenses, and Changes in Net Position for proprietary funds present increases (i.e., revenues) and decreases (i.e., expenses) in net position. The Statement of Cash Flows provides information about how the County Office finances and meets the cash flow needs of its proprietary activities.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the internal service fund are charges to other funds to accumulate resources to provide other post employment benefits in the future. Operating expenses for the internal service fund include the costs of providing other post employment benefits.

Fiduciary funds are reported using the economic resources measurement focus.

**HUMBOLDT COUNTY OFFICE OF EDUCATION**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. 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.

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. Under the 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 45, 60, 90 days after year-end, depending on the revenue source. However, to achieve comparability of reporting among California County Offices and so as not to distort normal revenue patterns, with specific respect to reimbursement grants and corrections to state aid apportionments, the California Department of Education has defined available as collectible within one year.

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.

**HUMBOLDT COUNTY OFFICE OF EDUCATION**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basis of Accounting (Concluded)

Expenses/Expenditures:

On an 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, then unrestricted resources as they are needed.

D. Fund Accounting

The accounts of the County Office are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity 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 maintains the following governmental fund types:

*County School Service Fund* - The County School Service Fund is the primary operating fund of a county office of education.

*Special Revenue Funds* - Special revenue funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.

*Debt Service Funds* - Debt service funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest.

*Capital Projects Funds* - Capital projects funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

*Proprietary Funds* - Proprietary funds focus on net position, the determination of changes in net position, and the cash flows related to the funds specified purpose.

*Fiduciary Funds* - Fiduciary funds are classified as either *Trust Funds*, which are used to account for assets held by the County Office as trustee, or *Agency Funds*, which are used to account for assets of others for which the County Office acts as an agent.

**HUMBOLDT COUNTY OFFICE OF EDUCATION**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Fund Accounting (Continued)

The County Office's accounts are organized into major, non-major, proprietary, and fiduciary funds as follows:

Major Governmental Funds:

*County School Service Fund* is the primary operating fund of the County Office. It is used to account for all financial resources except those required to be accounted for in other funds.

*Special Education Pass-Through Fund* is used to separately account for federal and state special education pass-through revenues that are restricted for specific purposes. Funds received in this fund are pass-through funds to the school Districts within Humboldt County.

Non-major Governmental Funds:

*Child Development Fund* is used to account for revenues received and expenditures made to operate child development programs.

*Forest Reserve Fund* is used to account separately for federal forest reserve funds received by the County Office for subsequent distribution.

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

*Capital Projects - Special Reserve Fund* is used to accumulate funds for the acquisition or construction of major capital facilities and equipment.

Proprietary Fund:

*Enterprise Funds* was established to account for the County Office's activities related to the Sequoia Conference Center, which are financed and operated in a manner similar to a business enterprise, such as revenues from rentals and catering services and related payroll and other expenses.

Fiduciary Funds:

*Trust Funds* are used to account for assets held by the County Office as trustee. The County Office maintains two trust funds: the Retiree Benefits Fund to account for resources that have been set aside to meet the County Office's future obligations related to its post employment benefits plan, and the Foundation Trust Fund to accumulate resources to address the needs of Special Education programs as recommended by the Burman Fund Committee at the bequest of the Burman Estate.

*Agency Funds* are used to account for payroll clearing accounts for districts throughout the County for which the County Office acts as an agent.

**HUMBOLDT COUNTY OFFICE OF EDUCATION**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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

**E. Budgets and Budgetary Accounting**

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for all governmental funds. By state law, the County Office's Governing Board must adopt a final budget no later than July 1. A public hearing must be conducted to receive comments prior to adoption. The County Office's Governing Board satisfied these requirements.

These budgets are revised by the County Board of Education and County Superintendent during the year to give consideration to unanticipated income and expenditures. The original and final revised budgets are presented for the County School Service Fund and Special Education Pass-Through Fund as required supplementary information on pages 61 and 62.

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.

**F. Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**G. Encumbrances**

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

**H. Cash and Cash Equivalents**

For purposes of the Statement of Cash Flows, the County Office considers all investments held in the Humboldt County Investment Pool to be cash equivalents.

**I. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Fund Equity**

**1. Deposits and Investments**

The County Office is authorized to maintain cash in banks and revolving funds that are insured to \$250,000 by the Federal Depository Insurance Corporation (FDIC). The County Office is considered to be an involuntary participant in an external investment pool as the County Office is required to deposit all receipts and collections of monies with their County Treasurer (Education Code Section 41001). The County 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 the FDIC or are collateralized.

**HUMBOLDT COUNTY OFFICE OF EDUCATION**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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

I. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Fund Equity (Continued)

1. Deposits and Investments (Concluded)

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

Investments with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost.

2. Other Post Employment Benefits (OPEB) Asset

This asset represents accumulated County Office contribution to the OPEB plan in excess of OPEB expense. Further details on the OPEB plan are disclosed in Note 8. Reported assets are equally offset by a reserve, which indicates that these amounts are not available for appropriation.

3. Prepaid Expenses/Expenditures

Payments made to vendors for goods or services that will benefit periods beyond the fiscal year ended, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which goods or services are consumed.

The reported prepaid expenses/expenditures are equally offset by a reserve, which indicates that these amounts are not available for appropriation.

4. Capital Assets

Capital assets purchased or acquired with an original cost of \$5,000 or more 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 asset's 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:

**HUMBOLDT COUNTY OFFICE OF EDUCATION**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
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**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

I. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Fund Equity (Continued)

4. Capital Assets (Concluded)

<u>Asset Class</u>	<u>Years</u>
Sites and Improvements	20
Buildings and Improvements	5-50
Furniture and Equipment	5-20

5. Deferred Outflows/Inflows of Resources

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

In addition to liabilities, the County Office will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources until that time.

6. Unearned Revenue

Cash received for federal and state special projects and programs is recognized as revenue to the extent that qualified expenditures have been incurred. Unearned revenue is recorded to the extent that cash received on specific projects and programs exceeds qualified expenditures.

7. Compensated Absences

All vacation pay is accrued when incurred in the government-wide financial statements.

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 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.

8. Pensions

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



**HUMBOLDT COUNTY OFFICE OF EDUCATION**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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

I. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Fund Equity (Concluded)

9. Long-term Liabilities

In the government-wide financial statements, long-term debt and other long-term obligations are reported as long-term liabilities in the Statement of Net Position. In fund financial statements, the face amount of the obligation is reported as other financing sources in the year the debt is issued.

10. Fund Balances

Governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the County Office is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The allowable classifications used in the governmental fund financial statements are as follows:

*Nonspendable Fund Balance* consists of funds that cannot be spent due to their form (e.g. inventories and prepaids) or funds that legally or contractually must be maintained intact.

*Restricted Fund Balance* consists of funds that are mandated for a specific purpose by external parties, constitutional provisions or enabling legislation.

*Committed Fund Balance* consists of funds that are set aside for a specific purpose by the County Office's highest level of decision making authority (Board of Education). Formal action must be taken prior to the end of the fiscal year. The same formal action must be taken to remove or change the limitations placed on the funds.

*Assigned Fund Balance* consists of funds that are set aside with the intent to be used for a specific purpose by the County Office's highest level of decision making authority or a body or official that has been given the authority to assign funds. As of June 30, 2017, the Board of Education has not assigned this authority to any official or body.

*Unassigned Fund Balance* consists of excess funds that have not been classified in the previous four categories. All funds in this category are considered spendable resources. This category also provides the resources necessary to meet unexpected expenditures and revenue shortfalls. The County Office is not required to establish a minimum fund balance policy or a stabilization arrangement. As a result, the County Office has not established a minimum fund balance policy or a stabilization arrangement.

The County Office considers restricted fund balances to have been spent first when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available. Similarly, when an expenditure is incurred for purposes for which amounts in any of the unrestricted classifications of fund balance could be used, the County Office considers committed amounts to be reduced first, followed by assigned amounts and then unassigned amounts.

**HUMBOLDT COUNTY OFFICE OF EDUCATION**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
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**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONCLUDED)**

I. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Fund Equity (Concluded)

11. Local Control Funding Formula (LCFF)/Property Tax

The LCFF funding is based on a two-part formula that takes into account the oversight responsibilities and instructional activities of the County Office. County Office funding under the LCFF is generally provided by a mix of State aid and local property taxes.

The County of Humboldt is responsible for assessing, collecting and apportioning property taxes to the County Office. Taxes are levied for each fiscal year on taxable real and personal property in the county. The levy is based on the assessed values as of the preceding January 1, which is also the lien date. Property taxes on the secured roll are due on November 1 and February 1, and taxes become delinquent after December 10 and April 10, respectively. Property taxes on the unsecured roll are due on the lien date (January 1), and become delinquent if unpaid by August 31.

Secured property taxes are recorded as revenue when apportioned, in the fiscal year of the levy. The county apportions secured property tax revenue in accordance with the alternative method of distribution prescribed by Section 4705 of the California *Revenue and Taxation Code*. This alternate method provides for crediting each applicable fund with its total secured taxes upon completion of the secured tax roll, approximately October 1 of each year.

The County Auditor reports the amount of the County Office's allocated property tax revenue to the California Department of Education. Property taxes are recorded as local LCFF sources by the County Office. The California Department of Education reduces the County Office's LCFF entitlement by the County Office's local property tax revenue. Any balance remaining is paid from the State General Fund, and is known as LCFF State Aid.

**NOTE 2 - DEPOSITS AND INVESTMENTS**

Summary of Deposits and Investments

Deposits and investments as of June 30, 2017, consist of the following:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Fiduciary Activities</u>
Cash in Revolving Fund	\$ 2,000		
County Pool Investments	<u>8,323,961</u>	<u>\$ 4,203</u>	<u>\$ 6,835,853</u>
Total Deposits and Investments	<u>\$ 8,325,961</u>	<u>\$ 4,203</u>	<u>\$ 6,835,853</u>

Cash in Revolving Fund

Cash in revolving fund consists of all cash maintained in commercial bank accounts that are used as revolving funds.

**HUMBOLDT COUNTY OFFICE OF EDUCATION**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
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**NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)**

County Pool Investments

County pool investments consist of County Office cash held by the Humboldt County Treasury that is invested in the county investment pool. The fair value of the County Office's investment in the pool is reported in the financial statements at amounts that are 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.

General Authorization

Limitations as they relate to interest rate risk, credit risk, and concentration of credit risk are indicated in the schedule below:

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

**HUMBOLDT COUNTY OFFICE OF EDUCATION  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)**

**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 does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The County Office manages its exposure to interest rate risk by investing in the Humboldt County Investment Pool.

**Weighted Average Maturity**

The County Office monitors the interest rate risk inherent in its portfolio by measuring the weighted average maturity of its portfolio. Information about the weighted average maturity of the County Office's portfolio is presented in the following schedule:

***Governmental Activities:***

<u>Investment Type</u>	<u>Carrying Value</u>	<u>Fair Value</u>	<u>Weighted Average Days to Maturity</u>
County Pool Investments	\$ 8,323,961	\$ 8,277,852	953

***Business-Type Activities:***

<u>Investment Type</u>	<u>Carrying Value</u>	<u>Fair Value</u>	<u>Weighted Average Days to Maturity</u>
County Pool Investments	\$ 4,203	\$ 4,180	953

***Fiduciary Activities:***

<u>Investment Type</u>	<u>Carrying Value</u>	<u>Fair Value</u>	<u>Weighted Average Days to Maturity</u>
County Pool Investments	\$ 6,835,853	\$ 6,797,987	953

**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. Investments in the County Treasury are not required to be rated.

**HUMBOLDT COUNTY OFFICE OF EDUCATION**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
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**NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)**

Credit Risk (Concluded)

***Governmental Activities:***

<u>Investment Type</u>	<u>Carrying Value</u>	<u>Fair Value</u>	<u>Rating at June 30, 2017</u>
County Pool Investments	\$ 8,323,961	\$ 8,277,852	Unrated

***Business-Type Activities:***

<u>Investment Type</u>	<u>Carrying Value</u>	<u>Fair Value</u>	<u>Rating at June 30, 2017</u>
County Pool Investments	\$ 4,203	\$ 4,180	Unrated

***Fiduciary Activities:***

<u>Investment Type</u>	<u>Carrying Value</u>	<u>Fair Value</u>	<u>Rating at June 30, 2017</u>
County Pool Investments	\$ 6,835,853	\$ 6,797,987	Unrated

Custodial Credit Risk - Deposits

This is the risk that in the event of a bank failure, the County Office's deposits may not be returned to it. The County Office does not have a policy for custodial credit risk for deposits. However, the California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2017, the County Office's bank balance was not exposed to custodial credit risk.

Fair Value Measurements

The County Office categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value. The following provides a summary of the hierarchy used to measure fair value:

**HUMBOLDT COUNTY OFFICE OF EDUCATION**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

**NOTE 2 - DEPOSITS AND INVESTMENTS (CONCLUDED)**

**Fair Value Measurements (Concluded)**

Level 1 - Quoted prices in active markets for identical assets that the County Office has the ability to access at the measurement date. Level 1 assets may include debt and equity securities that are traded in an active exchange market and that are highly liquid and are actively traded in over-the-counter markets.

Level 2 - Observable inputs other than Level 1 prices such as quoted prices for similar assets in active markets, quoted prices for identical or similar assets in markets that are not active, or other inputs that are observable, such as interest rates and curves observable at commonly quoted intervals, implied volatilities, and credit spreads. For financial reporting purposes, if an asset has a specific term, a Level 2 input is required to be observable for substantially the full term of the asset.

Level 3 - Unobservable inputs should be developed using the best information available under the circumstances, which might include the County Office's own data. The County Office should adjust that data if reasonable available information indicates that other market participants would use different data or certain circumstances specific to the County Office are not available to other market participants.

Uncategorized - Investments in the Humboldt County Investment Pool are not measured using the input levels above because the County Office's transactions are based on a stable net asset value per share. All contributions and redemptions are transacted at \$1.00 net asset value per share.

The County Office's fair value measurements are as follows at June 30, 2017:

***Governmental Activities:***

Investment Type	Fair Value	Uncategorized
County Pool Investments	\$ 8,277,852	\$ 8,277,852

***Business-Type Activities:***

Investment Type	Fair Value	Uncategorized
County Pool Investments	\$ 4,180	\$ 4,180

***Fiduciary Activities:***

Investment Type	Fair Value	Uncategorized
County Pool Investments	\$ 6,797,987	\$ 6,797,987

**HUMBOLDT COUNTY OFFICE OF EDUCATION**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

**NOTE 3 - RECEIVABLES**

Accounts receivables at June 30, 2017 consist of the following:

	General Fund	Special Education Pass-Through Fund	Non-Major Governmental Funds	Total Governmental Activities	Business Type Activities
Federal Government	\$ 890,665	\$ 1,273,353	\$ 36,896	\$ 2,200,914	
State Government	1,115,376		550	1,115,926	
Local Governments	93,375			93,375	
Interest	21,692			21,692	\$ 90
Miscellaneous	<u>1,323,827</u>			<u>1,323,827</u>	<u>9,779</u>
Totals	<u>\$ 3,444,935</u>	<u>\$ 1,273,353</u>	<u>\$ 37,446</u>	<u>\$ 4,755,734</u>	<u>\$ 9,869</u>

**NOTE 4 - INTERFUND ACTIVITIES**

**Interfund Transfers**

Interfund transfers consist of operating transfers from funds receiving revenue to funds through which the resources are to be expended. Interfund transfers for fiscal year 2016-17 were as follows:

<u>Governmental Funds</u>	<u>Transfers In</u>	<u>Transfers Out</u>
County School Service	\$ 1,762	\$ 304,039
Child Development		105
Forest Reserve		1,657
Debt Service	214,619	
Capital Projects - Special Reserve	<u>6,107</u>	<u>6,107</u>
Subtotals	222,488	311,908
 <u>Proprietary Fund</u>		
Enterprise	<u>89,420</u>	
Totals	<u>\$ 311,908</u>	<u>\$ 311,908</u>

Transfer of \$105 from the Child Development Fund to the County School Service Fund to eliminate the prior year balance of local funds.

Transfer of \$1,657 from the Forest Reserve Fund to the County School Service Fund to transfer County Office portion of forest reserve receipts.

Transfer of \$208,512 from the County School Service Fund to the Debt Service Fund to provide funding for certificates of participation debt service payments.

**HUMBOLDT COUNTY OFFICE OF EDUCATION**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

**NOTE 4 - INTERFUND ACTIVITIES (CONCLUDED)**

Interfund Transfers (Concluded)

Transfer of \$6,107 from the County School Service Fund to the Capital Projects-Special Reserve Fund to transfer community redevelopment funds.

Transfer of \$6,107 from the Capital Projects-Special Reserve Fund to the Debt service fund provide funding for certificates of participation debt service payments.

Transfer of \$89,420 from the County School Service Fund to the Enterprise Fund to cover excess operating expenses.

**NOTE 5 - CAPITAL ASSETS AND DEPRECIATION**

Capital asset activity for the year ended June 30, 2017, is shown below:

	Balances <u>July 1, 2016</u>	<u>Additions</u>	<u>Deletions</u>	Balances <u>June 30, 2017</u>
Land	\$ 1,320,268			\$ 1,320,268
Sites and Improvements	669,277			669,277
Buildings and Improvements	14,109,891	\$ 193,831	\$ 88,068	14,215,654
Furniture and Equipment	3,693,380	144,339	389,872	3,447,847
Work-in-Progress	152,350	154,986	17,927	289,409
Totals at Historical Cost	<u>19,945,166</u>	<u>493,156</u>	<u>495,867</u>	<u>19,942,455</u>
Less Accumulated Depreciation for:				
Sites and Improvements	172,850	33,463		206,313
Buildings and Improvements	3,005,136	340,960	88,068	3,258,028
Furniture and Equipment	2,664,946	245,817	350,126	2,560,637
Total Accumulated Depreciation	<u>5,842,932</u>	<u>620,240</u>	<u>350,126</u>	<u>6,024,978</u>
Governmental Activities				
Capital Assets, net	<u>\$ 14,102,234</u>	<u>\$ (127,084)</u>	<u>\$ 145,741</u>	<u>\$ 13,917,477</u>

Depreciation expense was charged to governmental activities as follows:

Instruction	\$ 154,277
Supervision of Instruction	15,574
Instruction Library and Technology	40,829
School Site Administration	8,667
Home -To-School Transportation	47,479
Food Services	9,808
Other Pupil Services	37,701
Data Processing Services	57,391
Other General Administration	142,105
Plant Services	35,936
Ancillary Services	12,301
Enterprise Activities	<u>58,172</u>
Total	<u>\$ 620,240</u>



**HUMBOLDT COUNTY OFFICE OF EDUCATION**  
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**FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

**NOTE 6 - HUMBOLDT REGIONAL OCCUPATIONAL PROGRAM HOUSE INVENTORY**

The County Office operates a Regional Occupational Program that constructs housing for the purpose of teaching occupational skills to participating students. The houses are later sold as a means of recouping the cost of land and materials. A schedule of changes in the housing inventory for the year ended June 30, 2017, is shown below:

	Balances July 1, 2016	Additions	Deductions	Balances June 30, 2017
Housing Inventory	\$ 548,324	\$ 172,294	\$ 449,731	\$ 270,887

**NOTE 7 - CERTIFICATES OF PARTICIPATION**

In July 2013, the County Office issued \$3,280,000 of Certificates of Participation (COPs), maturing in August 2043, with the coupon rates ranging from 2.0% to 5.5% to provide funds to finance the acquisition and construction of conference facilities for the Humboldt County Office of Education and pay costs of executing and delivering the Certificates. The term of the COPs will run until August 2043. At June 30, 2017, the outstanding principal balance for the certificates of participation was \$3,100,000.

The certificates of participation mature through fiscal year 2042-43 are as follows:

Year Ended June 30	Principal	Interest	Totals
2018	\$ 60,000	\$ 154,019	\$ 214,019
2019	65,000	152,819	217,819
2020	65,000	151,356	216,356
2021	65,000	149,569	214,569
2022	70,000	147,619	217,619
2023-2027	385,000	695,718	1,080,718
2028-2032	500,000	591,994	1,091,994
2033-2037	640,000	449,063	1,089,063
2038-2042	840,000	255,838	1,095,838
2043-2047	410,000	34,100	444,100
Totals	\$ 3,100,000	\$ 2,782,094	\$ 5,882,094

**NOTE 8 - OTHER POST EMPLOYMENT BENEFITS (OPEB)**

*Plan Description:* The plan is a single employer defined benefit healthcare plan administered by the County Office. The County Office provides post employment health care benefits to eligible employees who meet the age and service requirements that are applicable to each employees' hire date. The County Office provides coverage to the following groups of employees, as follows:

**HUMBOLDT COUNTY OFFICE OF EDUCATION  
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**NOTE 8 - OTHER POST EMPLOYMENT BENEFITS (OPEB) (CONTINUED)**

*Plan Description (Concluded):*

	<b>Certificated</b>	<b>Classified ****</b>	<b>Management ***</b>
<b>Benefit types provided</b>	Medical, dental and vision	Medical, dental and vision	Medical, dental and vision
<b>Duration of Benefits</b>	To age 65	1 month for each year of full-time service	10 years
<b>Required Service</b>	10 years *	10 years *	10 years
<b>Minimum age</b>	55	55	55
<b>Dependent Coverage</b>	Yes	Yes	Yes
<b>County Office Contribution %</b>	100%	100%	100%
<b>District Cap</b>	Active cap **	Active cap **	Active cap **

\* 20 years for those hired after June 30, 2001

\*\* Subject to cumulative cap of \$20,000 for those hired July 1, 1998 to June 30, 2001; and \$25,000 for those hired after June 30, 2001

\*\*\* For management, supervisory or confidential employees hired after July 1, 2001, retiree benefits are awarded on a discretionary basis

\*\*\*\* Classified benefits are provided on a temporary basis as provided in the Collective Bargaining Agreement

Management of the Retiree Benefit Trust is vested in the Humboldt County Board of Education, which consists of five elected members.

As of May 1, 2016, the effective date of the most recent triennial OPEB valuation, membership in the OPEB plan consisted of the following:

Inactive plan members or beneficiaries currently receiving benefit payments	28
Active plan members	<u>23</u>
<b>Total</b>	<b><u>51</u></b>

The contribution requirements of plan members and the County Office are established and may be amended by the County Office, the bargaining units and unrepresented groups. The required contribution is based on projected pay-as-you go financing requirements.

OPEB Plan Investments

All funds held in the Retiree Benefit Trust are invested in the Humboldt County Investment Pool, which is discussed in Note 2.

**HUMBOLDT COUNTY OFFICE OF EDUCATION**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
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**NOTE 8 - OTHER POST EMPLOYMENT BENEFITS (OPEB) (CONTINUED)**

**Investment Policy**

Each transaction and the entire portfolio must comply with California Government Code Section 53601, et. seq., Section 53635, et. Seq. and the Humboldt County Pooled Investment Fund investment policy.

In accordance with the investment policy, the specific objectives for the Pooled Investment Fund are ranked in order of importance, as follows:

- Safety of Capital – The preservation of capital is the primary objective. Each transaction shall seek to ensure that capital losses are avoided, whether they be from securities default or erosion of market value.
- Liquidity – As a second objective, the pooled Investment Fund should remain sufficiently flexible to ensure the County Treasury meets all operating requirements, which may be reasonably anticipated in any depositor’s fund.
- Maximum Rate of Return – As a third objective, the Pooled Investment Fund should be designed to attain a rate of return through budgetary and economic cycles, consistent with the risk limitations and prudent investment principles.

Information regarding the types of authorized investments that can be maintained in the Pooled Investment Fund and the maximum % of the Pool that can be invested in each type of investment, is disclosed in the detailed investment policy, which can be located on the Humboldt County website at [www.humboldt.gov/1343/Treasury](http://www.humboldt.gov/1343/Treasury).

**Target Allocation**

The Humboldt County Investment Pool does not specify a target allocation.

As of June 30, 2017, the Humboldt County Investment Pool portfolio consisted of the following:

Certificates of Deposit	1.15%
Money Markets	10.22%
Federal Agency Coupon Securities	83.73%
Treasury Coupon Securities	4.32%
Municipal Bonds	<u>.58%</u>
Total	<u>100.00%</u>

**Rate of Return:** For the year ended June 30, 2017, the annual money-weighted rate of return on investments, net of investment expense, was 1.30 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

**HUMBOLDT COUNTY OFFICE OF EDUCATION**  
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**NOTE 8 - OTHER POST EMPLOYMENT BENEFITS (OPEB) (CONTINUED)**

*Annual OPEB Cost and Net OPEB Obligation (Asset):* The following table shows the components of the County Office's annual OPEB cost for the fiscal year, and the amount actually contributed to the plan, which resulted in a net OPEB asset of \$264,089 for the year ended June 30, 2017:

Annual required contribution (ARC)	\$	493,522
Interest on net OPEB asset		(12,273)
Adjustment to ARC		<u>20,967</u>
Annual OPEB cost (expense)		502,216
Contributions for the fiscal year		<u>(493,567)</u>
Decrease in net OPEB asset		8,649
Net OPEB asset - June 30, 2016		<u>(272,738)</u>
Net OPEB asset - June 30, 2017	\$	<u>(264,089)</u>

The County Office's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation (asset) for the last three fiscal years are presented in the following table:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage Contributed</u>	<u>Net OPEB Obligation (Asset)</u>
June 30, 2017	\$ 493,522	98.3%	\$ (264,089)
June 30, 2016	497,693	86.9%	(272,738)
June 30, 2015	497,693	97.5%	(338,053)

*Actuarial Methods and Assumptions:* Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employer and plan members to that point.

The projection of future benefits for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of future events far into the future. Examples include mortality, turnover, disability, retirement and other factors that affect the number of people eligible to receive future retiree benefits. 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.

**HUMBOLDT COUNTY OFFICE OF EDUCATION**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
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**NOTE 8 - OTHER POST EMPLOYMENT BENEFITS (OPEB) (CONCLUDED)**

*Actuarial Methods and Assumptions (Concluded):* The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

In the May 1, 2016, actuarial valuation, the liabilities were computed using the entry age normal method with a 30-year level dollar percentage of salaries amortization of the unfunded actuarial accrued liability (UAAL). The actuarial valuation utilized a 4.5% discount rate, based on assumed long-term return on the County Office's assets. A compensation increase rate of 2.75% and general inflation rate of 2.75% was used in the valuation. The medical, dental, vision, and life insurance premiums trend rate are assumed to be 4% per year.

**NOTE 9 - RETIREMENT PLANS**

Qualified employees are covered under retirement plans maintained by agencies of the State of California. Certificated employees are eligible to participate under the multiple-employer, cost-sharing defined benefit plan administered by the California State Teachers' Retirement System (CalSTRS) and classified employees are eligible to participate under the multiple-employer, cost-sharing defined benefit plan administered by the California Public Employees' Retirement System (CalPERS).

The County Office reported net reported net pension liabilities, deferred outflows of resources, deferred inflows of resources, and pension expense in the accompanying government-wide financial statements as follows:

<u>Pension Plan</u>	<u>Net Pension Liability</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>	<u>Pension Expense</u>
CalSTRS	\$ 11,854,995	\$ 2,521,103	\$ 605,007	\$ 1,822,932
CalPERS	11,185,798	3,375,952	932,016	1,319,731
Totals	<u>\$ 23,040,793</u>	<u>\$ 5,897,055</u>	<u>\$ 1,537,023</u>	<u>\$ 3,142,663</u>

**A. California State Teachers' Retirement System (CalSTRS)**

*Plan Description*

The California State Teachers Retirement System (CalSTRS) provides pension benefits, including disability and survivor benefits, to California full-time and part-time public-school teachers and certain other employees of the public-school system. The Teachers' Retirement Law (California Education Code Section 22000 et seq.), as enacted and amended by the California Legislature, established the plan and CalSTRS as the administrator. The benefit terms of the plan may be amended through legislation. CalSTRS issues a stand-alone comprehensive annual financial report available to the public that can be found on the CalSTRS website.

**HUMBOLDT COUNTY OFFICE OF EDUCATION**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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NOTE 9 - RETIREMENT PLANS (CONTINUED)

A. California State Teachers' Retirement System (CalSTRS) (Continued)

Benefits Provided

The State Teachers' Retirement Plan (STRP) is a multiple-employer, cost-sharing defined benefit plan. The STRP holds assets for the exclusive purpose of providing benefits to members and beneficiaries of these programs and to defray reasonable expenses for administering the STRP. Although CalSTRS is the administrator of the STRP, the State of California is the sponsor of the STRP and obligor of the trust. In addition, the state is both an employer and nonemployer contributing entity of the STRP.

The STRP Defined Benefit Program has two benefit formulas:

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

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

CalSTRS 2% at 60

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

CalSTRS calculates retirement benefits based on one-year final compensation for members with 25 or more years of credited service, or for classroom teachers with fewer than 25 years of credited service if the employer entered into, extended, renewed, or amended an agreement prior to January 1, 2014, to elect to pay the additional benefit cost for all of its classroom teachers. One-year final compensation means a member's highest average annual compensation earnable for 12 consecutive months based on the creditable compensation that a member could earn in a school year while employed on a full-time basis. For most members with fewer than 25 years of credited service, final compensation is the highest average annual compensation earnable for any 36 consecutive months of credited service a member could earn in a school year.

**HUMBOLDT COUNTY OFFICE OF EDUCATION**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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NOTE 9 - RETIREMENT PLANS (CONTINUED)

A. California State Teachers' Retirement System (CalSTRS) (Continued)

CalSTRS 2% at 62

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

All CalSTRS 2% at 62 members have their final compensation based on their highest average annual compensation earnable for 36 consecutive months of credited service a member could earn in a school year.

Contributions

Required member, employer and state contribution rates are set by the California Legislature and Governor and are detailed in the Teachers' Retirement Law. A summary of statutory contribution rates and other sources of contributions to the Defined Benefit Program are as follows:

Members: Pursuant to Chapter 47, Statutes of 2014 (AB 1469 - Bonta), the CalSTRS member contribution rates were as follows: Under CalSTRS 2% at 60, the member contribution rate was 10.25% of applicable member earnings for fiscal year 2016-17. Under CalSTRS 2% at 62, the member contribution rate was 9.205% of applicable member earnings for fiscal year 2016-17. The rate imposed on CalSTRS 2% at 62 members is based assuming no change in the normal cost of benefits.

Employers: Pursuant to Chapter 47, Statutes of 2014 (AB 1469 - Bonta), the employer contribution rate was 12.58% of applicable member earnings for fiscal year 2016-17. The County Office contributed \$945,017 to the plan for the fiscal year ended June 30, 2017.

State: The contribution was 2.017% of the members' creditable earnings from the fiscal year ending in the prior calendar year. Also, as a result of AB 1469 - Bonta, the additional state appropriation required to fully fund the benefits in effect as of 1990 by 2046 is specified in Education Code Section 22955.1(b). The additional state contribution for the fiscal year ended June 30, 2017 was 4.311%. Including a 2.50% contribution for SBMA funding, the total state appropriation to the defined benefit program was 8.828% for the fiscal year ended June 30, 2017.

County Office's Proportionate Share of the Net Pension Liability, Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pensions

At June 30, 2017, the County Office reported a liability for its proportionate share of the net pension liability that reflected a reduction for State pension support provided to the County Office. The amount recognized by the County Office as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability associated with the County Office was as follows:

**HUMBOLDT COUNTY OFFICE OF EDUCATION**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

NOTE 9 - RETIREMENT PLANS (CONTINUED)

A. California State Teachers' Retirement System (CalSTRS) (Continued)

County Office's Proportionate Share of the Net Pension Liability, Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pensions (Continued)

County Office's proportionate share of the net pension liability	\$ 11,854,995
State's proportionate share of the net pension liability associated with the District	<u>6,748,837</u>
Total net pension liability attributed to District	<u><u>\$ 18,603,832</u></u>

The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015. The County Office's proportion of the net pension liability was based on a County Office's share of contributions to the pension plan relative to the contributions of all participating school districts, county office of education, and the State. The County Office's proportionate share of the net pension liability as of June 30, 2015 and June 30, 2016 was as follows:

Proportion - June 30, 2015	0.0152%
Proportion - June 30, 2016	<u>0.0147%</u>
Change - Increase (Decrease)	<u><u>-0.0005%</u></u>

For the fiscal year ended June 30, 2017, the County Office recognized pension expense of \$1,822,932 and revenue and expense of \$604,522 for support provided by the State. At June 30, 2017, the County Office reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
County Office contributions subsequent to the measurement date	\$ 945,017	
Differences between expected and actual experience		\$ 293,925
Changes in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions	570,955	311,082
Net differences between projected and actual earnings on plan investments	<u>1,005,131</u>	
Totals	<u><u>\$ 2,521,103</u></u>	<u><u>\$ 605,007</u></u>



**HUMBOLDT COUNTY OFFICE OF EDUCATION**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

NOTE 9 - RETIREMENT PLANS (CONTINUED)

A. California State Teachers' Retirement System (CalSTRS) (Continued)

County Office's Proportionate Share of the Net Pension Liability, Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pensions (Concluded)

The deferred outflows of resources related to County Office contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30	
2018	\$ 57,198
2019	57,198
2020	563,096
2021	362,127
2022	8,622
2023	(77,162)

Differences between expected and actual experience, changes in employer's proportion and differences in employer's contributions and employer's proportionate share of contributions are amortized over a closed period equal to the average remaining service life of plan members, which is 7 years as of June 30, 2016. Deferred outflows and inflows related to differences between projected and actual earnings on plan investments are netted and amortized over a closed 5-year period.

Actuarial Methods and Assumptions

The total pension liability for the STRP was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2015, and rolling forward the total pension liability to June 30, 2016. The financial reporting actuarial valuation as of June 30, 2015, used the following actuarial methods and assumptions, applied to all prior periods included in the measurement:

Valuation Date	June 30, 2015
Experience Study	July 1, 2006 through June 30, 2010
Actuarial Cost Method	Entry Age Normal
Investment Rate of Return <sup>1</sup>	7.60%
Consumer Price Inflation	3.00%
Wage Growth	3.75%
Post-retirement Benefit Increases	2.00% simple for DB (Annually) Maintain 85% purchasing power level for DB

<sup>1</sup> Net of investment expenses, but gross of administrative expenses. CalSTRS uses a 7.5% assumed investment rate of return for funding purposes, which is net of administrative expenses.

**HUMBOLDT COUNTY OFFICE OF EDUCATION**  
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NOTE 9 - RETIREMENT PLANS (CONTINUED)

A. California State Teachers' Retirement System (CalSTRS) (Continued)

Actuarial Methods and Assumptions (Concluded)

CalSTRS uses custom mortality tables to best fit the patterns of mortality among its members. These custom tables are based on RP2000 series tables adjusted to fit CalSTRS specific experience through June 30, 2015. RP2000 series tables are an industry standard set of mortality rates published in 2000 by the Society of Actuaries. See CalSTRS July 1, 2006 - June 30, 2010 Experience Analysis and June 30, 2015 Actuarial Program Valuations for more information.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. The best-estimate ranges were developed using capital market assumptions from CalSTRS general investment consultant (Pension Consulting Alliance - PCA) as an input to the process. The actuarial investment rate of return assumption was adopted by the board in 2012 in conjunction with the most recent experience study. For each future valuation, CalSTRS consulting actuary (Milliman) reviews the return assumption for reasonableness based on the most current capital market assumptions. Best estimates of 20-year geometric real rates of return and the assumed asset allocation for each major asset class for the year ended June 30, 2016, are summarized in the following table:

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

\* 20-year geometric average

Discount Rate

The discount rate used to measure the total pension liability was 7.60%. 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 as per AB 1469 - Bonta. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.60%) and assuming that contributions, benefit payments, and administrative expenses occur midyear.

**HUMBOLDT COUNTY OFFICE OF EDUCATION**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
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**NOTE 9 - RETIREMENT PLANS (CONTINUED)**

**A. California State Teachers' Retirement System (CalSTRS) (Concluded)**

*Discount Rate (Concluded)*

Based on those assumptions, the STRP's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

*Sensitivity of the County Office's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate*

The following table presents the County Office's proportionate share of the net pension liability of the Plan as of the measurement date, calculated using the discount rate of 7.60%, 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 one percentage point lower (6.60%) or one percentage point higher (8.60%) than the current rate:

	Discount Rate 1% Decrease 6.60%	Discount Rate Current Rate 7.60%	Discount Rate 1% Increase 8.60%
County Office's proportionate share of the net pension liability	\$ 17,062,011	\$ 11,854,995	\$ 7,530,350

*Pension Plan's Fiduciary Net Position*

Detailed information about the pension plan's fiduciary net position is available in the separately issued CalSTRS financial report.

**B. California Public Employees' Retirement System (CalPERS)**

*Plan Description, Benefits Provided, and Employees Covered*

The County Office contributes to the School Employer Pool under the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by the CalPERS. All employees who work at least half time or are appointed to a job that will last at least six months and one day are eligible for CalPERS. Benefits vest after five years. Employees are eligible to retire at or after age 50 having attained five years of credited service and are entitled to an annual retirement benefit, payable monthly for life. Employees hired after January 1, 2013 with five years of credit service must be at least age 52 to retire.

The Plan provides retirement, disability, and death benefits, and annual cost-of-living adjustments to plan members and beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Law. 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.

**HUMBOLDT COUNTY OFFICE OF EDUCATION**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
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NOTE 9 - RETIREMENT PLANS (CONTINUED)

B. California Public Employees' Retirement System (CalPERS) (Continued)

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. The total plan contributions are determined through CalPERS' annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The County Office is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. Active plan members who entered into the plan prior to January 1, 2013 are required to contribute 7.0% of their salary, and new members entering into the plan on or after January 1, 2013 are required to contribute the higher of 50% of the total normal cost rate for their defined benefit plan or 6.0% of their salary. The County Office's contractually required contribution rate for the fiscal year ended June 30, 2017 was 13.888% of annual payroll. The County Office's contribution to CalPERS for the fiscal year ended June 30, 2017 was \$1,060,772.

County Office's Proportionate Share of the Net Pension Liability, Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pensions

As of June 30, 2017, the County Office reported a liability of \$11,185,798 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015 rolled forward to June 30, 2016 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 plan 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, 2015 and June 30, 2016 was as follows:

Proportion - June 30, 2015	0.0596%
Proportion - June 30, 2016	<u>0.0566%</u>
Change - Increase (Decrease)	<u><u>-0.0030%</u></u>

For the fiscal year ended June 30, 2017, the County Office recognized pension expense of \$1,319,731. At June 30, 2017, the County Office reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

**HUMBOLDT COUNTY OFFICE OF EDUCATION**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

NOTE 9 - RETIREMENT PLANS (CONTINUED)

B. California Public Employees' Retirement System (CalPERS) (Continued)

County Office's Proportionate Share of the Net Pension Liability, Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pensions (Concluded)

	Deferred Outflows of Resources	Deferred Inflows of Resources
County Office contributions subsequent to the measurement date	\$ 1,060,772	
Differences between expected and actual experience	507,675	
Changes of assumptions		\$ 363,082
Changes in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions	133,908	568,934
Net differences between projected and actual earnings on plan investments	1,673,597	
Totals	\$ 3,375,952	\$ 932,016

The deferred outflows of resources related to County Office contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30	
2018	\$ 153,791
2019	19,883
2020	756,494
2021	452,996

Differences between expected and actual experience, changes in assumptions, and changes in employer's proportion and differences in employer's contributions and employer's proportionate share of contributions are amortized over a closed period equal to the average remaining service life of plan members, which is 4 years as of June 30, 2016. Differences between projected and actual earnings on plan investments are netted and reduced over a closed 5-year period.

**HUMBOLDT COUNTY OFFICE OF EDUCATION**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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NOTE 9 - RETIREMENT PLANS (CONTINUED)

B. California Public Employees' Retirement System (CalPERS) (Continued)

Actuarial Assumptions

The total pension liability in the June 30, 2015 actuarial valuations were determined using the following actuarial methods and assumptions:

Valuation Date	June 30, 2015
Measurement Date	June 30, 2016
Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions:	
Discount Rate	7.65%
Consumer Price Inflation	2.75%
Payroll Growth	Varies
Investment Rate of Return	7.65%
Post Retirement Benefit Increase (1)	

(1) Contract COLA up to 2.00% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

Mortality rate table used was developed based on CalPERS specific data. The table includes 20 years of projected on-going mortality improvements using Scale BB published by the Society of Actuaries.

All other actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period 1997 to 2011, including updates to salary increase, mortality and retirement rates. Further details of the Experience Study can be found on the CalPERS website.

Discount Rate

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

**HUMBOLDT COUNTY OFFICE OF EDUCATION**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

**NOTE 9 - RETIREMENT PLANS (CONTINUED)**

**B. California Public Employees' Retirement System (CalPERS) (Continued)**

*Discount Rate (Concluded)*

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the 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 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 geometric rates of return are net of administrative expenses.

Asset Class	Assumed Asset Allocation	Real Return Years 1 - 10(a)	Real Return Years 11+(b)
Global Equity	51.0%	5.25%	5.71%
Global Debt Securities	20.0%	0.99%	2.43%
Inflation Assets	6.0%	0.45%	3.36%
Private Equity	10.0%	6.83%	6.95%
Real Estate	10.0%	4.50%	5.13%
Infrastructure and Forestland	2.0%	4.50%	5.09%
Liquidity	1.0%	-0.55%	-1.05%
Total	<u>100%</u>		

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

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

*Sensitivity of the County Office's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate*

The following presents the County Office's proportionate share of the net pension liability calculated using the discount rate of 7.65%, as well as what the County Office's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.65%) or 1 percentage point higher (8.65%) than the current rate:

**HUMBOLDT COUNTY OFFICE OF EDUCATION**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

**NOTE 9 - RETIREMENT PLANS (CONCLUDED)**

**B. California Public Employees' Retirement System (CalPERS) (Concluded)**

*Sensitivity of the County Office's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate (Concluded)*

	Discount Rate 1% Decrease 6.65%	Discount Rate Current Rate 7.65%	Discount Rate 1% Increase 8.65%
County Office's proportionate share of the net pension liability	\$ 16,689,273	\$ 11,185,798	\$ 6,603,072

*Pension Plan Fiduciary Net Position*

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

**C. Social Security**

As established by Federal law, all public-sector employees who are not members of their employer's existing retirement system (CalSTRS or CalPERS) must be covered by social security or an alternative plan. The County Office has elected to use Social Security as its alternative plan. Contributions made by the County Office and participating employees vest immediately. Both the County Office and participating employees were required to contribute 6.2% of an employee's gross earnings, up to the annual limit.

**NOTE 10 - LONG-TERM LIABILITIES**

A schedule of changes in long-term liabilities for the year ended June 30, 2017, is shown below:

	Balances July 1, 2016	Additions	Deductions	Balances June 30, 2017	Due within One Year
Compensated Absences	\$ 425,248		\$ 2,743	\$ 422,505	
Certificates of Participation	3,160,000		60,000	3,100,000	\$ 60,000
Net Pension Liability - CalSTRS	10,256,000	\$ 1,598,995		11,854,995	
Net Pension Liability - CalPERS	8,790,000	2,395,798		11,185,798	
<b>Totals</b>	<b>\$ 22,631,248</b>	<b>\$ 3,994,793</b>	<b>\$ 62,743</b>	<b>\$ 26,563,298</b>	<b>\$ 60,000</b>

The long-term liabilities presented above are primarily obligations of the County School Service Fund.



**HUMBOLDT COUNTY OFFICE OF EDUCATION**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

**NOTE 11 - FUND BALANCES**

The County Office's fund balances at June 30, 2017 consisted of the following:

	County School Service Fund	Special Education Pass- Through Fund	Totals
Nonspendable:			
Revolving Cash	\$ 2,000		\$ 2,000
Prepaid Expenditures	59,674		59,674
Total Nonspendable	<u>61,674</u>		<u>61,674</u>
Restricted:			
Categorical Programs	3,802,438	\$ 59,189	3,861,627
Local Programs	618,081		618,081
Total Restricted	<u>4,420,519</u>	<u>59,189</u>	<u>4,479,708</u>
Assigned:			
AB 1200 Fiscal Oversight	60,485		60,485
LCAP Activities	33,857		33,857
Facilities	52,698		52,698
Motor Pool	81,405		81,405
SUMS Initiative	25,000		25,000
Special Education Transportation	9,527		9,527
INS Capital Outlay	290,902		290,902
Legal Consortium	10,000		10,000
Student Program Donations	120,533		120,533
CTE / Student Programs	136,042		136,042
Lottery	194,488		194,488
Total Unassigned	<u>1,014,937</u>		<u>1,014,937</u>
Unassigned:			
Reserve for Economic Uncertainties	4,202,581		4,202,581
Total Unassigned	<u>4,202,581</u>		<u>4,202,581</u>
Total Fund Balances	<u>\$ 9,699,711</u>	<u>\$ 59,189</u>	<u>\$ 9,758,900</u>

**NOTE 12 - ON-BEHALF PAYMENTS MADE BY THE STATE OF CALIFORNIA**

The County Office was the recipient of on-behalf payments made by the State of California to the California State Teachers' Retirement System (CalSTRS) for K-12 education. These payments consist of state general fund contributions of \$604,521 to CalSTRS (8.602365% of creditable compensation subject to CalSTRS).

**NOTE 13 - RISK MANAGEMENT**

The County Office is exposed to various risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2016-17, the County Office participated in one joint powers authority (JPA) for purposes of pooling for risk. There were no significant reductions in coverage during the year. Settlements have not exceeded coverage during any of the past three years.

**HUMBOLDT COUNTY OFFICE OF EDUCATION**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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**NOTE 14 - JOINT VENTURES**

The County Office participates in two joint ventures under joint powers agreements with the Northern Coast Schools Insurance Group (NCSIG) for property & liability and workers' compensation, and the North Coast Schools Medical Insurance Group (NCSMIG) for medical, dental, and vision coverage. The relationship between the County Office and the JPAs are such that the JPAs are not a component unit of the County Office for financial reporting.

The JPAs arrange for and/or provide coverage or services for its members. The JPAs are governed by a board consisting of a representative from each member. Each board controls the operations of their JPAs, including selection of management and approval of operating budgets independent of any influence by the member districts beyond their representation on the Board. Each member pays a premium commensurate with the level of coverage requested and shares surpluses and deficits proportionately to their participation in the JPAs. The JPAs are audited on an annual basis. Audited financial statements can be obtained by contacting each JPA's management.

**NOTE 15 - COMMITMENTS AND CONTINGENCIES**

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

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

**B. Litigation**

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

**NOTE 16 - CURRENT AND FUTURE GASB IMPLEMENTATION**

**A. Current GASB Implementation**

In June 2015, the Governmental Accounting Standard Board (GASB) issued GASB Statement No. 74 (GASB 74), *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, with required implementation for the District during the year ended June 30, 2017. The primary objective of GASB 74 is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans 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 (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency.

The effect of implementing GASB 74 during the current year has been limited to providing additional footnote disclosures and required supplementary information schedules in the current year annual report.

**HUMBOLDT COUNTY OFFICE OF EDUCATION**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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**NOTE 16 - CURRENT AND FUTURE GASB IMPLEMENTATION (CONCLUDED)**

**B. Future GASB Implementation**

In June 2015, the Governmental Accounting Standard Board (GASB) issued GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, with required implementation for the District in fiscal year 2017-18. 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 GASB 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and establishes new accounting and financial reporting requirements for OPEB plans

**NOTE 17 - SUBSEQUENT EVENTS**

The County Office's management has evaluated events or transactions that occurred for possible recognition or disclosure in the financial statements from the balance sheet date through December 8, 2017, which is the date the financial statements were available to be issued. Management has determined that there were no subsequent events or transactions that require disclosure in or adjustment to the current year financial statements, except as follows:

**Actuarial Valuation – Retiree Health Benefits**

On November 27, 2017, an actuarial study of Humboldt County Office of Education's retiree health benefit liabilities under GASB Statements No. 74 and 75 was completed. As discussed in Note 16B, the County Office will adopt GASB Statement No. 75 (GASB 75) during fiscal year 2017-18. As a result of implementing the new standard, the County Office will now be required to record the Net OPEB Liability (Unfunded Actuarial Liability) on the Statement of Net Position, versus recording an OPEB Asset or OPEB Liability on the Statement of Net Position, which only reflects the cumulative difference between the actual OPEB contributions made by the County Office and the calculated Annual OPEB cost, as was done in the current year annual report at Note 8. (Page 44)

A Schedule of Changes in the Net OPEB Liability and Related Ratios, which is based on the new GASB 74/75 compliant actuarial study, is presented on Page 64 for informational purposes.



REQUIRED SUPPLEMENTARY INFORMATION SECTION



**HUMBOLDT COUNTY OFFICE OF EDUCATION**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**BUDGET AND ACTUAL - COUNTY SCHOOL SERVICE FUND**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
<b><u>Revenues</u></b>				
LCFF Sources:				
State Apportionment / Transfers	\$ 7,290,619	\$ 7,238,134	\$ 7,206,688	\$ (31,446)
Local Sources	1,801,104	1,813,230	1,884,276	71,046
Total LCFF Sources	9,091,723	9,051,364	9,090,964	39,600
Federal Revenue	2,070,104	1,923,653	1,906,760	(16,893)
Other State Revenue	6,817,332	7,778,340	8,056,568	278,228
Other Local Revenue	12,727,615	14,279,366	13,910,384	(368,982)
Total Revenues	30,706,774	33,032,723	32,964,676	(68,047)
<b><u>Expenditures</u></b>				
Current:				
Certificated Salaries	7,747,595	8,006,625	7,972,017	34,608
Classified Salaries	7,622,778	7,726,670	7,657,428	69,242
Employee Benefits	8,785,118	8,838,874	8,980,681	(141,807)
Books and Supplies	786,194	993,634	968,738	24,896
Services and Other				
Operating Expenditures	4,971,901	6,039,799	5,913,116	126,683
Capital Outlay	346,077	575,614	576,736	(1,122)
Debt Service:				
Principal Retirement	20,000			
Other Expenditures	1,397,385	1,627,317	1,605,219	22,098
Total Expenditures	31,677,048	33,808,533	33,673,935	134,598
Excess of Revenues (Under) Expenditures	(970,274)	(775,810)	(709,259)	66,551
<b><u>Other Financing Sources (Uses)</u></b>				
Operating Transfers In		1,657	1,762	105
Operating Transfers Out	(323,936)	(299,383)	(304,039)	(4,656)
Other Sources	375,000	416,363	416,363	
Total Other Financing Sources (Uses)	51,064	118,637	114,086	(4,551)
Net Change in Fund Balances	(919,210)	(657,173)	(595,173)	\$ 62,000
Fund Balances - July 1, 2016	10,294,884	10,294,884	10,294,884	
Fund Balances - June 30, 2017	\$ 9,375,674	\$ 9,637,711	\$ 9,699,711	

SEE NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

**HUMBOLDT COUNTY OFFICE OF EDUCATION  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
BUDGET AND ACTUAL - SPECIAL EDUCATION PASS-THROUGH FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
<b><u>Revenues</u></b>				
Federal Revenue	\$ 4,072,841	\$ 4,193,376	\$ 4,193,377	\$ 1
Other State Revenue	7,930,846	7,930,846	7,652,964	(277,882)
Total Revenues	<u>12,003,687</u>	<u>12,124,222</u>	<u>11,846,341</u>	<u>(277,881)</u>
<b><u>Expenditures</u></b>				
Current:				
Other Expenditures	12,003,687	12,124,222	11,846,341	277,881
Total Expenditures	<u>12,003,687</u>	<u>12,124,222</u>	<u>11,846,341</u>	<u>277,881</u>
Net Change in Fund Balances	0	0	0	<u>\$ 0</u>
Fund Balances - July 1, 2016	<u>59,189</u>	<u>59,189</u>	<u>59,189</u>	
Fund Balances - June 30, 2017	<u>\$ 59,189</u>	<u>\$ 59,189</u>	<u>\$ 59,189</u>	

SEE NOTES TO REQUIRED SUPPLEMENTARY INFORMATION



HUMBOLDT COUNTY OFFICE OF EDUCATION

SCHEDULE OF PROGRESS FUNDING

JUNE 30, 2017

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<u>Actuarial Valuation Date</u>	<u>Value of Assets</u>	<u>Accrued Liability (AAL)</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>Percentage of Covered Payroll</u>
5/1/16	\$ 1,953,509	\$ 3,674,177	\$ 2,383,586	53%	\$ 9,497,476	25.1%
5/1/13	2,098,828	4,343,705	2,244,877	48%	6,904,215	32.5%
2/1/10	1,580,112	4,013,580	2,433,468	39%	7,062,505	34.4%

SEE NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

HUMBOLDT COUNTY OFFICE OF EDUCATION

SCHEDULE OF CHANGES IN NET OPEB LIABILITY AND RELATED RATIOS

FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	<u>Total OPEB Liability</u>		<u>Increase / (Decrease) Plan Fiduciary Net Position</u>		<u>Net OPEB Liability</u>	
Balance as of June 30, 2016	\$ 7,135,268	**	\$ 1,982,117	**	\$ 5,153,151	**
Service Cost	573,437	**			573,437	**
Interest on Total OPEB Liability	249,801	**			249,801	**
Contributions			493,567	**	(493,567)	**
Actual Investment Income			34,515	**	(34,515)	**
Benefit Payments	<u>(553,880)</u>	**	<u>(553,880)</u>	**		
Balance at June 30, 2017	<u>\$ 7,404,626</u>	**	<u>\$ 1,956,319</u>	**	<u>\$ 5,448,307</u>	**

Plan Fiduciary Net Position as a  
Percentage of Total OPEB Liability

26% \*\*

Covered-Employee Payroll

\$ 9,479,069 \*\*

Net OPEB Liability as a Percentage  
of Covered-Employee Payroll

57% \*\*

	<u>Discount Rate 1% Decrease</u>		<u>Valuation Discount Rate</u>		<u>Discount Rate 1% Increase</u>	
Sensitivity of Net OPEB Liability to Changes in the Discount Rate	\$ 5,050,721	**	\$ 5,448,307	**	\$ 5,851,043	**

\*\* The information presented above was not used for determining any amounts reported in the current year financial statements or note disclosures. The above information is presented for informational purposes only, as required by GASB Statement No. 74.

**HUMBOLDT COUNTY OFFICE OF EDUCATION**  
**SCHEDULE OF INVESTMENT RETURNS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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<u>Trust Fund - Retiree Benefits</u>	
<u>Year Ended June 30</u>	<u>Annual Money-Weighted Rate of Return, Net of Investment Expenses</u>
2017	1.30%

\* This is a 10-year schedule, however the information in this schedule is not required to be presented retroactively. Additional years will be added to this schedule as information becomes available until 10 years are presented.

SEE NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

HUMBOLDT COUNTY OFFICE OF EDUCATION

SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET PENSION LIABILITY - CALSTRS \*

JUNE 30, 2017

Year Ended June 30	County Office's Proportion of the NPL	County Office's Proportionate Share of the NPL	State's Proportionate Share of the NPL Associated to County Office	Total NPL Attributed to County Office	County Office's Covered Payroll	County Office's Proportionate Share of the NPL as a % of Covered Payroll	Plan Fiduciary Net Position As a % of Total Pension Liability
2017	0.0147%	\$ 11,854,995	\$ 6,748,837	\$ 18,603,832	\$ 7,304,800	162.29%	70.04%
2016	0.0152%	10,203,654	5,396,608	15,600,262	7,071,000	144.30%	74.02%
2015	0.0141%	8,217,929	4,962,340	13,180,269	6,308,000	130.28%	76.52%

\* The amounts presented for each fiscal year were determined based on a measurement date that was one year prior to the year-end date. This is a 10-year schedule, however the information in this schedule is not required to be presented retroactively. Additional years will be added to this schedule as information becomes available until 10 years are presented.

SEE NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

HUMBOLDT COUNTY OFFICE OF EDUCATION

SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET PENSION LIABILITY - CALPERS \*

JUNE 30, 2017

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Year Ended June 30	County Office's Proportion of the NPL	County Office's Proportionate Share of the NPL	County Office's Covered Payroll	County Office's Proportionate Share of the NPL as a % of Covered Payroll	Plan Fiduciary Net Position As a % of Total Pension Liability
2017	0.0566%	\$ 11,185,798	\$ 6,794,733	164.62%	73.90%
2016	0.0596%	8,788,125	6,602,000	133.11%	79.43%
2015	0.0626%	7,106,312	6,252,000	113.66%	83.38%

\* The amounts presented for each fiscal year were determined based on a measurement date that was one year prior to the year-end date. This is a 10-year schedule, however the information in this schedule is not required to be presented retroactively. Additional years will be added to this schedule as information becomes available until 10 years are presented.

HUMBOLDT COUNTY OFFICE OF EDUCATION

SCHEDULE OF CONTRIBUTIONS - CALSTRS \*

FOR THE FISCAL YEAR ENDED JUNE 30, 2017

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Year Ended June 30	Actuarially Determined Contributions	Contributions In Relation to Contractually Required Contributions	Contribution Deficiency/ (Excess)	County Office's Covered Payroll	Contributions As a % of Covered Payroll
2017	\$ 945,017	\$ 945,017	\$ -	\$ 7,512,059	12.580%
2016	789,608	789,608	-	7,358,882	10.730%
2015	627,904	627,904	-	7,070,991	8.880%

\* This is a 10-year schedule, however the information in this schedule is not required to be presented retroactively. Additional years will be added to this schedule as information becomes available until 10 years are presented.

HUMBOLDT COUNTY OFFICE OF EDUCATION

SCHEDULE OF CONTRIBUTIONS - CALPERS \*

FOR THE FISCAL YEAR ENDED JUNE 30, 2017

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Year Ended June 30	Actuarially Determined Contributions	Contributions In Relation to Contractually Required Contributions	Contribution Deficiency/ (Excess)	County Office's Covered Payroll	Contributions As a % of Covered Payroll
2017	\$ 1,060,772	\$ 1,060,772	\$ -	\$ 7,638,047	13.888%
2016	805,758	805,758	-	6,801,367	11.847%
2015	777,084	777,084	-	6,601,682	11.771%

\* This is a 10-year schedule, however the information in this schedule is not required to be presented retroactively. Additional years will be added to this schedule as information becomes available until 10 years are presented.

**HUMBOLDT COUNTY OFFICE OF EDUCATION**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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**NOTE 1 - PURPOSE OF STATEMENTS AND SCHEDULES**

**A. Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual**

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 34, the County Office is required to present a Schedule of Revenues, Expenditures, and Changes in Fund Balance budgetary comparison for the County School Service Fund and each Major Special Revenue Fund that has an adopted budget. This schedule presents the original adopted budget, final adopted budget, and the actual revenues and expenditures of each of these funds by object.

Excess of expenditures over appropriations as of June 30, 2017 were as follows:

<u>Funds</u>	<u>Excess Expenditures</u>
County School Service Fund:	
Employee Benefits	\$ 141,807
Capital Outlay	1,122

The County Office incurred unanticipated expenditures in excess of appropriations in each of the above expenditure classifications for which the budgets were not revised.

**B. Schedule of Funding Progress**

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 45, the County Office is required to present a Schedule of Funding Progress which shows the funding progress of the County Office's OPEB plan for the most recent valuation and the two preceding valuations. The information required to be disclosed includes the valuation date, the actuarial value of assets, the actuarial accrued liability, the total unfunded actuarial liability (or funding excess), the actuarial value of assets as a percentage of the actuarial accrued liability (funded ratio), the annual covered payroll and the ratio of the unfunded actuarial liability (or funding excess) to annual covered payroll.

**C. Schedule of Changes in the Net OPEB Liability and Related Ratios**

In accordance with Governmental Accounting Standards Board Statement No. 74, the County Office is required to present a schedule covering each of the 10 most recent fiscal years that includes a schedule of changes in the Net OPEB Liability and various OPEB related ratios for each year.

**D. Schedule of Investment Returns**

In accordance with Governmental Accounting Standards Board Statement No. 74, the County Office is required to present a schedule covering each of the 10 most recent fiscal years that includes the annual money-weighted rate of return on OPEB plan investments for each year.



**HUMBOLDT COUNTY OFFICE OF EDUCATION**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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NOTE 1 - PURPOSE OF STATEMENTS AND SCHEDULES (CONCLUDED)

E. Schedule of the Proportionate Share of the Net Pension Liability

In accordance with Governmental Accounting Standards Board Statement No. 68, the County Office is required to present separately for each cost-sharing pension plan through which pensions are provided a 10-year schedule presenting certain information. The information required to be presented includes the County Office's proportion and proportionate share of the collective net pension liability, the portion of the nonemployer contributing entities' total proportionate share of the collective net pension liability associated with the County Office, if applicable, the County Office's covered payroll, the County Office's proportionate share of the collective net pension liability as a percentage of the County Office's covered payroll, and the pension plan's fiduciary net position as a percentage of the total pension liability.

F. Schedule of Contributions

In accordance with Governmental Accounting Standards Board Statement No. 68, the County Office is required to present separately for each cost-sharing pension plan through which pensions are provided a 10-year schedule presenting certain information. The information required to be presented includes the statutorily or contracted required County Office contribution, the amount of contributions recognized by the pension plan in relation to the required County Office contribution, the difference between the required County Office contribution and the amount recognized by the pension plan, the County Office's covered payroll, and the amount of contributions recognized by the pension plan in relation of the County Office as a percentage of the County Office's covered payroll.

NOTE 2 - SUMMARY OF CHANGES OF BENEFITS OR ASSUMPTIONS

A. Benefit Changes

There have been no changes to benefit terms since the previous valuation for either CalSTRS or CalPERS.

B. Changes of Assumptions

There have been no changes in assumptions since the previous valuation for either CalSTRS or CalPERS.



SUPPLEMENTARY INFORMATION SECTION



**HUMBOLDT COUNTY OFFICE OF EDUCATION  
ORGANIZATION/BOARD OF EDUCATION/ADMINISTRATION  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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ORGANIZATION

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

BOARD OF EDUCATION

<u>Name</u>	<u>Office</u>	<u>Term Expires</u>
Bill Ruff	President	January, 2018
Loretta Eckenrode	Vice President	January, 2018
Mark Rowley	Member	January, 2020
Mary Scott	Member	January, 2018
Robert Siekmann	Member	January, 2020

ADMINISTRATION

Chris Hartley, Ed.D.  
Humboldt County Superintendent of Schools

Jon Sapper, Ed.D.  
Deputy Superintendent

Lynette Kerr  
Chief Business Official

**HUMBOLDT COUNTY OFFICE OF EDUCATION  
 COMBINING BALANCE SHEET  
 NON-MAJOR GOVERNMENTAL FUNDS  
 JUNE 30, 2017**

	<u>Child Development</u>	<u>Forest Reserve</u>	<u>Debt Service</u>	<u>Capital Projects - Special Reserve</u>	<u>Total Non-Major Governmental Funds</u>
<b><u>Assets</u></b>					
Deposits and Investments	\$ 70,177				\$ 70,177
Receivables	37,446				37,446
Total Assets	<u>\$ 107,623</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 107,623</u>
<b><u>Liabilities and Fund Balances</u></b>					
Liabilities:					
Accounts Payable	\$ 16,455				\$ 16,455
Unearned Revenue	91,168				91,168
Total Liabilities	<u>107,623</u>				<u>107,623</u>
Fund Balances:					
Unassigned	<u>0</u>				<u>0</u>
Total Fund Balances	<u>0</u>				<u>0</u>
Total Liabilities and Fund Balances	<u>\$ 107,623</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 107,623</u>

SEE NOTES TO SUPPLEMENTARY INFORMATION

**HUMBOLDT COUNTY OFFICE OF EDUCATION  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND  
 CHANGES IN FUND BALANCES  
 NON-MAJOR GOVERNMENTAL FUNDS  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

	<u>Child Development</u>	<u>Forest Reserve</u>	<u>Debt Service</u>	<u>Capital Projects - Special Reserve</u>	<u>Total Non-Major Governmental Funds</u>
<b><u>Revenues</u></b>					
Federal Revenue	\$ 275,104	\$ 13,803			\$ 288,907
State Revenue	26,099				26,099
Local Revenue		6			6
Total Revenues	<u>301,203</u>	<u>13,809</u>			<u>315,012</u>
<b><u>Expenditures</u></b>					
Current:					
Supervision of Instruction	190,804				190,804
Other Pupil Services	91,424				91,424
Other General Administration	18,975				18,975
Other Outgo		12,152			12,152
Debt Service:					
Principal Retirement			\$ 60,000		60,000
Interest and Issuance Costs			154,619		154,619
Total Expenditures	<u>301,203</u>	<u>12,152</u>	<u>214,619</u>		<u>527,974</u>
Excess of Revenues Over (Under) Expenditures	<u>0</u>	<u>1,657</u>	<u>(214,619)</u>		<u>(212,962)</u>
<b><u>Other Financing Sources (Uses)</u></b>					
Operating Transfers In			214,619	\$ 6,107	220,726
Operating Transfers Out	(105)	(1,657)		(6,107)	(7,869)
Total Other Financing Sources (Uses)	<u>(105)</u>	<u>(1,657)</u>	<u>214,619</u>	<u>0</u>	<u>212,857</u>
Net Change in Fund Balances	(105)	0	0	0	(105)
Fund Balances - July 1, 2016	<u>105</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>105</u>
Fund Balances - June 30, 2017	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

SEE NOTES TO SUPPLEMENTARY INFORMATION

**HUMBOLDT COUNTY OFFICE OF EDUCATION**  
**SCHEDULE OF AVERAGE DAILY ATTENDANCE**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

<b>County Funded Programs</b>	<b>Elementary</b>		<b>High School</b>		<b>Total</b>
	<b>P-2</b>	<b>Annual</b>	<b>P-2</b>	<b>Annual</b>	<b>Annual</b>
Juvenile Hall, Homes & Camps	0.04	0.04	25.65	26.31	26.35
Probation, Probation Referred, Expelled	0.11	0.28	113.36	128.07	128.35
<b>Totals</b>	<b>0.15</b>	<b>0.32</b>	<b>139.01</b>	<b>154.38</b>	<b>154.70</b>

<b>District Funded County Programs</b>	<b>P-2 Report</b>				<b>Total</b>
	<b>TK / K - 3</b>	<b>4 - 6</b>	<b>7 - 8</b>	<b>9 - 12</b>	
County Community Schools				0.18	0.18
Special Education - Special Day Class	30.22	18.73	9.84	31.23	90.02
Extended Year - Nonpublic	2.79	1.84	0.81	2.58	8.02
<b>Totals</b>	<b>33.01</b>	<b>20.57</b>	<b>10.65</b>	<b>33.99</b>	<b>98.22</b>

<b>District Funded County Programs</b>	<b>Annual Report</b>				<b>Total</b>
	<b>TK / K - 3</b>	<b>4 - 6</b>	<b>7 - 8</b>	<b>9 - 12</b>	
County Community Schools			0.54	0.22	0.76
Special Education - Special Day Class	31.45	18.69	9.77	30.85	90.76
Extended Year - Nonpublic	2.79	1.84	0.81	2.58	8.02
<b>Totals</b>	<b>34.24</b>	<b>20.53</b>	<b>11.12</b>	<b>33.65</b>	<b>99.54</b>



**HUMBOLDT COUNTY OFFICE OF EDUCATION**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

Federal Grantor / Pass-Through Grantor / Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identification Number	Passed Through to Subrecipients	Federal Expenditures
<b>U.S. Department of Agriculture:</b>				
Passed Through California Department of Education (CDE):				
National School Lunch	10.555	13524		\$ 39,095
Forest Reserve	10.665	10044	\$ 12,152	13,803
<b>Total U.S. Department of Agriculture</b>			<u>12,152</u>	<u>52,898</u>
<b>U.S. Department of Education:</b>				
Passed Through CDE:				
Title I, Part A, Program Improvement	84.185	14957		100,000
Title I, Part A, Basic Grant Low-Income & Neglected	84.010	14329		131,242
Title I, Part D, Local Delinquent Programs	84.010	14357		65,928
Subtotal Title I Programs				<u>297,170</u>
Title II Improving Teacher Quality	84.367	14341		2,562
Title VI, Part B - Small Rural School Achievement Program	84.358A	14356		34,671
Title X - McKinney-Vento Homeless Assistance	84.196A	14332		81,662
Workability II, Transition Partnership	84.126A	10006		569,881
IDEA Part C, Early Education Programs	84.181	23761	9,855	39,419
<i>Special Education Cluster:</i>				
IDEA Part B Basic Local Assistance	84.027	13379	3,816,355	4,162,774
IDEA Part B Preschool Grants	84.173A	13430		220,871
IDEA Part B Preschool Local Entitlement	84.027A	13682	121,225	402,933
IDEA Part B Mental Health Allocation Plan	84.027A	15197	245,942	245,942
IDEA Part B Preschool Staff Development	84.173A	13431		1,387
IDEA Part B Alternative Dispute Resolution	84.027A	13007		19,053
Subtotal Special Education Cluster			<u>4,183,522</u>	<u>5,052,960</u>
<b>Total U.S. Department of Education</b>			<u>4,193,377</u>	<u>6,078,325</u>
<b>U.S. Department of Health and Human Services:</b>				
Passed Through CDE:				
Medi-Cal Billing Option	93.778	10013		353,913
<i>Child Care Development Fund Cluster (CCDF):</i>				
Child Development: Quality Improvement Activities	93.575	14130		177,373
Child Development: Child Care Staff Retention	93.575	14990		46,106
Child Development: Local Planning Councils	93.575	13946		51,625
Subtotal CCDF Cluster				<u>275,104</u>
<b>Total U.S. Department of Health and Human Services</b>				<u>629,017</u>
Totals			<u>\$ 4,205,529</u>	<u>\$ 6,760,240</u>

SEE NOTES TO SUPPLEMENTARY INFORMATION

**HUMBOLDT COUNTY OFFICE OF EDUCATION  
RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT  
WITH AUDITED FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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	County School Service Fund	Special Revenue - Special Reserve Fund
June 30, 2017 Annual Financial and Budget Report Fund Balances	\$ 7,888,819	\$ 1,810,892
Reclassifications Increasing (Decreasing) Fund Balances:		
Reclassification of Fund Balances	1,810,892	(1,810,892)
June 30, 2017 Audited Financial Statements Fund Balances	\$ 9,699,711	\$ 0

Auditor's Comments

The fund balances of the County School Service Fund and Special Revenue - Special Reserve Fund have been combined for financial reporting purposes in accordance with GASB Statement No. 54.

The audited financial statements of all other funds were in agreement with the Annual Financial and Budget Report for the fiscal year ended June 30, 2017.

**HUMBOLDT COUNTY OFFICE OF EDUCATION**  
**SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

	COUNTY SCHOOL SERVICE FUND			
	(Budget)* 2017-18	2016-17	2015-16	2014-15
Revenues and Other Financial Sources	\$ 32,494,927	\$ 33,382,801	\$ 32,293,717	\$ 29,679,779
Expenditures	33,031,019	33,673,935	31,318,853	29,766,080
Other Uses and Transfers Out	348,497	304,039	331,856	1,193,286
Total Outgo	33,379,516	33,977,974	31,650,709	30,959,366
Change in Fund Balance	(884,589)	(595,173)	643,008	(1,279,587)
Ending Fund Balance	\$ 8,815,122	\$ 9,699,711	\$ 10,294,884	\$ 9,651,876
Available Reserves	\$ 4,440,367	\$ 4,202,581	\$ 2,373,183	\$ 3,592,998
Reserve for Economic Uncertainties **	\$ 4,440,367	\$ 4,202,581	\$ 2,373,183	\$ 3,592,998
Available Reserves as a Percentage of Total Outgo	13.3%	12.4%	7.5%	11.6%
Average Daily Attendance at Annual	144	155	161	192
Total Long-Term Liabilities ***	\$ 26,503,298	\$ 26,563,298	\$ 22,631,248	\$ 18,754,852

\* Amounts reported for the 2017-18 budget are presented for analytical purposes only and have not been audited.

\*\* Reported balances are a component of available reserves.

The fund balance of the County School Service Fund increased \$47,835 (0.5%) over the past two years. The fiscal year 2017-18 budget projects a decrease of \$884,589 (9.1%). For a county office this size, the state recommends available reserves of at least 3%.

The County Office incurred operating deficits of \$1,279,587 and \$595,173 during fiscal years 2014-15 and 2016-17, respectively, and produced an operating surplus of \$643,008 during fiscal year 2015-16.

Average daily attendance (ADA) decreased 37 ADA over the past two years. The County Office projects a decrease of 11 ADA during fiscal year 2017-18.

Total long-term liabilities increased \$7,808,446 over the past two years.

HUMBOLDT COUNTY OFFICE OF EDUCATION  
SCHEDULE OF CHARTER SCHOOLS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

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Charter Schools

Northcoast Preparatory and Performing Arts Academy

County Office Audit

Excluded

**HUMBOLDT COUNTY OFFICE OF EDUCATION**  
**NOTES TO SUPPLEMENTARY INFORMATION**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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**NOTE 1 - PURPOSE OF STATEMENTS AND SCHEDULES**

**A. Combining Statements**

Combining statements are presented for purposes of additional analysis, and are not a required part of the County Office's basic financial statements. These statements present more detailed information about the financial position and financial activities of the County Office's individual funds.

**B. Schedule of Average Daily Attendance**

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

**C. Schedule of Expenditures of Federal Awards**

*Basis of Presentation*

The accompanying schedule of expenditures of federal awards (the schedule) includes the federal award activity of the County Office under programs of the federal government for the year ended June 30, 2017. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the County Office, it is not intended to and does not present the financial position of the County Office.

*Summary of Significant Accounting Policies*

Expenditures reported on the schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

*Indirect Cost Rates*

The County Office has not elected to use the 10 percent de minimis cost rate as allowed under the Uniform Guidance.

*Reconciliation of the Schedule of Expenditures of Federal Awards*

The following schedule provides a reconciliation between revenues reported on the Statement of Revenues, Expenditures and Change in Fund Balances, and the related expenditures reported on the Schedule of Expenditure of Federal Awards. The reconciling amounts consists of timing differences between when Federal program funds are recorded as revenues and when they are recorded as expenditures, as follows:

**HUMBOLDT COUNTY OFFICE OF EDUCATION  
NOTES TO SUPPLEMENTARY INFORMATION  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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NOTE 1 - PURPOSE OF STATEMENTS AND SCHEDULES

C. Schedule of Expenditures of Federal Awards (Concluded)

*Reconciliation of the Schedule of Expenditures of Federal Awards (Concluded)*

<u>Description</u>	<u>CFDA Number</u>	<u>Amount</u>
Total Federal Revenues, Statement of Revenues, Expenditures and Change in Fund Balances		\$ 6,389,044
Add: Current year expenditure of Medi-Cal Billing funds recorded as revenue in a prior fiscal year	93.778	371,230
Less: Park In Lieu revenue that is not reported on Schedule of Expenditures of Federal Awards		<u>(34)</u>
Total Schedule of Expenditure of Federal Awards		<u>\$ 6,760,240</u>

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 as reported in the Annual Financial and Budget Report to the audited financial statements.

E. 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.

F. Schedule of Charter Schools

This schedule lists all charter schools chartered by the County Office and identifies whether or not the charter schools were included or excluded from the audit of the County Office.

OTHER INDEPENDENT AUDITOR'S REPORTS SECTION





**STEPHEN ROATCH ACCOUNTANCY CORPORATION**  
*Certified Public Accountants*

**INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE**

Board of Education  
Humboldt County Office of Education  
Eureka, California

**Report on State Compliance**

We have audited Humboldt County Office of Education's compliance with the types of compliance requirements described in the *2016-17 Guide for Annual Audits of K-12 Local Educational Agencies and State Compliance Reporting* that could have a direct and material effect on each of the County Office's state programs identified on the following page for the fiscal year ended June 30, 2017.

**Management's Responsibility**

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

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of the County Office's state programs based on our audit of the types of compliance requirements referred to above. We conducted our audit 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 *2016-17 Guide for Annual Audits of K-12 Local Educational Agencies and State Compliance Reporting*, prescribed in the *California Code of Regulations*, Title 5, section 19810 and following. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the County Office's state programs occurred. An audit includes examining, on a test basis, evidence about Humboldt County Office of Education's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Humboldt County Office of Education's compliance with those requirements.

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

<u>Description</u>	<u>Procedures Performed</u>
<b>Local Education Agencies Other Than Charter Schools:</b>	
Attendance	Yes
Teacher Certification and Misassignments	Yes
Kindergarten Continuance	Not Applicable
Independent Study	Yes
Continuation Education	Not Applicable
Instructional Time	Not Applicable
Instructional Materials	Yes
Ratio of Administrative Employees to Teachers	Not Applicable
Classroom Teacher Salaries	Not Applicable
Early Retirement Incentive	Not Applicable
Gann Limit Calculation	Yes
School Accountability Report Card	Yes
Juvenile Court Schools	Yes
Middle or Early College High Schools	Not Applicable
K-3 Grade Span Adjustment	Not Applicable
Transportation Maintenance of Effort	Yes
Mental Health Expenditures	Yes
<b>School Districts, County Offices of Education, and Charter Schools:</b>	
Educator Effectiveness	Yes
California Clean Energy Jobs Act	Yes
After School Education and Safety Program	Not Applicable
Proper Expenditure of Education Protection Account Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control and Accountability Plan	Yes
Independent Study-Course Based	Not Applicable
Immunizations	Yes
<b>Charter Schools:</b>	
Attendance	Not Applicable
Mode of Instruction	Not Applicable
Nonclassroom-Based Instruction/Independent Study	Not Applicable
Determination of Funding for Nonclassroom-Based Instruction	Not Applicable
Annual Instructional Minutes - Classroom Based	Not Applicable
Charter School Facility Grant Program	Not Applicable

Opinion on State Compliance

In our opinion, Humboldt County Office of Education complied, in all material respects, with the types of compliance requirements referred to above for the year ended June 30, 2017.

Purpose of this Report

The purpose of this report on compliance is solely to describe the scope of our testing of compliance and the results of that testing based on the requirements of the *2016-17 Guide for Annual Audits of K-12 Local Educational Agencies and State Compliance Reporting*. Accordingly, this report is not suitable for any other purpose.

*Stephen Roatch Accountancy Corporation*

STEPHEN ROATCH ACCOUNTANCY CORPORATION  
Certified Public Accountants

December 8, 2017



**STEPHEN ROATCH ACCOUNTANCY CORPORATION**  
*Certified Public Accountants*

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

Board of Education  
Humboldt County Office of Education  
Eureka, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Humboldt County Office of Education, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the County Office's basic financial statements, and have issued our report thereon dated December 8, 2017.

**Internal Control over Financial Reporting**

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the County Office's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

*Stephen Roatch Accountancy Corporation*

STEPHEN ROATCH ACCOUNTANCY CORPORATION  
Certified Public Accountants

December 8, 2017

**STEPHEN ROATCH ACCOUNTANCY CORPORATION**  
*Certified Public Accountants*

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

Board of Education  
Humboldt County Office of Education  
Eureka, California

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

We have audited Humboldt County Office of Education's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Humboldt County Office of Education's major federal programs for the year ended June 30, 2017. 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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

**Auditor's Responsibility**

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

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

**Opinion on Each Major Federal Program**

In our opinion, Humboldt County Office of Education complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

Report on Internal Control over Compliance

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

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

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

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

*Stephen Roatch Accountancy Corporation*

STEPHEN ROATCH ACCOUNTANCY CORPORATION  
Certified Public Accountants

December 8, 2017



## FINDINGS AND QUESTIONED COSTS SECTION



**HUMBOLDT COUNTY OFFICE OF EDUCATION**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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**SECTION I - SUMMARY OF AUDITOR'S RESULTS**

**Financial Statements**

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weaknesses identified?	_____ Yes	_____ <u>X</u> No	
Significant deficiencies identified not considered to be material weaknesses?	_____ Yes	_____ <u>X</u> None reported	
Noncompliance material to financial statements noted?	_____ Yes	_____ <u>X</u> No	

**Federal Awards**

Internal control over major programs:

Material weaknesses identified?	_____ Yes	_____ <u>X</u> No	
Significant deficiencies identified not considered to be material weaknesses?	_____ Yes	_____ <u>X</u> None reported	

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

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

Identification of major programs:

<u>CFDA Numbers</u>	<u>Federal Program</u>
84.027 / 84.027A / 84.173A	Special Education Cluster
84.126A	Workability II, Transition Partnerships

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

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

**State Awards**

Any audit findings required to be reported in accordance with the 2016-17 Guide for Annual Audits of K-12 Local Educational Agencies and State Compliance Reporting? \_\_\_\_\_ Yes    \_\_\_\_\_ X No

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

HUMBOLDT COUNTY OFFICE OF EDUCATION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

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**SECTION II - FINANCIAL STATEMENT FINDINGS**

There are no matters to report for the fiscal year ended June 30, 2017.

**HUMBOLDT COUNTY OFFICE OF EDUCATION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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

There are no matters to report for the fiscal year ended June 30, 2017.

HUMBOLDT COUNTY OFFICE OF EDUCATION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

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

There are no matters to report for the fiscal year ended June 30, 2017.

**HUMBOLDT COUNTY OFFICE OF EDUCATION  
STATUS OF PRIOR YEAR RECOMMENDATIONS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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There were no matters reported in the prior audit report.

