



**SAN LUIS OBISPO
COUNTY OFFICE OF EDUCATION**

ANNUAL FINANCIAL REPORT

JUNE 30, 2016

SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION

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FINANCIAL SECTION

Opinions

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 11, budgetary comparison schedules on pages 57 through 58, schedule of other postemployment benefits funding progress on page 59, schedule of the COE's proportionate share of net pension liability on page 60, and the schedule of district contributions on page 61 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

The accompanying supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards and other accompanying supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2016, on our consideration of the San Luis Obispo 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 San Luis Obispo County Office of Education's internal control over financial reporting and compliance.

Vannink, Tai, Day & Co., LLP

Rancho Cucamonga, California
December 12, 2016



**SAN LUIS OBISPO COUNTY
OFFICE OF EDUCATION**
LEADERSHIP ■ COMMUNITY ■ SERVICE
JAMES J. BRESCIA, ED. D., SUPERINTENDENT

This section of San Luis Obispo County Office of Education's (the COE) annual financial report presents our discussion and analysis of the COE's financial performance during the fiscal year that ended on June 30, 2016, with comparative information from the fiscal year ending June 30, 2015. Please read it in conjunction with the COE's financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

- The COE's financial status has decreased. Total net position decreased approximately 7.1 percent over the course of the year.
 - Overall revenues were \$38,198,132, which is \$2,226,713 less than expenditures.
 - The COE decreased its capital assets \$948,035 or 2.8 percent.
 - The COE decreased its outstanding long-term obligations \$35,019 or 1.9 percent of total debt.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

- The first two statements are *government-wide financial statements* that provide both *short-term* and *long-term* information about the COE's *overall* financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the COE, reporting the COE's operations *in more detail* than the *government-wide financial statements*.

The financial statements also include *notes* that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the financial statements with a comparison of the COE's budget for the year.

The primary unit of the government is the San Luis Obispo County Office of Education.

SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2016

Government-Wide Financial Statements

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

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

In the government-wide financial statements, the COE's activities are reported in the following category:

Governmental Activities

Most of the COE's basic services are included here, such as alternative education, special education, and administration. Property taxes and Federal and State grants and contributions finance most of these activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the COE's *funds*, focusing on its most significant or "major" funds - not the COE as a whole. Funds are accounting devices the COE uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by State law.
- The COE establishes other funds to control and manage money for particular purposes (like repaying its long-term obligations) or to show that it is properly using certain revenues (like State grants for building projects).

The COE has two kinds of funds:

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

Fiduciary funds - The COE is the trustee, or fiduciary, for assets that belong to others, such as the pass-through agency fund. The COE is responsible for ensuring that those, to whom the assets belong, use them only for their intended purposes. We exclude these activities from the government-wide financial statements because the COE cannot use these assets to finance its operations.

SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION

**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016**

FINANCIAL ANALYSIS OF THE COE AS A WHOLE

Net Position

The COE's *combined* net position was less on June 30, 2016, than it was the year before - decreasing approximately 5.9 percent to \$20,825,014.

Table 1

	<u>Governmental Activities</u>	
	<u>2016</u>	<u>2015</u>
Assets		
Current assets	\$ 17,297,521	\$ 15,860,600
Capital assets	31,498,234	32,523,196
Total Assets	<u>48,795,755</u>	<u>48,383,796</u>
Total Deferred Outflows of Resources	<u>3,734,214</u>	<u>1,263,343</u>
Liabilities		
Current liabilities	7,781,419	5,360,223
Long-term obligations	1,777,476	1,806,059
Aggregate net pension liability	16,008,756	15,230,439
Total Liabilities	<u>25,567,651</u>	<u>22,396,721</u>
Total Deferred Inflows of Resources	<u>6,158,304</u>	<u>5,115,176</u>
Net Position		
Net investment in capital assets	31,393,234	32,397,196
Restricted	2,154,827	3,195,184
Unrestricted (deficit)	<u>(12,723,047)</u>	<u>(13,457,138)</u>
Total Net Position	<u><u>\$ 20,825,014</u></u>	<u><u>\$ 22,135,242</u></u>

SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2016

Changes in Net Position

The COE's total revenues increased \$1,581,451. (See Table 2) Property taxes and Federal and State formula aid accounted for 29 percent of the COE's revenue. Another 54 percent came from State and Federal aid/grants for specific programs, and the remainder from fees charged for services and miscellaneous sources.

Table 2

	Governmental Activities	
	2016	2015
Revenues		
Program revenues:		
Charges for services	\$ 4,337,248	\$ 4,416,573
Operating grants and contributions	21,703,736	20,559,778
General revenues:		
Federal and State aid not restricted	1,403,506	1,024,348
Property taxes	10,251,720	9,856,971
Other general revenues	2,489,849	2,746,938
Total Revenues	<u>40,186,059</u>	<u>38,604,608</u>
Expenses		
Instruction	6,878,553	6,705,763
Supervision of instruction	4,395,686	3,577,096
Library, media, and technology	449,204	427,712
School site administration	1,422,177	1,625,677
Pupil services	2,639,229	2,630,327
Administration	4,345,685	4,102,283
Maintenance and operations	2,148,213	2,040,473
Ancillary/Comm SVE/Enterprise	2,122,915	2,021,002
Outgo (transfers between agencies)	17,094,625	18,483,271
Total Expenses	<u>41,496,287</u>	<u>41,613,604</u>
Change in Net Position (Deficit)	<u>\$ (1,310,228)</u>	<u>\$ (3,008,996)</u>

The total cost of all programs and services was \$41,496,287. The COE's expenses are predominantly related to educating and caring for special education, alternative education, and State preschool students, except for the pass-through transfers between agencies (K-12 school districts). The purely administrative activities of the COE accounted for just 10.5 percent of total expenses.

Total expenses surpassed revenues, decreasing net position \$1,310,228 over last year.

SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2016

Governmental Activities

The cost of all *governmental activities* this year was \$41,496,287.

- The users of the COE's programs financed some of the cost.
- The Federal and State governments subsidized many program costs with grants and contributions. The taxpayers of San Luis Obispo County supported the COE and COE programs with their property taxes. The COE received a total of \$174,675,730 in property taxes of which \$165,139,911 transferred to San Luis Obispo County School District, leaving \$9,903,948 in reported property taxes. Part of these taxes is used to support COE Special Education programs. Another portion is used for the operations of the County Office administration. The balance is considered excess property taxes and is reserved until the following year; therefore, it is not spendable by *Education Code* Section 2558(e) "If the remainder determined pursuant to subdivision (c) is a negative amount, no state aid shall be distributed to that county superintendent of schools pursuant to subdivision (d), and an amount of funds of that county superintendent of schools equal to that negative amount shall be deemed restricted and not available for expenditure during the current fiscal year. In the next fiscal year, that amount shall be considered local property tax revenue for purposes of the operation of paragraph (1) of subdivision (c)".

FINANCIAL ANALYSIS OF THE COE's FUNDS

The COE maintains eight individual governmental funds. The County School Services Fund and the Special Education Pass-Through Fund are considered to be major funds. The County School Services Fund and the Special Education Pass-Through Fund information are presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances on pages 14 and 16. Data from the other funds are combined and designated as non-major governmental funds.

County Schools Service Fund Budgetary Highlights (General Fund Only)

Over the course of the year, the COE revised the annual operating budget. These budget revisions are as follows:

- Local Control Funding Formula for COE's fully implemented.
- Changes made at the 1st Interim Budget Revision included increasing revenues and expenditures to reflect the receipt of one-time funding for unrestricted Mandated Cost Reimbursements, Mandated Cost Block Funding, and Mandated County Office Funds. Restricted State Revenues were increased to reflect the addition of the Career Pathways Grant, and one-time funding for Educator Effectiveness. Carryovers were recorded for Federal Programs. Other Local Revenues were increased to reflect Teacher Induction and Tier Two Admin Trainings. Expenditures were adjusted to reflect changes in the above revenues.
- Changes made at the 2nd Interim Budget Revision included increasing Restricted State Revenues to reflect changes in the Tobacco/Alcohol, and California Clean Energy Act Funding. Local Revenues were increased for redevelopment funding. Expenditures were adjusted to reflect changes in above revenues.

SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2016

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of 2016, the COE had invested \$31,498,234 in a broad range of capital assets, including land, construction in progress, land improvements, buildings and improvements, furniture and equipment, and buses and vehicles. (See Table 3) This amount represents a net decrease of \$1,024,962, or 3.2 percent, from last year.

Total depreciation expense for the year was \$1,336,591, while additions to equipment, furniture, and buildings amounted to \$269,964.

Table 3

	Governmental Activities	
	2016	2015
Land	\$ 4,844,354	\$ 4,844,354
Construction in progress	8,540	-
Land improvements	413,540	318,261
Buildings and improvements	42,609,781	42,472,048
Furniture and equipment	1,123,093	1,064,626
Buses and vehicles	825,354	855,409
Total Capital Assets	<u>49,824,662</u>	<u>49,554,698</u>
Accumulated depreciation	(18,326,428)	(17,031,502)
Net Book Value of Capital Assets	<u><u>\$ 31,498,234</u></u>	<u><u>\$ 32,523,196</u></u>

More detailed information about the COE's capital assets is presented in Note 5 to the financial statements.

Long-Term Obligations Other Than Pensions

At year-end, the COE had \$1,777,476 in long-term obligations outstanding (including postemployment benefits) - a decrease of 2.7 percent from last year. (See Table 4)

The COE is focusing on reducing long-term obligations outstanding due to unused vacation balances. In 2015-2016, the COE increased their compensated absences liability by \$54,199, or 20.3 percent.

Table 4

	Governmental Activities	
	2016	2015
Compensated absences	\$ 321,234	\$ 267,035
Child care facilities revolving fund loan	105,000	126,000
Other postemployment benefits (OPEB)	1,351,242	1,434,024
Total	<u><u>\$ 1,777,476</u></u>	<u><u>\$ 1,827,059</u></u>

SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2016

More detailed information about the COE's long-term obligations is presented in Note 9 to the financial statements.

Net Pension Liability (NPL)

At year-end, the COE had an outstanding pension liability of \$16,008,756, as a result of the adoption of GASB No. 68, *Accounting and Reporting for Pensions*. The COE has, therefore, recorded its proportionate share of net pension liabilities for CalSTRS and CalPERS.

FACTORS BEARING ON THE COE'S FUTURE

At the time these financial statements were prepared and audited, the COE was aware of the following existing circumstances that could significantly affect its financial health in the future:

- The County-wide enrollment for K-12 public schools slightly increased for the second year in a row.
- County Community School and Juvenile Court School ADA continues to decline and is projected to decline thirty percent (30.00 percent) each school year.
- The Local Control Funding Formula (LCFF) brought about changes for the COE.
 - The County Superintendent has additional responsibilities regarding oversight of the Local Control Accountability Plan (LCAP) prepared by each of the COE's ten public school districts. LCAP's will be updated annually to reflect changes and progress.
 - The COE will update its own LCAP for 2016-2017.
- Redevelopment agency funds (RDA) used for facilities will decrease.

CONTACTING THE COE'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the COE's finances and to demonstrate the COE's accountability for the money it receives. If you have questions about this report or need additional financial information, please contact Dr. Sheldon K. Smith, Assistant Superintendent, at (805) 782-7211 or by mail at the COE's Business Office, 3350 Education Drive, San Luis Obispo, California 93405.

SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION

**STATEMENT OF NET POSITION
JUNE 30, 2016**

	Governmental Activities
ASSETS	
Deposits and investments	\$ 12,143,043
Receivables	5,053,650
Prepaid expenses	100,828
Capital assets:	
Land and construction in progress	4,852,894
Other capital assets	44,971,768
Less: Accumulated depreciation	(18,326,428)
Total Capital Assets	<u>31,498,234</u>
Total Assets	<u>48,795,755</u>
 DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows of resources related to pensions	<u>3,734,214</u>
 LIABILITIES	
Overdrafts	115,230
Accounts payable	6,027,425
Unearned revenue	1,617,764
Long-term obligations:	
Current portion of long-term obligations other than pensions	21,000
Noncurrent portion of long-term obligations other than pensions	<u>1,756,476</u>
Total Long-Term Obligations	<u>1,777,476</u>
Aggregate net pension liability	<u>16,008,756</u>
Total Liabilities	<u>25,546,651</u>
 DEFERRED INFLOWS OF RESOURCES	
Deferred inflows of resources related to pensions	<u>6,158,304</u>
 NET POSITION	
Net investment in capital assets	31,393,234
Restricted for:	
Educational programs	2,154,827
Unrestricted (Deficit)	<u>(12,723,047)</u>
Total Net Position (Deficit)	<u>\$ 20,825,014</u>

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

SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION

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

Functions/Programs	Expenses	Program Revenues		Net (Expenses) Revenues and Changes in Net Position Governmental Activities
		Charges for Services and Sales	Operating Grants and Contributions	
Governmental Activities:				
Instruction	\$ 6,878,553	\$ 1,113,690	\$ 3,951,782	\$ (1,813,081)
Instruction-related activities:				
Supervision of instruction	4,395,686	288,634	2,089,840	(2,017,212)
Instructional library, media, and technology	449,204	3,982	7,470	(437,752)
School site administration	1,422,177	148,823	346,462	(926,892)
Pupil services:				
Food services	121,416	1,199	12,944	(107,273)
All other pupil services	2,517,813	258,215	1,275,833	(983,765)
Administration:				
Data processing	1,007,373	181	340	(1,006,852)
All other administration	3,338,312	170,274	649,281	(2,518,757)
Plant services	2,148,213	163,866	396,042	(1,588,305)
Ancillary services	672,112	-	-	(672,112)
Community services	1,266,113	69,809	811,721	(384,583)
Enterprise services	184,690	-	-	(184,690)
Other outgo	17,094,625	2,118,575	12,162,021	(2,814,029)
Total Governmental Activities	\$ 41,496,287	\$ 4,337,248	\$ 21,703,736	(15,455,303)

General revenues and subventions:

Property taxes, levied for general purposes	9,903,948
Taxes levied for other specific purposes	347,772
Federal and State aid not restricted to specific purposes	1,403,506
Interest and investment earnings	65,280
Transfers between agencies	465,434
Miscellaneous	1,959,135
Subtotal, General Revenues	14,145,075
Change in Net Position	(1,310,228)
Net Position - Beginning	22,135,242
Net Position - Ending	\$ 20,825,014

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

SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2016

	County School Services Fund	Special Education Pass-Through Fund	Non-Major Governmental Funds	Total Governmental Funds
ASSETS				
Deposits and investments	\$ 9,578,305	\$ 1,730,749	\$ 833,989	\$ 12,143,043
Receivables	3,067,871	1,842,649	143,130	5,053,650
Prepaid expenditures	100,828	-	-	100,828
Total Assets	\$ 12,747,004	\$ 3,573,398	\$ 977,119	\$ 17,297,521
LIABILITIES AND FUND BALANCES				
Liabilities:				
Overdrafts	\$ -	\$ -	\$ 115,230	\$ 115,230
Accounts payable	2,544,528	3,465,314	17,583	6,027,425
Unearned revenue	1,616,523	-	1,241	1,617,764
Total Liabilities	4,161,051	3,465,314	134,054	7,760,419
Fund Balances:				
Nonspendable	128,160	-	-	128,160
Restricted	2,037,667	108,084	9,076	2,154,827
Assigned	5,148,018	-	833,989	5,982,007
Unassigned	1,272,108	-	-	1,272,108
Total Fund Balances	8,585,953	108,084	843,065	9,537,102
Total Liabilities and Fund Balances	\$ 12,747,004	\$ 3,573,398	\$ 977,119	\$ 17,297,521

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

SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION

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

Total Fund Balance - Governmental Funds	\$ 9,537,102
Amounts Reported for Governmental Activities in the Statement of Net Position is Different Because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.	
The cost of capital assets is	\$ 49,824,662
Accumulated depreciation is	<u>(18,326,428)</u>
Net Capital Assets	31,498,234
Expenditures relating to contributions made to pension plans were recognized on the modified accrual basis, but are not recognized on the accrual basis.	
	1,296,575
The net change in proportionate share of net pension liability as of the measurement date is not recognized as an expenditure under the modified accrual basis, but is recognized on the accrual basis over the expected remaining service life of members receiving pension benefits.	
	(2,640,594)
The difference between projected and actual earnings on pension plan investments are not recognized on the modified accrual basis, but are recognized on the accrual basis as an adjustment to pension expense.	
	(915,003)
The differences between expected and actual experience in the measurement of the total pension liability are not recognized on the modified accrual basis, but are recognized on the accrual basis over the expected average remaining service life of members receiving pension benefits.	
	341,769
The changes of assumptions is not recognized as an expenditure under the modified accrual basis, but is recognized on the accrual basis over the expected average remaining service life of the members receiving pension benefits.	
	(506,837)
Net pension liability is not due and payable in the current period and, therefore, is not reported as liabilities in the funds.	
	(16,008,756)
Long-term obligations at year-end consist of:	
Compensated absences (vacations)	(321,234)
Child care facilities revolving fund loan	(105,000)
Net OPEB obligation	<u>(1,351,242)</u>
Total Long-Term Obligations	(1,777,476)
Total Net Position - Governmental Activities	<u><u>\$ 20,825,014</u></u>

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

SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION

**GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
JUNE 30, 2016**

	County School Services Fund	Special Education Pass-Through Fund	Non-Major Governmental Funds	Total Governmental Funds
REVENUES				
Local Control Funding Formula	\$ 10,721,500	\$ -	\$ -	\$ 10,721,500
Federal sources	2,367,640	6,400,588	45,131	8,813,359
Other State sources	4,803,087	7,787,805	809,561	13,400,453
Other local sources	6,634,046	-	410,738	7,044,784
Total Revenues	<u>24,526,273</u>	<u>14,188,393</u>	<u>1,265,430</u>	<u>39,980,096</u>
EXPENDITURES				
Current				
Instruction	6,723,641	-	-	6,723,641
Instruction-related activities:				
Supervision of instruction	4,368,665	-	-	4,368,665
Instructional library, media, and technology	432,536	-	-	432,536
School site administration	1,412,437	-	-	1,412,437
Pupil services:				
Food services	94,910	-	20,262	115,172
All other pupil services	2,435,710	-	-	2,435,710
Administration:				
Data processing	887,415	-	-	887,415
All other administration	3,264,180	-	98,422	3,362,602
Plant services	1,941,392	-	162,458	2,103,850
Facility acquisition and construction	241,552	-	-	241,552
Ancillary services	650,753	-	-	650,753
Community services	-	-	1,241,357	1,241,357
Other outgo	2,476,557	14,295,430	10,396	16,782,383
Enterprise services	185,398	-	-	185,398
Debt service				
Principal	21,000	-	-	21,000
Total Expenditures	<u>25,136,146</u>	<u>14,295,430</u>	<u>1,532,895</u>	<u>40,964,471</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(609,873)</u>	<u>(107,037)</u>	<u>(267,465)</u>	<u>(984,375)</u>
Other Financing Sources (Uses)				
Transfers in	6,225	-	306,017	312,242
Other sources	100	-	-	100
Transfers out	(306,017)	-	(6,225)	(312,242)
Net Financing Sources (Uses)	<u>(299,692)</u>	<u>-</u>	<u>299,792</u>	<u>100</u>
NET CHANGE IN FUND BALANCES	<u>(909,565)</u>	<u>(107,037)</u>	<u>32,327</u>	<u>(984,275)</u>
Fund Balances - Beginning	9,495,518	215,121	810,738	10,521,377
Fund Balances - Ending	<u>\$ 8,585,953</u>	<u>\$ 108,084</u>	<u>\$ 843,065</u>	<u>\$ 9,537,102</u>

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

SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION

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

Total Net Change in Fund Balances - Governmental Funds **\$ (984,275)**
Amounts Reported for Governmental Activities in the Statement of Activities are Different Because:

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures; however, for governmental activities, those costs are shown in the Statement of Net Position and allocated over their estimated useful lives as annual depreciation expenses in the Statement of Activities.

This is the amount by which depreciation exceeds capital outlays in the period.

Depreciation expense	\$(1,336,591)	
Capital outlays	311,629	
Net Expense Adjustment	(1,024,962)	(1,024,962)

In the Statement of Activities, certain operating expenses - compensated absences (vacations) are measured by the amounts earned during the year. In the governmental funds, however; expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). Vacation earned was more than the amounts paid by \$54,199. (54,199)

In the governmental funds, pension costs are based on employer contributions made to pension plans during the year. However, in the Statement of Activities, pension expense is the net effect of all changes in the deferred outflows, deferred inflows and net pension liability during the year. 649,426

Postemployment benefits other than pensions (OPEB): In governmental funds, OPEB costs are recognized when employer contributions are made. In the Statement of Activities, OPEB costs are recognized on the accrual basis. This year, the difference between OPEB costs and actual employer contributions was: 82,782

Payment of principal on long-term obligations is an expenditure in the governmental funds, but it reduces long-term obligations in the Statement of Net Position and does not affect the Statement of Activities:

Childcare facilities revolving fund loan	21,000	
Change in Net Position of Governmental Activities	\$ (1,310,228)	

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

SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION

**FIDUCIARY FUNDS
STATEMENT OF NET POSITION
JUNE 30, 2016**

	<u>Agency Funds</u>
ASSETS	
Deposits and investments	<u>\$ 3,783,191</u>
LIABILITIES	
Amounts held on behalf of others	<u>\$ 3,783,191</u>

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

SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The San Luis Obispo County Office of Education (the COE) was established in 1965 under the laws of the State of California. The COE operates under a locally elected five-member Board form of government and provides services to ten districts and three joint power agencies (JPAs) as mandated by the State and/or Federal agencies. The COE operates various education programs and supports the government-wide Special Education Local Plan Area (SELPA).

A reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure the financial statements are not misleading. The primary government of the COE consists of all funds, departments, boards, and agencies that are not legally separate from the COE. For the COE, this includes general operations, food service, and Special Education programs of the COE.

Other Related Entities

Charter School The COE has an approved charter for Grizzly Challenge Charter School pursuant to *Education Code* Section 47605.

For financial reporting purposes, the charter is not a component unit in accordance with Governmental Accounting Standards Board (GASB) Statement No. 14 as amended by Statement No. 39. The criterion that establishes financial accountability as a result of fiscal dependency was not met. Therefore, the charter is determined not to be a component unit and is not included as part of these financial statements.

The charter is subject to audit within the agreement. Audited financial statements are available from the charter organization.

Basis of Presentation - Fund Accounting

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

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

SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

Major Governmental Funds

County School Services Fund The County School Services Fund is the chief operating fund for all county offices of education. It is used to account for the ordinary operations of a county office of education. All transactions except those required or permitted by law to be in another fund are accounted for in this fund.

Three funds currently defined as special revenue funds in the California State Accounting Manual (CSAM) do not meet the GASB Statement No. 54 special revenue fund definition. Specifically, Fund 14, Deferred Maintenance Fund, Fund 17, Special Reserve Fund for Other Than Capital Outlay Projects, and Fund 20, Special Reserve Fund for Postemployment Benefits, are not substantially composed of restricted or committed revenue sources. While these funds are authorized by statute and will remain open for internal reporting purposes, these funds function effectively as extensions of the General Fund, and accordingly have been combined with the General Fund for presentation in these audited financial statements.

As a result, the County School Services Fund reflects an increase in the fund balance of \$909,565.

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

Non-Major Governmental Funds

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

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

Forest Reserve Fund The Forest Reserve Fund exists to account separately for federal forest reserve funds received by offices of county superintendents for distribution to school districts and community college districts (*Education Code* Section 2300; *Government Code* Section 29484).

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

Special Reserve Fund for Capital Outlay Projects The Special Reserve Fund for Capital Outlay Projects exists primarily to provide for the accumulation of General Fund monies for capital outlay purposes (*Education Code* Section 42840).

SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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

Trust funds are used to account for the assets held by the COE under a trust agreement for individuals, private organizations, or other governments and are, therefore, not available to support the COE's own programs. The COE has no trust funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Such funds have no equity accounts since all assets are due to individuals or entities at some future time. The COE's agency funds include Payroll Clearing Account. This is an Agency fund used to account for the resources accumulated for the payment of payroll taxes of the COE and school districts within the County.

Basis of Accounting - Measurement Focus

Government-Wide Financial Statements The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting.

The government-wide financial statement of activities presents a comparison between expenses, both direct and indirect, and for each governmental program. Direct expenses are those that are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Indirect expenses for centralized services and administrative overhead are allocated among the programs, functions, and segments using a full cost allocation approach and are presented separately to enhance comparability of direct expenses between governments that allocate direct expenses and those that do not. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program or business segment is self-financing or draws from the general revenues of the COE. Eliminations have been made to minimize the double counting of internal activities.

Net position should be reported as restricted when constraints placed on net position are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The net position restricted for other purposes result from special revenue funds and the restrictions on their use.

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

SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

Governmental Funds All governmental funds are accounted for using a flow of current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures, and changes in fund balance reports on the sources (revenues and other financing sources) and uses (expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include reconciliation with brief explanations to better identify the relationship between the government-wide financial statements and the statements for the governmental funds on a modified accrual basis of accounting and the current financial resources measurement focus. Under this basis, revenues are recognized in the accounting period in which they become measurable and available. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable.

Fiduciary Funds Fiduciary funds are accounted for using the flow of economic resources measurement focus and the accrual basis of accounting. Fiduciary funds are excluded from the government-wide financial statements because they do not represent resources of the COE.

Revenues - Exchange and Non-Exchange Transactions Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. Generally, available is defined as collectible within 90 days. 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 for county offices as collectible within one year. The following revenue sources are considered to be both measurable and available at fiscal year-end: State apportionments, interest, certain grants, and other local sources.

Non-exchange transactions, in which the COE receives value without directly giving equal value in return, include property taxes, certain grants, entitlements, and donations. Revenue from property taxes is recognized in the fiscal year in which the taxes are received. Revenue from certain grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include time and purpose requirements. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

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

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

SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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

Investments

Investments held at June 30, 2016, 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. Fair values of investments in county and State investment pools are determined by the program sponsor.

Prepaid Expenditures

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

Capital Assets and Depreciation

The accounting and reporting treatment applied to the capital assets associated with a fund are determined by its measurement focus. General capital assets are long-lived assets of the COE. The COE maintains a capitalization threshold of \$5,000. The COE does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

When purchased, such assets are recorded as expenditures in the governmental funds and capitalized in the government-wide financial statement of net position. The valuation basis for general capital assets are historical cost, or where historical cost is not available, estimated historical cost based on replacement cost. Donated capital assets are capitalized at estimated fair market value on the date donated.

Depreciation of capital assets is computed and recorded by the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are as follows: buildings, 10 to 40 years; improvements, 10 to 40 years; equipment, 5 to 10 years.

Interfund Balances

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

SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

Compensated Absences

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

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

Accrued Liabilities and Long-Term Obligations

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

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

Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position also reports deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The COE reports deferred outflows of resources for the unamortized loss on the refunding of general obligation bonds and current year pension contributions.

In addition to liabilities, the Statement of Net Position reports a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The COE reports deferred inflows of resources for the difference between projected and actual earnings on pension plan investments specific to the net pension liability and for the unamortized amount on net change in proportionate share of net pension liability.

SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

Pensions

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

Fund Balances - Governmental Funds

As of June 30, 2016, fund balances of the governmental funds are classified as follows:

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

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

Committed - amounts that can be used only for specific purposes determined by a formal action of the governing board. The governing board is the highest level of decision-making authority for the COE. Commitments may be established, modified, or rescinded only through resolutions or other action as approved by the governing board. The COE currently does not have any committed funds.

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

Unassigned - all other spendable amounts.

Spending Order Policy

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

Minimum Fund Balance Policy

The governing board adopted a minimum fund balance policy for the County School Services Fund in order to protect the COE against revenue shortfalls or unpredicted one-time expenditures. The policy requires a Reserve for Economic Uncertainties consisting of unassigned amounts equal to no less than three percent of General Fund expenditures and other financing uses.

SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

Net Position

Net position represents the difference between assets and liabilities. Net position net of investment in capital assets, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. The COE has no related obligations outstanding as of June 30, 2016. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the COE or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The COE first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available. The government-wide financial statements report \$2,154,827 in restricted net position.

Interfund Activity

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

Estimates

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

Budgetary Data

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

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

SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

Property Tax

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

Change in Accounting Principles

In February 2015, the GASB issued Statement No. 72, *Fair Value Measurement and Application*. This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of *fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

The COE has implemented the provisions of this Statement as of June 30, 2016.

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

This Statement establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, *Accounting and Financial Reporting for Pensions*, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement No. 68. It also amends certain provisions of Statement No. 67, *Financial Reporting for Pension Plans*, and Statement No. 68 for pension plans and pensions that are within their respective scopes.

The provisions in this Statement effective as of June 30, 2016, include the provisions for assets accumulated for purposes of providing pensions through defined benefit plans and the amended provisions of Statements No. 67 and No. 68. The COE has implemented these provisions as of June 30, 2016. The provisions in this Statement related to defined benefit pensions that are not within the scope of Statement No. 68 are effective for periods beginning after June 15, 2016.

SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

In June 2015, the GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this Statement is to identify—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP). The "GAAP hierarchy" consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP.

This Statement supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*.

The COE has implemented the provisions of this Statement as of June 30, 2016.

In December 2015, the GASB issued Statement No. 79, *Certain External Investment Pools and Pool Participants*. This Statement addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. An external investment pool qualifies for that reporting if it meets all of the applicable criteria established in this Statement. The specific criteria address (1) how the external investment pool transacts with participants; (2) requirements for portfolio maturity, quality, diversification, and liquidity; and (3) calculation and requirements of a shadow price. Significant noncompliance prevents the external investment pool from measuring all of its investments at amortized cost for financial reporting purposes. Professional judgment is required to determine if instances of noncompliance with the criteria established by this Statement during the reporting period, individually or in the aggregate, were significant.

If an external investment pool does not meet the criteria established by this Statement, that pool should apply the provisions in paragraph 16 of Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, as amended. If an external investment pool meets the criteria in this Statement and measures all of its investments at amortized cost, the pool's participants also should measure their investments in that external investment pool at amortized cost for financial reporting purposes. If an external investment pool does not meet the criteria in this Statement, the pool's participants should measure their investments in that pool at fair value, as provided in paragraph 11 of Statement No. 31, as amended.

This Statement establishes additional note disclosure requirements for qualifying external investment pools that measure all of their investments at amortized cost for financial reporting purposes and for governments that participate in those pools. Those disclosures for both the qualifying external investment pools and their participants include information about any limitations or restrictions on participant withdrawals.

The COE has implemented the provisions of this Statement as of June 30, 2016.

SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

New Accounting Pronouncements

In June 2015, the GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The objective of this Statement 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 inter-period equity, and creating additional transparency.

This Statement replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended, Statement No. 43, and Statement No. 50, *Pension Disclosures*.

The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2016. Early implementation is encouraged.

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pension*. 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 inter-period equity, and creating additional transparency.

This Statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, establishes new accounting and financial reporting requirements for OPEB plans.

The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2017. Early implementation is encouraged.

SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

In August 2015, the GASB issued Statement No. 77, *Tax Abatement Disclosures*. This Statement requires governments that enter into tax abatement agreements to disclose the following information about the agreements:

- Brief descriptive information, such as the tax being abated, the authority under which tax abatements are provided, eligibility criteria, the mechanism by which taxes are abated, provisions for recapturing abated taxes, and the types of commitments made by tax abatement recipients.
- The gross dollar amount of taxes abated during the period.
- Commitments made by a government, other than to abate taxes, as part of a tax abatement agreement.

The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2015. Early implementation is encouraged.

In December 2015, the GASB issued Statement No. 78, *Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans*. The objective of this Statement is to address a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions.

Prior to the issuance of this Statement, the requirements of Statement No. 68 applied to the financial statements of all state and local governmental employers whose employees are provided with pensions through pension plans that are administered through trusts that meet the criteria in paragraph 4 of that Statement.

This Statement amends the scope and applicability of Statement No. 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). This Statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions that have the characteristics described above.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2015. Early implementation is encouraged.

In January 2016, the GASB issued Statement No. 80, *Blending Requirements for Certain Component Units - amendment of GASB Statement No. 14*. The objective of this Statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement amends the blending requirements established in paragraph 53 of Statement No. 14, *The Financial Reporting Entity, as amended*. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain Organizations Are Component Units*.

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JUNE 30, 2016

The requirements of this Statement are effective for reporting periods beginning after June 15, 2016. Early implementation is encouraged.

In March 2016, the GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*. The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement.

This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period.

The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2016, and should be applied retroactively. Early implementation is encouraged.

In March 2016, the GASB issued Statement No. 82, *Pension Issues - An Amendment of GASB Statements No. 67, No. 68, and No. 73*. The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and No. 68*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2016, except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. Early implementation is encouraged.

NOTE 2 - DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2016, are classified in the accompanying financial statements as follows:

Governmental activities	\$ 12,143,043
Fiduciary funds	3,783,191
Total Deposits and Investments	<u>\$ 15,926,234</u>

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NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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

Cash on hand and in banks	\$ 3,846,185
Cash in revolving	27,332
Cash with fiscal agent	1,094,872
Investments	<u>10,957,845</u>
Total Deposits and Investments	<u>\$ 15,926,234</u>

Policies and Practices

The COE 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.

Investment in County Treasury - The COE is considered to be an involuntary participant in an external investment pool as the COE is required to deposit all receipts and collections of monies with their County Treasurer (*Education Code* Section 41001). The fair value of the COE's investment in the pool is reported in the accompanying financial statements at amounts based upon the COE'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.

Investment in the State Investment Pool - The COE is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California *Government Code* Section 16429 under the oversight of the Treasurer of the State of California. The fair value of the COE's investment in the pool is reported in the accompanying financial statements at amounts based upon the COE's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which is recorded on the amortized cost basis.

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NOTES TO FINANCIAL STATEMENTS

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General Authorizations

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

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

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The COE 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 COE manages its exposure to interest rate risk by investing in the State and San Luis Obispo County Investment Pools.

Information about the sensitivity of the fair values of the COE's investments to market interest rate fluctuation is provided by the following schedule that shows the distribution of the COE's investment by maturity. Further adjustment to the fair market value was deemed immaterial and has not been posted to the financial statements of the COE:

Investment Type	Fair Value	Weighted Average Days to Maturity
San Luis Obispo County Investment Pool	\$ 10,969,250	251
State Treasurer's Investment Pool (LAIF)	12,682	167
Total	\$ 10,981,932	

SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

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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. Presented below is the minimum rating required by the California *Government Code*, the COE's investment policy, or debt agreements, and the actual rating as of the year-end for each investment type. The San Luis Obispo County Investment Pool was rated "AAA/V1" by Fitch Ratings. The COE's investment in the State Treasurer's Investment Pool (LAIF) is not required to be rated, nor has it been rated.

Custodial Credit Risk - Deposits

This is the risk that in the event of a bank failure, the COE's deposits may not be returned to it. The COE 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 agency. 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, 2016, the COE's bank balance of \$4,378,384 was exposed to custodial credit risk because it was uninsured but collateralized with securities held by the pledging financial institution's trust department or agent, but not in the name of the COE.

NOTE 3 - FAIR VALUE MEASUREMENTS

The COE 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:

Level 1 - Quoted prices in active markets for identical assets that the COE 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 specified 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 COE's own data. The COE should adjust that data if reasonable available information indicates that other market participants would use different data or certain circumstances specific to the COE are not available to other market participants.

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NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

Uncategorized - Investments in the San Luis Obispo County Treasury Investment Pool and Local Agency Investment Funds are not measured using the input levels above because the COE'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 COE's fair value measurements are as follows at June 30, 2016:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Uncategorized</u>
San Luis Obispo County Treasury Investment Pool	\$ 10,969,250	\$ 10,969,250
State Investment Pool	12,682	12,682
Total	<u>\$ 10,981,932</u>	<u>\$ 10,981,932</u>

All assets have been valued using a market approach, with quoted market prices.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2016, consisted of intergovernmental grants, entitlements, interest, and other local sources. All receivables are considered collectible in full.

	<u>County School Services Fund</u>	<u>Special Education Pass-Through Fund</u>	<u>Non-Major Governmental Funds</u>	<u>Total Governmental Activities</u>
Federal Government				
Categorical aid	\$ 439,071	\$ -	\$ 5,966	\$ 445,037
State Government				
Categorical aid	122,081	-	22,401	144,482
Lottery	16,888	-	-	16,888
Special education billings	2,253,202	1,842,649	-	4,095,851
Other State	-	-	3,771	3,771
Local Government				
Other local sources	236,629	-	110,992	347,621
Total	<u>\$ 3,067,871</u>	<u>\$ 1,842,649</u>	<u>\$ 143,130</u>	<u>\$ 5,053,650</u>

SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2016, was as follows:

	Balance July 1, 2015	Additions	Deductions	Balance June 30, 2016
Governmental Activities				
Capital Assets Not Being Depreciated				
Land	\$ 4,844,354	\$ -	\$ -	\$ 4,844,354
Construction in progress	-	8,540	-	8,540
Total Capital Assets Not Being Depreciated	4,844,354	8,540	-	4,852,894
Capital Assets Being Depreciated				
Land improvements	318,261	95,279	-	413,540
Buildings and improvements	42,472,048	137,733	-	42,609,781
Furniture and equipment	1,064,626	58,467	-	1,123,093
Buses and vehicles	855,409	11,610	41,665	825,354
Total Capital Assets Being Depreciated	44,710,344	303,089	41,665	44,971,768
Less Accumulated Depreciation				
Land improvements	83,450	16,006	-	99,456
Buildings and improvements	15,463,387	1,221,247	-	16,684,634
Furniture and equipment	800,774	50,945	-	851,719
Buses and vehicles	683,891	48,393	41,665	690,619
Total Accumulated Depreciation	17,031,502	1,336,591	41,665	18,326,428
Governmental Activities Capital Assets, Net	<u>\$ 32,523,196</u>	<u>\$ (1,024,962)</u>	<u>\$ -</u>	<u>\$ 31,498,234</u>

Depreciation expense was charged to governmental functions as follows:

Governmental Activities	
Instruction	\$ 384,270
Supervision of instruction	205,505
Instructional library, media, and technology	26,107
School site administration	95,801
Food services	7,134
Other pupil services	147,301
Ancillary services	38,670
Community services	69,996
Enterprise	1,424
Other general administrative	76,169
Data processing services	135,641
Plant maintenance and operations	148,573
Total Depreciation Expense Governmental Activities	<u>\$ 1,336,591</u>

SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 6 - INTERFUND TRANSACTIONS

Operating Transfers

Interfund transfers for the year ended June 30, 2016, consisted of the following:

Transfer In	Transfer Out		Total
	County School Services Fund	Non-Major Governmental Funds	
County School Services Fund	\$ -	\$ 6,225	\$ 6,225
Non-Major Governmental Funds	306,017	-	306,017
Total	<u>\$ 306,017</u>	<u>\$ 6,225</u>	<u>\$ 312,242</u>

The County School Services Fund transferred to the Child Development Non-Major Governmental Fund to support operations of the program.	\$ 246,017
The County School Services Fund transferred to the Special Reserve Fund for Capital Outlay Projects Non-Major Governmental Fund to repay the interfund loan for the First 5 Building.	60,000
The Forest Reserve Non-Major Governmental Fund transferred to the County School Services Fund for interest earned.	1,835
The Special Reserve Fund for Capital Outlay Projects Non-Major Governmental Fund transferred to the County School Services Fund for interest earned.	4,390
Total	<u>\$ 312,242</u>

NOTE 7 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2016, consisted of the following:

	County School Services Fund	Special Education Pass-Through Fund	Non-Major Governmental Funds	Total Governmental Activities
LCFF State aid	\$ 23,829	\$ -	\$ -	\$ 23,829
Vendor payables	1,297,959	-	17,583	1,315,542
Salaries and benefits	1,046,529	-	-	1,046,529
Pass-through special education apportionments	176,211	3,465,314	-	3,641,525
Overdrafts	-	-	115,230	115,230
Total	<u>\$ 2,544,528</u>	<u>\$ 3,465,314</u>	<u>\$ 132,813</u>	<u>\$ 6,142,655</u>

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**NOTES TO FINANCIAL STATEMENTS
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NOTE 8 - UNEARNED REVENUE

Unearned revenue at June 30, 2016, consisted of the following:

	County School Services Fund	Non-Major Governmental Funds	Total
Federal financial assistance	\$ 2,662	\$ -	\$ 2,662
State categorical aid	1,613,861	1,241	1,615,102
Total	<u>\$ 1,616,523</u>	<u>\$ 1,241</u>	<u>\$ 1,617,764</u>

NOTE 9 - LONG-TERM OBLIGATIONS

Summary

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

	Balance July 1, 2015	Additions	Deductions	Balance June 30, 2016	Due in One Year
Compensated absences	\$ 267,035	\$ 54,199	\$ -	\$ 321,234	\$ -
Child care facilities revolving fund loan	126,000	-	21,000	105,000	21,000
Other postemployment benefits	1,434,024	742,355	825,137	1,351,242	-
	<u>\$ 1,827,059</u>	<u>\$ 796,554</u>	<u>\$ 846,137</u>	<u>\$ 1,777,476</u>	<u>\$ 21,000</u>

Compensated absences will be paid by the fund for which the employee worked. The Child Care Facilities Revolving Fund loan will be paid by the County School Services Fund. Payments for other postemployment benefits will be made by the County School Services Fund.

Compensated Absences

Compensated absences are accounted for in the long-term obligations on the statement of net position. Sick leave is accumulated without limit for each employee at a rate determined by length of time in service. Leave with pay is provided when employees are absent for health reasons. However, the employees do not gain a vested right to accumulated sick leave except classified employees who have been employed for five years or more prior to July 1, 1996, at which time they can elect to receive compensation upon termination for 50 percent of their unused accrued sick leave. Certificated employees receive credit for a percentage of their accumulated sick leave towards their retirement. No accrual was made in the financial statements at June 30, 2016, for certificated accumulated sick leave. Most certificated employees do not accrue vacation time due to a ten month school year. The balance of accumulated compensated absences for the COE at June 30, 2016, amounted to \$321,234.

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NOTES TO FINANCIAL STATEMENTS

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Child Care Facilities Revolving Fund Loan

Pursuant to the provisions of the *Education Code* Section 8278.3, the California Department of Education (CDE) and the COE entered into a contract and lease to own agreement. The agreement called for the CDE to pay the COE an amount not to exceed \$210,000 for the purchase and installation of the facility, State Preschool at 36th and Oak in the City of Paso Robles. As of June 30, 2016, the CDE had advanced the COE 100 percent or \$210,000.

Repayment of funds provided by the CDE shall begin 180 days after the final funds are released. As of June 30, 2016, the balance outstanding was \$105,000. The repayment schedule shall be in the amount sufficient to amortize the entire cost of the funds provided over a ten (10) year period.

Future payments are as follows:

Year Ending June 30,	Payments
2017	\$ 21,000
2018	21,000
2019	21,000
2020-2021	42,000
Total	<u>\$ 105,000</u>

Other Postemployment Benefits (OPEB) Obligation

The COE's annual required contribution for the year ended June 30, 2016, was \$684,994, and contributions made by the COE during the year were \$733,342. Interest on the net OPEB obligation and adjustments to the annual required contribution were \$57,361 and \$(91,795), respectively, which resulted in a decrease to the net OPEB obligation of \$82,782. As of June 30, 2016, the net OPEB obligation was \$1,351,242. See Note 11 for additional information regarding the OPEB obligation and the postemployment benefits plan.

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**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 10 - FUND BALANCES

Fund balances are composed of the following elements:

	County School Services Fund	Special Education Pass-Through Fund	Non-Major Governmental Funds	Total Government Funds
Nonspendable				
Revolving cash	\$ 27,332	\$ -	\$ -	\$ 27,332
Prepaid expenditures	100,828	-	-	100,828
Total Nonspendable	<u>128,160</u>	<u>-</u>	<u>-</u>	<u>128,160</u>
Restricted				
Legally restricted programs	<u>2,037,667</u>	<u>108,084</u>	<u>9,076</u>	<u>2,154,827</u>
Assigned				
Excess property tax	2,755,831	-	-	2,755,831
SIPE Safety carry-over	9,816	-	-	9,816
Lottery carry-over	21,088	-	-	21,088
Health and welfare	37,651	-	-	37,651
Other postemployment benefits	2,323,632	-	-	2,323,632
Capital projects	-	-	833,989	833,989
Total Assigned	<u>5,148,018</u>	<u>-</u>	<u>833,989</u>	<u>5,982,007</u>
Unassigned				
Reserve for economic uncertainties	449,828	-	-	449,828
Remaining unassigned	822,280	-	-	822,280
Total Unassigned	<u>1,272,108</u>	<u>-</u>	<u>-</u>	<u>1,272,108</u>
Total	<u><u>\$ 8,585,953</u></u>	<u><u>\$ 108,084</u></u>	<u><u>\$ 843,065</u></u>	<u><u>\$ 9,537,102</u></u>

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NOTES TO FINANCIAL STATEMENTS

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NOTE 11 - POSTEMPLOYMENT HEALTH CARE PLAN AND OTHER POSTEMPLOYMENT BENEFITS (OPEB) OBLIGATION

Plan Description

The Postemployment Benefits Plan (the Plan) is a single-employer defined benefit healthcare plan administered by the San Luis Obispo County Office of Education. The Plan provides medical and dental insurance benefits to eligible retirees and their spouses. Membership of the Plan consists of 69 retirees and beneficiaries currently receiving benefits and 2 active Plan members.

Contribution Information

The contribution requirements of Plan members and the COE are established and may be amended by the COE and the Teachers Association (CEA), the local California Service Employees Association (CSEA), and unrepresented groups. The required contribution is based on projected pay-as-you-go financing requirements. For fiscal year 2015-2016, the COE contributed \$733,342 to the Plan, all of which was used for current premiums.

Annual OPEB Cost and Net OPEB Obligation

The COE's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial accrued liabilities (UAAL) (or funding excess) over a period not to exceed 30 years. The following table shows the components of the COE's annual OPEB cost for the year, the amount actually contributed to the Plan, and changes in the COE's net OPEB obligation to the Plan:

Annual required contribution	\$ 684,994
Interest on net OPEB obligation	57,361
Adjustment to annual required contribution	<u>(91,795)</u>
Annual OPEB cost (expense)	650,560
Contributions made	<u>(733,342)</u>
Decrease in net OPEB obligation	(82,782)
Net OPEB obligation, beginning of year	<u>1,434,024</u>
Net OPEB obligation, end of year	<u><u>\$ 1,351,242</u></u>

SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION

**NOTES TO FINANCIAL STATEMENTS
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Trend Information

Trend information for annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for the past three years is as follows:

Year Ended June 30,	Annual OPEB Cost	Actual Contribution	Percentage Contributed	Net OPEB Obligation
2014	\$ 665,322	\$ 627,862	94%	\$ 1,441,399
2015	\$ 650,383	\$ 657,758	101%	\$ 1,434,024
2016	\$ 650,560	\$ 733,342	113%	\$ 1,351,242

Funded Status and Funding Progress

A schedule of funding progress as of the most recent actuarial valuation is as follow:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Unprojected Unit Credit (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b - a] / c)
July 1, 2013	\$ -	\$ 10,701,035	\$ 10,701,035	0%	N/A	N/A

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

Actuarial Methods and Assumptions

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

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In the July 1, 2013, actuarial valuation, the projected unit credit method with service prorate was used. The actuarial assumptions included a four percent investment rate of return (net of administrative expenses), based on the Plan being funded in an irrevocable employee benefit trust invested in a combined equity and fixed income portfolio. Healthcare cost trend rates ranged from an initial 7.5 percent to an ultimate rate of five percent. The UAAL is being amortized over an initial 30 years using a level dollar amortization method on a closed basis. The remaining amortization period at June 30, 2016, was 24 years. The actuarial value of assets was not determined in this actuarial valuation as there were none.

NOTE 12 - RISK MANAGEMENT

Description

The COE's risk management activities are recorded in the County School Services Fund. The COE participates in three public entity risk pools (JPAs) for the workers' compensation programs, property and liability, health and welfare, and purchases excess liability coverage through the JPA. Refer to Note 15 for additional information regarding the JPAs.

Property and Liability

The COE is exposed to various risks of loss to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The COE's risk management activities are recorded in the County School Services Fund. In 1996, the Schools Insurance Program for Employees (SIPE) Board of Directors and Self-Insured Schools of Kern (SISK - now Self-Insured Schools of California - SISC) established an agreement for SIPE to provide property and liability loss control and safety services to member school districts.

Excess coverage is provided by Schools Insurance Program for Employees (SIPE) which the Self-Insured Schools of California (SISC II) administers with an in-house claims staff. SISC II is a joint powers authority created to provide services and other items necessary and appropriate for the establishment, operation, and maintenance for the public educational agencies which are parties thereto. Property coverage applies to all property of the insured including both real and personal property and including personal property of others. Real property and business personal property is insured to a limit of \$100,000,000 per occurrences, subject to the COE's \$2,500 deductible feature. SISC II has a \$250,000 self-insured retention (SIR) over the deductible per occurrence.

SISC II under Memorandum of Coverage for commercial general liability provides \$1,500,000 limits over the COE's \$1,000 deductible. Excess coverage is provided by private carrier to the level of \$48,500,000 in excess of \$1,500,000 limit per occurrence for a total of \$50,000,000. SISC II has a \$250,000 SIR over the deductible per occurrence.

SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

Workers' Compensation

The COE participates in the Schools Insurance Program for Employees, originally called the Self-Insurance Program for Employees (SIPE), for the purpose of providing the services necessary and appropriate for the development, operation, and maintenance of a self-insurance system for workers' compensation claims against the public educational agencies who are members. The COE is self-insured for the first \$1 to a limit of \$349,999 of each workers' compensation claim. The workers' compensation experience of the participating members is calculated as one experience, and a common premium rate is applied to all members in the JPA. Each participant pays its workers' compensation premium based on its individual rate. A participant will then either receive money from or be required to contribute to the "equity pooling fund." This "equity pooling fund" arrangement insures that each participant shares equally in the overall performance of the JPA. The COE utilizes Gregory B. Bragg & Associates, Inc. which is the third party administrator for the Schools of San Luis Obispo County SIPE whose members are self-insured for their workers' compensation claims.

The COE also utilizes SISC as their claims carrier which covers claims excess of \$350,000 and up with no limit.

NOTE 13 - EMPLOYEE RETIREMENT SYSTEMS

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

For the fiscal year ended June 30, 2016, the COE reported net pension liabilities, deferred outflows of resources, deferred inflows of resources, and pension expense for each of the above plans as follows:

Pension Plan	Collective Net Pension Liability	Collective Deferred Outflows of Resources	Collective Deferred Inflow of Resources	Collective Pension Expense
CalSTRS	\$ 7,759,824	\$ 1,168,312	\$ 2,507,722	\$ 441,828
CalPERS	8,248,932	2,565,902	3,650,582	273,059
Total	<u>\$ 16,008,756</u>	<u>\$ 3,734,214</u>	<u>\$ 6,158,304</u>	<u>\$ 714,887</u>

The details of each plan are as follows:

California State Teachers' Retirement System (CalSTRS)

Plan Description

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

SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2014, annual actuarial valuation report, Defined Benefit Program Actuarial Valuation. This report and CalSTRS audited financial information are publically available reports that can be found on the CalSTRS website under Publications at: <http://www.calstrs.com/member-publications>.

Benefits Provided

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

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

The COE contributes exclusively to the STRP Defined Benefit Program, thus disclosures are not included for the other plans.

The STRP provisions and benefits in effect at June 30, 2016, are summarized as follows:

	STRP Defined Benefit Program	
	On or before	On or after
Hire date	December 31, 2012	January 1, 2013
Benefit formula	2% at 60	2% at 62
Benefit vesting schedule	5 Years of Service	5 Years of Service
Benefit payments	Monthly for Life	Monthly for Life
Retirement age	60	62
Monthly benefits as a percentage of eligible compensation	2.0% - 2.4%	2.0% - 2.4%
Required employee contribution rate	9.20%	8.56%
Required employer contribution rate	10.73%	10.73%
Required State contribution rate	7.12589%	7.12589%

SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

Contributions

Required member, District and State of California contributions rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. The contributions rates are expressed as a level percentage of payroll using the entry age normal actuarial method. In accordance with AB 1469, employer contributions into the CalSTRS will be increasing to a total of 19.1 percent of applicable member earnings phased over a seven-year period. The contribution rates for each plan for the year ended June 30, 2016, are presented above and the COE's total contributions were \$441,828.

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

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

Total net pension liability, including State share:

COE's proportionate share of net pension liability	\$ 7,759,824
State's proportionate share of the net pension liability associated with the COE	4,104,092
Total	<u>\$ 11,863,916</u>

The net pension liability was measured as of June 30, 2015. The COE's proportion of the net pension liability was based on a projection of the COE's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts and the State, actuarially determined. The COE's proportionate share for the measurement period June 30, 2015 and June 30, 2014, respectively was 0.0115 percent and 0.0133 percent, resulting in a net decrease in the proportionate share of 0.0018 percent.

For the year ended June 30, 2016, the COE recognized pension expense of \$556,911. In addition, the COE recognized pension expense and revenue of \$317,908 for support provided by the State. At June 30, 2016, the COE reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 556,911	\$ -
Net change in proportionate share of net pension liability	-	1,134,100
Difference between projected and actual earnings on plan investments	611,401	1,243,953
Differences between expected and actual experience in the measurement of the total pension liability	-	129,669
Total	<u>\$ 1,168,312</u>	<u>\$ 2,507,722</u>

SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2017	\$ (261,801)
2018	(261,801)
2019	(261,801)
2020	152,850
Total	<u>\$ (632,553)</u>

The deferred outflows/(inflows) of resources related to the net change in proportionate share of net pension liability and differences between expected and actual experience in the measurement of the total pension liability will be amortized over the Expected Average Remaining Service Life (EARSL) of all members that are provided benefits (active, inactive, and retirees) as of the beginning of the measurement period. The EARSL for the 2014-2015 measurement period is seven years and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2017	\$ (210,628)
2018	(210,628)
2019	(210,628)
2020	(210,628)
2021	(210,628)
Thereafter	(210,628)
Total	<u>\$ (1,263,768)</u>

SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

Actuarial Methods and Assumptions

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

Valuation date	June 30, 2014
Measurement date	June 30, 2015
Experience study	July 1, 2006 through June 30, 2010
Actuarial cost method	Entry age normal
Discount rate	7.60%
Investment rate of return	7.60%
Consumer price inflation	3.00%
Wage growth	3.75%

CalSTRS uses custom mortality tables to best fit the patterns of mortality among its members. These custom tables are based on RP2000 series tables adjusted to fit CalSTRS experience.

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. Based on the model for CalSTRS consulting actuary' investment practice, a best estimate range was determined by assuming the portfolio is re-balanced annually and that the annual returns are lognormally distributed and independently from year to year to develop expected percentile for the long-term distribution of annualized returns. The assumed asset allocation is based on board policy for target asset allocation in effect on February 2, 2012, the date the current experience study was approved by the board. Best estimates of 10-year geometric real rates of return and the assumed asset allocation for each major asset class used as input to develop the actuarial investment rate of return are summarized in the following table:

<u>Asset Class</u>	<u>Assumed Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global equity	47%	4.50%
Private equity	12%	6.20%
Real estate	15%	4.35%
Inflation sensitive	5%	3.20%
Fixed income	20%	0.20%
Cash/liquidity	1%	0.00%

SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

Discount Rate

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

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

<u>Discount Rate</u>	<u>Net Pension Liability</u>
1% decrease (6.60%)	\$ 11,716,730
Current discount rate (7.60%)	\$ 7,759,824
1% increase (8.60%)	\$ 4,471,316

California Public Employees Retirement System (CalPERS)

Plan Description

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

A full description of the pension plans regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2014 annual actuarial valuation reports, Schools Pool Actuarial Valuation, and the Risk Pool Actuarial Valuation Report, Safety, 2014. These reports and CalPERS audited financial information are publically available reports that can be found on the CalPERS website under Forms and Publications at: <https://www.calpers.ca.gov/page/forms-publications>.

SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

Benefits Provided

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

The CalPERS provisions and benefits in effect at June 30, 2016, are summarized as follows:

	School Employer Pool (CalPERS)	
	On or before	On or after
Hire date	December 31, 2012	January 1, 2013
Benefit formula	2% at 55	2% at 62
Benefit vesting schedule	5 Years of Service	5 Years of Service
Benefit payments	Monthly for Life	Monthly for Life
Retirement age	55	62
Monthly benefits as a percentage of eligible compensation	1.1% - 2.5%	1.0% - 2.5%
Required employee contribution rate	7.000%	6.000%
Required employer contribution rate	11.847%	11.847%

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. Total plan contributions are calculated through the CalPERS annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The COE is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. The contributions rates are expressed as percentage of annual payroll. The contribution rates for each plan for the year ended June 30, 2016, are presented above and the total COE contributions were \$273,059.

SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

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

As of June 30, 2016, the COE reported net pension liabilities for its proportionate share of the CalPERS net pension liability totaling \$8,248,932. The net pension liability was measured as of June 30, 2015. The COE's proportion of the net pension liability was based on a projection of the COE's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts, actuarially determined. The COE's proportionate share for the measurement period June 30, 2015 and June 30, 2014, respectively was 0.0560 percent and 0.0655 percent, resulting in a net decrease in the proportionate share of 0.0095 percent.

For the year ended June 30, 2016, the COE recognized pension expense of \$739,664. At June 30, 2016, the COE reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Pension contributions subsequent to measurement date	\$ 739,664	\$ -
Net change in proportionate share of net pension liability	-	1,506,494
Difference between projected and actual earnings on pension plan investments	1,354,799	1,637,250
Deferrences between expected and actual experience in the measurement of the total penison liability	471,439	-
Changes of assumptions	-	506,838
Total	<u>\$ 2,565,902</u>	<u>\$ 3,650,582</u>

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

<u>Year Ended June 30,</u>	<u>Deferred Outflows/(Inflows) of Resources</u>
2017	\$ (207,050)
2018	(207,050)
2019	(207,050)
2020	338,700
Total	<u>\$ (282,450)</u>

SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

The deferred outflows/(inflows) of resources related to the net change in proportionate share of net pension liability, changes of assumptions, and differences between expected and actual experience in the measurement of the total pension liability will be amortized over the Expected Average Remaining Service Life (EARSL) of all members that are provided benefits (active, inactive, and retirees) as of the beginning of the measurement period. The EARSL for the 2014-2015 measurement period is 3.9 years and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2017	\$ (597,996)
2018	(597,997)
2019	(345,902)
Total	<u>\$ (1,541,895)</u>

Actuarial Methods and Assumptions

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

Valuation date	June 30, 2014
Measurement date	June 30, 2015
Experience study	July 1, 1997 through June 30, 2011
Actuarial cost method	Entry age normal
Discount rate	7.65%
Investment rate of return	7.65%
Consumer price inflation	2.75%
Wage growth	Varies by entry age and service

Mortality assumptions are based on mortality rates resulting from the most recent CalPERS experience study adopted by the CalPERS Board. For purposes of the post-retirement mortality rates, those revised rates include five years of projected ongoing mortality improvement using Scale AA published by the Society of Actuaries.

SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first ten years) and the long-term (11-60 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 target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Assumed Asset Allocation	Long-Term Expected Real Rate of Return
Global equity	51%	5.25%
Global fixed income	19%	0.99%
Private equity	10%	6.83%
Real estate	10%	4.50%
Inflation sensitive	6%	0.45%
Infrastructure and Forestland	2%	4.50%
Liquidity	2%	-0.55%

Discount Rate

The discount rate used to measure the total pension liability was 7.65 percent. The projection of cash flows used to determine the discount rate assumed the contributions from plan members and employers will be made at statutory contribution rates. Based on these assumptions, the School Employer Pool fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine total pension liability.

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

Discount rate	Net Pension Liability
1% decrease (6.65%)	\$ 13,425,824
Current discount rate (7.65%)	\$ 8,248,932
1% increase (8.65%)	\$ 3,944,000

SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

On Behalf Payments

The State of California makes contributions to CalSTRS on behalf of the COE. These payments consist of State General Fund contributions to CalSTRS in the amount of \$396,889 (7.12589 percent of annual payroll). Contributions are no longer appropriated in the annual *Budget Act* for the legislatively mandated benefits to CalPERS. Therefore, there is no on behalf contribution rate for CalPERS. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, these amounts have been recorded in these financial statements. On behalf payments have been excluded from the calculation of available reserves, and have not been included in the budgeted amounts reported in the *General Fund - Budgetary Comparison Schedule*.

Alternative Pension Plan

The COE is a member of the Self-Insured Schools of California Defined Benefit Plan (SISC), which provides an alternative pension to COE employees who do not meet the qualifications of the California Public Employees Retirement System (*Government Code* Section 20000 and following) or the California State Teachers' Retirement System (*Education Code* Section 22000 and following). This program is not administered by the California Public Employees Retirement System or the California State Teachers' Retirement System. The SISC Defined Benefit Plan contribution rate for the calendar year 2016 is 4.44 percent. The rate is applied to all wages paid between January 1 and December 31, 2016. The rate is significantly lower than the 6.2 percent Social Security rate.

NOTE 14 - COMMITMENTS AND CONTINGENCIES

Grants

The COE received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the County School Services Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the COE at June 30, 2016.

Litigation

The COE is not currently a party to any legal proceedings.

SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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

The COE is a member of the Self-Insured Schools of California Health and Welfare Benefits Program (SISC III), Self-Insured Schools of California Property and Liability Program (SISC II), and the Schools-Insurance Program for Employees (SIPE) joint powers authorities (JPAs). The COE pays an annual premium to each entity for its health, workers' compensation, and property liability coverage. The relationship between the COE and the JPAs are such that they are not component units of the COE for financial reporting purposes.

These entities have budgeting and financial reporting requirements independent of member units and their financial statements are not presented in these financial statements; however, fund transactions between the entities and the COE are included in these statements. Audited financial statements are generally available from the respective entities.

The COE has appointed no board members to any of the governing boards of SISC III, SISC II, or SIPE.

During the year ended June 30, 2016, the COE made payments of \$3,325,256, \$47,140, and \$884 to SISC III, SISC II, and SIPE, respectively.

REQUIRED SUPPLEMENTARY INFORMATION

SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION

**COUNTY SCHOOL SERVICES FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2016**

	Budgeted Amounts		Actual (GAAP Basis)	Variances - Positive (Negative)
	Original	Final		Final to Actual
	REVENUES			
Local Control Funding Formula	\$ 10,280,225	\$ 10,780,473	\$ 10,721,500	\$ (58,973)
Federal sources	2,202,885	2,190,314	2,367,640	177,326
Other State sources	2,405,386	6,241,625	4,803,087	(1,438,538)
Other local sources	6,644,058	7,128,916	6,634,046	(494,870)
Total Revenues ¹	21,532,554	26,341,328	24,526,273	(1,815,055)
EXPENDITURES				
Current				
Certificated salaries	5,232,065	5,957,167	5,898,687	58,480
Classified salaries	5,744,510	6,036,975	6,084,023	(47,048)
Employee benefits	4,005,429	4,298,816	4,496,088	(197,272)
Books and supplies	782,475	1,086,296	929,579	156,717
Services and operating expenditures	3,773,937	7,147,093	5,025,544	2,121,549
Other outgo	152,950	697,711	2,378,136	(1,680,425)
Capital outlay	2,378,996	2,241,842	303,089	1,938,753
Debt service - principal	-	-	21,000	(21,000)
Total Expenditures ¹	22,070,362	27,465,900	25,136,146	2,329,754
Excess (Deficiency) of Revenues Over Expenditures	(537,808)	(1,124,572)	(609,873)	514,699
Other Financing Sources (Uses)				
Transfers in	40,221	76,642	6,225	(70,417)
Transfers out	(284,154)	(348,612)	(306,017)	42,595
Net Financing Sources (Uses)	(243,933)	(271,970)	(299,692)	(27,722)
NET CHANGE IN FUND BALANCES	(781,741)	(1,396,542)	(909,565)	486,977
Fund Balance - Beginning	9,495,518	9,495,518	9,495,518	-
Fund Balance - Ending	\$ 8,713,777	\$ 8,098,976	\$ 8,585,953	\$ 486,977

¹ On behalf payments of \$396,889 are included in the actual revenues and expenditures and have been included in the budgeted amounts. In addition, due to the consolidation of Fund 14, Deferred Maintenance Fund, Fund 17, Special Reserve Fund for Other Than Capital Outlay Projects, and Fund 20, Special Reserve Fund for Postemployment Benefits for reporting purposes into the County School Services Fund, additional revenues and expenditures pertaining to these other funds are included in the Actual (GAAP Basis) revenues and expenditures, however are not included in the original and final General Fund budgets.

See accompanying note to required supplementary information

SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION

**SPECIAL EDUCATION PASS-THROUGH FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2016**

	Budgeted Amounts		Actual (GAAP Basis)	Variances -
	Original	Final		Positive (Negative)
				Final to Actual
REVENUES				
Federal sources	\$ 6,457,148	\$ 6,423,527	\$ 6,400,588	\$ (22,939)
Other State sources	8,552,316	8,250,503	7,787,805	(462,698)
Other local sources	-	645	-	(645)
Total Revenues	15,009,464	14,674,675	14,188,393	(486,282)
EXPENDITURES				
Current				
Other outgo	14,892,458	14,889,800	14,295,430	594,370
NET CHANGE IN FUND BALANCES	117,006	(215,125)	(107,037)	108,088
Fund Balance - Beginning	215,121	215,121	215,121	-
Fund Balance - Ending	\$ 332,127	\$ (4)	\$ 108,084	\$ 108,088

See accompanying note to required supplementary information

SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION

**SCHEDULE OF OTHER POSTEMPLOYMENT BENEFITS (OPEB) FUNDING
PROGRESS
FOR THE YEAR ENDED JUNE 30, 2016**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Projected Unit Credit (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b - a] / c)
July 1, 2008	\$ -	\$ 15,248,707	\$ 15,248,707	0%	N/A	N/A
July 1, 2011	\$ -	\$ 13,220,003	\$ 13,220,003	0%	N/A	N/A
July 1, 2013	\$ -	\$ 10,701,035	\$ 10,701,035	0%	N/A	N/A

See accompanying note to required supplementary information

SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION

**SCHEDULE OF THE COE'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
FOR THE YEAR ENDED JUNE 30, 2016**

	<u>2016</u>	<u>2015</u>
CalSTRS		
COE's proportion of the net pension liability (asset)	<u>0.0115%</u>	<u>0.0133%</u>
COE's proportionate share of the net pension liability (asset)	\$ 7,759,824	\$ 7,797,181
State's proportionate share of the net pension liability (asset) associated with the COE	<u>4,104,092</u>	<u>4,708,275</u>
Total	<u>\$ 11,863,916</u>	<u>\$ 12,505,456</u>
COE's covered - employee payroll	<u>\$ 6,271,520</u>	<u>\$ 5,567,124</u>
COE's proportionate share of the net pension liability (asset) as a percentage of its covered - employee payroll	<u>123.73%</u>	<u>150.94%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>74%</u>	<u>77%</u>
CalPERS		
COE's proportion of the net pension liability (asset)	<u>0.0560%</u>	<u>0.0655%</u>
COE's proportionate share of the net pension liability (asset)	\$ 8,248,932	\$ 7,433,258
COE's covered - employee payroll	<u>\$ 6,284,316</u>	<u>\$ 7,032,092</u>
COE's proportionate share of the net pension liability (asset) as a percentage of its covered - employee payroll	<u>131.26%</u>	<u>120.54%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>79%</u>	<u>83%</u>

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

See accompanying note to required supplementary information

SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION

**SCHEDULE OF COE CONTRIBUTIONS
FOR THE YEAR ENDED JUNE 30, 2016**

	<u>2016</u>	<u>2015</u>
CalSTRS		
Contractually required contribution	\$ 556,911	\$ 458,731
Contributions in relation to the contractually required contribution	<u>556,911</u>	<u>458,731</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
COE's covered - employee payroll	<u>\$ 5,190,224</u>	<u>\$ 5,165,890</u>
Contributions as a percentage of covered - employee payroll	<u>10.73%</u>	<u>8.88%</u>
CalPERS		
Contractually required contribution	\$ 739,664	\$ 804,612
Contributions in relation to the contractually required contribution	<u>739,664</u>	<u>804,612</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
COE's covered - employee payroll	<u>\$ 6,241,890</u>	<u>\$ 6,836,126</u>
Contributions as a percentage of covered - employee payroll	<u>11.85%</u>	<u>11.77%</u>

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

See accompanying note to required supplementary information

SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION JUNE 30, 2016

NOTE 1 - PURPOSE OF SCHEDULES

Budgetary Comparison Schedule

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

Schedule of Other Postemployment Benefits (OPEB) Funding Progress

This schedule is intended to show trends about the funding progress of the COE's actuarially determined liability for postemployment benefits other than pensions.

Schedule of the COE's Proportionate Share of the Net Pension Liability

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

Schedule of District Contributions

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

NOTE 2 – CHANGES IN BENEFIT TERMS AND ASSUMPTIONS

Changes in Benefit Terms

There were no changes in benefit terms since the previous valuation for either CalSTRS and CalPERS.

Changes in Assumptions

The CalSTRS plan rate of investment return assumption was not changed from the previous valuation. The CalPERS plan rate of investment return assumption was changed from 7.50 percent to 7.65 percent since the previous valuation.

SUPPLEMENTARY INFORMATION

SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION

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

Federal Grantor/Pass-Through Grantor/Program	CFDA Number	Pass-Through Entity Identifying Number	Program Expenditures	Passed Through To Subrecipients
U.S. DEPARTMENT OF EDUCATION				
Passed through California Department of Education (CDE):				
Individuals with Disabilities Act (IDEA)				
Special Education (IDEA) Cluster:				
Basic Local Assistance Entitlement, Part B,				
Section 611	84.027	13379	\$ 5,714,270	\$ 5,678,025
Mental Health Allocation Plan, Part B, Sec 611	84.027	14468	382,796	-
Preschool Local Entitlement, Part B, Section 611 (Age 3-4-5)	84.027A	13682	516,318	476,841
Preschool Grants, Part B, Section 619 (Age 3-4-5)	84.173	13430	285,199	245,722
Preschool Staff Development, Part B, Section 619	84.173A	13431	997	-
Alternative Dispute Resolution, Part B, Section 611	84.173A	13007	36,095	-
Total Special Education (IDEA) Cluster			<u>6,935,675</u>	<u>6,400,588</u>
Early Intervention Programs, Part C	84.181	23761	62,152	-
No Child Left Behind Act (NCLB)				
Title I, Part A and D Grants:				
Title I, Part A, Basic Grants Low Income and Neglected	84.010	14329	1,170,659	444,785
Title I, Part D, Local Delinquent Programs	84.010	14357	78,917	-
Total Title I, Part A and D Grants			<u>1,249,576</u>	<u>444,785</u>
Title II, Part A, Improving Teacher Quality Local Grants	84.367	14341	19,977	-
Title III, Limited English Proficient (LEP) Student Program	84.365	14346	18,590	2,752
Title X, McKinney-Vento Homeless Children Assistance Grants	84.196	14332	162,453	-
Rural Education Achievement Program	84.358A	[1]	11,546	-
Total U.S. Department of Education			<u>8,459,969</u>	<u>6,848,125</u>
U.S. DEPARTMENT OF AGRICULTURE				
Passed through California Department of Education (CDE):				
CACFP Claims - Centers and Family Day Care	10.558	13393	32,900	-
Forest Reserve	10.665	10044	12,231	-
Total U.S. Department of Agriculture			<u>45,131</u>	<u>-</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES				
Passed through California Department of Health Services:				
Medi-Cal Billing Option	93.778	10013	393,214	-
Total Federal Programs			<u>\$ 8,898,314</u>	<u>\$ 6,848,125</u>

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

See accompanying note to supplementary information.

SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE JUNE 30, 2016

ORGANIZATION

The San Luis Obispo County Office of Education was established February 23, 1965, and consists of an area comprising all of San Luis Obispo County. The COE operates 12 California State preschools, two First 5 preschools, four community schools, one juvenile court school, 15 special education classrooms, four special education centers, two independent skills classes, and one outdoor education school. There were no boundary changes during the year.

GOVERNING BOARD

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Diane A. Ward	President	2020
Floyd Moffatt	Vice President	2018
Gaye L. Galvan	Member	2018
Paul Madonna	Member	2018
Joel Peterson	Member	2020

ADMINISTRATION

James J. Brescia	Superintendent
Pamela Ables	Assistant Superintendent
DJ Pittenger	Assistant Superintendent
Dr. Sheldon Smith	Assistant Superintendent
Thomas Alvarez	Chief Human Resources Officer

See accompanying note to supplementary information.

SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION

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

	Final Report	
	Second Period Report	Annual Report
ELEMENTARY		
Juvenile halls, homes, and camps	1.13	1.59
Community schools pupils - Probation referred, Expelled	5.62	8.36
Total Elementary	6.75	9.95
SECONDARY		
Juvenile halls, homes, and camps	28.87	28.63
Community schools pupils - Probation referred, Expelled	126.99	126.83
Total Secondary	155.86	155.46
Total ADA	162.61	165.41

Summarized below is the Average Daily Attendance (ADA) for County operated programs generated for school districts at the second and annual period of the current fiscal year

	Final Report	
	Second Period Report	Annual Report
Extended Year Special Education		
Transitional kindergarten through third	2.39	2.51
Fourth through sixth	1.75	1.74
Seventh and eighth	2.16	2.29
Ninth through twelfth	2.24	1.89
Total Extended Year Special Education	8.54	8.43
Extended Year Special Education, Nonpublic, Nonsectarian Schools		
Transitional kindergarten through third	0.17	0.17
Fourth through sixth	0.11	0.11
Seventh and eighth	0.07	0.07
Ninth through twelfth	0.19	0.19
Total Extended Year Special Education, Nonpublic, Nonsectarian Schools	0.54	0.54
Total ADA	9.08	8.97

See accompanying note to supplementary information.

SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION

**RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT WITH
AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

There were no adjustments to the Unaudited Actual Financial Report, which required reconciliation to the audited financial statements at June 30, 2016.

See accompanying note to supplementary information.

SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION

**SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2016**

	(Budget) 2017 ¹	2016	2015	2014 ⁶
COUNTY SCHOOL SERVICES FUND ⁵				
Revenues	\$ 23,335,834	\$ 24,526,273	\$ 22,050,033	\$ 23,607,350
Other sources and transfers in	15,000	6,325	27,183	3,072
Total Revenues and Other Sources	23,350,834	24,532,598	22,077,216	23,610,422
Expenditures	23,687,692	25,136,146	24,144,239	22,447,385
Other uses and transfers out	388,772	306,017	344,767	317,296
Total Expenditures and Other Uses	24,076,464	25,442,163	24,489,006	22,764,681
CHANGE IN FUND BALANCE	\$ (725,630)	\$ (909,565)	\$ (2,411,790)	\$ 845,741
ENDING FUND BALANCE	\$ 4,993,943	\$ 5,719,573	\$ 6,629,138	\$ 9,040,928
AVAILABLE RESERVES ²	\$ 197,563	\$ 1,272,108	\$ 1,696,719	\$ 1,928,803
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO ^{3, 4}	0.82%	5.00%	7.03%	8.60%
LONG-TERM OBLIGATIONS	N/A	\$ 1,777,476	\$ 1,827,059	\$ 1,862,078
K-12 AVERAGE DAILY ATTENDANCE AT P-2	161	172	197	221

The General Fund balance has decreased by \$3,321,355 over the past two years. The fiscal year 2016-2017 budget projects a decrease of \$725,630 (12.69 percent). For a COE this size, the State recommends available reserves of at least three percent of total General Fund expenditures, transfers out, and other uses (total outgo).

The COE has incurred operating deficits in two of the past three years and anticipates incurring an operating deficit during the 2016-2017 fiscal year. Total long-term obligations have decreased by 84,602 over the past two years.

Average daily attendance has decreased by 49 over the past two years. Additional decline of 11 ADA is anticipated during fiscal year 2016-2017.

¹ Budget 2017 is included for analytical purposes only and has not been subjected to audit.

² Available reserves consist of all unassigned fund balances including all amounts reserved for economic uncertainties contained with the County School Services Fund, the Special Reserve Fund for Other Than Capital Outlay Projects, and the Special Reserve Fund for Postemployment Benefits.

³ On-behalf payments of \$396,889, \$313,813, and \$338,904, have been excluded from the calculation of available reserves for fiscal years ending June 30, 2016, 2015, and 2014, respectively.

⁴ The County Office of Education serves as the Administrative Unit for all of the SELPA; therefore, pass-through funds included in the expenditures have been excluded from the calculation.

⁵ County School Services Fund amounts do not include activity related to the consolidation of the Deferred Maintenance Fund, the Special Reserve Fund for Other Than Capital Outlay Projects, and the Special Reserve Fund for Postemployment Benefits as required by GASB Statement No. 54.

⁶ Beginning 2011-2012, Special Revenue Pass-Through activity is now reflected in Fund 10, Special Education Pass-Through Fund.

See accompanying note to supplementary information.

SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION

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

<u>Name of Charter School</u>	<u>Included in Audit Report</u>
Grizzly Challenge Charter School (0566)	No

See accompanying note to supplementary information.

SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION

**NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2016**

	Child Development Fund	Special Reserve Capital Outlay Fund	Non-Major Governmental Funds
ASSETS			
Deposits and investments	\$ -	\$ 833,989	\$ 833,989
Receivables	143,130	-	143,130
Total Assets	\$ 143,130	\$ 833,989	\$ 977,119
LIABILITIES AND FUND BALANCES			
Liabilities:			
Overdrafts	\$ 115,230	\$ -	\$ 115,230
Accounts payable	17,583	-	17,583
Unearned revenue	1,241	-	1,241
Total Liabilities	134,054	-	134,054
Fund Balances:			
Restricted	9,076	-	9,076
Assigned	-	833,989	833,989
Total Fund Balances	9,076	833,989	843,065
Total Liabilities and Fund Balances	\$ 143,130	\$ 833,989	\$ 977,119

See accompanying note to supplementary information.

SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION

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

	Child Development Fund	Forest Reserve Fund	Special Reserve Capital Fund	Non-Major Governmental Funds
REVENUES				
Federal sources	\$ 32,900	\$ 12,231	\$ -	\$ 45,131
Other State sources	809,561	-	-	809,561
Other local sources	406,348	-	4,390	410,738
Total Revenues	1,248,809	12,231	4,390	1,265,430
EXPENDITURES				
Current				
Pupil services:				
Food services	20,262	-	-	20,262
Administration:				
All other administration	98,422	-	-	98,422
Plant services	162,458	-	-	162,458
Community services	1,241,357	-	-	1,241,357
Other outgo	-	10,396	-	10,396
Total Expenditures	1,522,499	10,396	-	1,532,895
Excess (Deficiency) of				-
Revenues Over Expenditures	(273,690)	1,835	4,390	(267,465)
Other Financing Sources (Uses)				
Transfers in	246,017	-	60,000	306,017
Transfers out	-	(1,835)	(4,390)	(6,225)
Net Financing Sources (Uses)	246,017	(1,835)	55,610	299,792
NET CHANGE IN FUND BALANCES	(27,673)	-	60,000	32,327
Fund Balances - Beginning	36,749	-	773,989	810,738
Fund Balances - Ending	\$ 9,076	\$ -	\$ 833,989	\$ 843,065

See accompanying note to supplementary information.

SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION

**NOTE TO SUPPLEMENTARY INFORMATION
JUNE 30, 2016**

NOTE 1 - PURPOSE OF SCHEDULES

Schedule of Expenditures of Federal Awards

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

The following schedule provides reconciliation between revenues reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances, and the related expenditures reported on the Schedule of Expenditures of Federal Awards. The reconciling amounts consist primarily of Medi-Cal Billing Options funds that in the previous period were recorded as revenues but were unspent. In addition, Medi-Cal Administrative Activities funds have been recorded in the current period as revenues that have not been expended as of June 30, 2016. These unspent balances are reported as legally restricted ending balances within the General Fund.

Description	<u>CFDA Number</u>	<u>Amount</u>
Total Federal Revenues From the Statement of Revenues, Expenditures, and Changes in Fund Balance:		\$ 8,813,359
Medi-Cal Billing Option	93.778	393,214
Medi-Cal Administrative Activities Program	93.778	<u>(308,259)</u>
Total Schedule of Expenditures of Federal Awards		<u><u>\$ 8,898,314</u></u>

Local Education Agency Organization Structure

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

Schedule of Average Daily Attendance (ADA)

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

SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2016

Reconciliation of Annual Financial and Budget Report With Audited Financial Statements

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

Schedule of Financial Trends and Analysis

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

Schedule of Charter Schools

This schedule lists all Charter Schools chartered by the COE, and displays information for each Charter School on whether or not the Charter School is included in the COE audit.

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

The Non-Major Governmental Funds Combining Balance Sheet and Combining Statement of Revenues, Expenditures, and Changes in Fund Balances are included to provide information regarding the individual funds that have been included in the Non-Major Governmental Funds column on the Governmental Funds Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balances.

INDEPENDENT AUDITOR'S REPORTS

Compliance and Other Matters

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

San Luis Obispo County Office of Education's Response to Findings

San Luis Obispo County Office of Education's response to the findings identified in our audit are described in the accompanying schedule in which the findings are reported schedule of findings and questioned costs. San Luis Obispo County Office of Education's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the COE'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 COE's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Vannink, Tui, Day & Co., LLP

Rancho Cucamonga, California
December 12, 2016

Opinion on Each Major Federal Program

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

Report on Internal Control Over Compliance

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

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

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

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

Vannink, Tai, Day & Co., LLP

Rancho Cucamonga, California
December 12, 2016

Other Matters

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

	Procedures Performed
LOCAL EDUCATION AGENCIES OTHER THAN CHARTER SCHOOLS	
Attendance	Yes
Teacher Certification and Misassignments	Yes
Kindergarten Continuance	Yes
Independent Study	Yes
Continuation Education	No, see below
Instructional Time	No, see below
Instructional Materials	Yes
Ratios of Administrative Employees to Teachers	No, see below
Classroom Teacher Salaries	No, see below
Early Retirement Incentive	No, see below
Gann Limit Calculation	Yes
School Accountability Report Card	Yes
Juvenile Court Schools	Yes
Middle or Early College High Schools	No, see below
K-3 Grade Span Adjustment	No, see below
Transportation Maintenance of Effort	No, see below
SCHOOL DISTRICTS, COUNTY OFFICES OF EDUCATION, AND CHARTER SCHOOLS	
Educator Effectiveness	Yes
California Clean Energy Jobs Act	Yes
After School Education and Safety Program:	
General Requirements	No, see below
After School	No, see below
Before School	No, see below
Proper Expenditure of Education Protection Account Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control Accountability Plan	Yes
Independent Study - Course Based	No, see below
Immunizations	Yes, see below
CHARTER SCHOOLS	
Attendance	No, see below
Mode of Instruction	No, see below
Non Classroom-Based Instruction/Independent Study for Charter Schools	No, see below
Determination of Funding for Non Classroom-Based Instruction	No, see below
Annual Instruction Minutes Classroom-Based	No, see below
Charter School Facility Grant Program	No, see below

The COE does not offer a Continuation Program; therefore, we did not perform procedures related to the Continuation Education Attendance Program.

Instructional Time does not apply to COE; therefore, we did not perform procedures related to the Instructional Time.

Ratio of Administrative Employees to Teachers Program does not apply to COE; therefore, we did not perform procedures related to the Administrative Employees to Teachers Program.

Classroom Teacher Salaries Program does not apply to COE; therefore, we did not perform procedures related to the Classroom Teacher Salaries Program.

The COE did not offer an Early Retirement Incentive Program during the current year; therefore, we did not perform procedures related to the Early Retirement Incentive Program.

The COE does not have Middle or Early College High Schools; therefore, we did not perform procedures related to the Middle or Early College High Schools.

K-3 Grade Span Adjustment Program does not apply to COE; therefore, we did not perform procedures related to the K-3 Grade Span Adjustment Program.

The COE does not offer a Transportation Maintenance of Effort Program; therefore, we did not perform any procedures related to the Transportation Maintenance of Effort Program.

The COE does not offer an After School Education and Safety Program; therefore, we did not perform any procedures related to the After School Education and Safety Program.

The COE does not offer an Independent Study – Course Based program; therefore, we did not perform any related procedures.

The COE did not have any schools listed on the immunization assessment reports; therefore, we did not perform any related procedures.

The COE does not have any Charter Schools; therefore, we did not perform any procedures for Charter School Programs.

Vannink, Tui, Day & Co., LLP

Rancho Cucamonga, California
December 12, 2016

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION

**SUMMARY OF AUDITOR'S RESULTS
FOR THE YEAR ENDED JUNE 30, 2016**

FINANCIAL STATEMENTS

Type of auditor's report issued:	<u>Unmodified</u>
Internal control over financial reporting:	
Material weakness identified?	<u>No</u>
Significant deficiency identified?	<u>Yes</u>
Noncompliance material to financial statements noted?	<u>No</u>

FEDERAL AWARDS

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

Identification of major Federal programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
84.027, 84.027A, 84.173, and 84.173A	Special Education (IDEA) Cluster

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 750,000</u>
Auditee qualified as low-risk auditee?	<u>Yes</u>

STATE AWARDS

Type of auditor's report issued on compliance for State programs:	<u>Unmodified</u>
Unmodified for all programs except for the following	

SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION

FINANCIAL STATEMENT FINDINGS FOR THE YEAR ENDED JUNE 30, 2016

The following findings represent significant deficiencies related to the financial statements that are required to be reported in accordance with *Government Auditing Standards*. The findings have been coded as follows:

<u>Five Digit Code</u>	<u>AB 3627 Finding Type</u>
60000	Miscellaneous

Fiscal Condition (Deficit Spending-Child Development Fund)

2016-001 6000

Criteria or Specific Requirements

Best business practices require the funds of the COE remain self-supporting.

Condition

The Child Development Fund has continued a pattern of deficit spending over the past several years. This has impacted the cash flow of the fund whereby a loan in the amount of \$273,691 from the County School Services Fund was owed at June 30, 2016. The County School Services Fund augmented the program with transfers in the amount of \$246,017.

Questioned costs

There were no questioned costs associated with the condition found.

Context

The conditions identified were determined through review of the COE financial statements, fund balance, and current year budget including multi-year projections.

Effect

The County School Services Fund has been impacted by reduced funding sources. Continued deficit spending and interfund borrowing may have a negative impact on the continued fiscal solvency of the COE.

Cause

Program requirements of the Child Development Fund and reductions in funding through local sources have contributed to the continued deficit spending.

Recommendation

The COE should continue to monitor the spending through the Child Development Fund, as well as look for possible revenue sources for the program. The impact of the deficit spending on the County School Services Fund ending balance must be included in the monitoring process.

SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION

FINANCIAL STATEMENT FINDINGS FOR THE YEAR ENDED JUNE 30, 2016

Corrective Action Plan

The COE agrees with the finding that the County School Services fund contributed over \$246,017 to support the operating deficit in the State Preschool Program. For 2015-2016, the COE restricted the program in an effort to increase revenues and reduce the structural deficit. The COE looks to provide high quality preschool programs to our most at-risk students.

SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION

**FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2016**

None reported.

SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION

**STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2016**

None reported.

SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2016**

Except as specified in previous sections of this report, summarized below is the current status of all audit findings reported in the prior year's schedule of financial statement findings.

<u>Five Digit Code</u>	<u>AB 3627 Finding Type</u>
60000	Miscellaneous

Financial Statement Finding

Fiscal Condition (Deficit Spending-Child Development Fund)

2015-001 60000

Criteria or Specific Requirements

Best business practices require the funds of the COE remain self-supporting.

Condition

The Child Development Fund has continued a pattern of deficit spending over the past several years. This has impacted the cash flow of the fund whereby a loan in the amount of \$268,013 from the County School Services Fund was owed at June 30, 2015. The County School Services Fund augmented the program with transfers in the amount of \$284,767.

Questioned costs

There were no questioned costs associated with the condition found.

Context

The conditions identified were determined through review of the COE financial statements, fund balance, and current year budget including multi-year projections.

Effect

The County School Services Fund has been impacted by reduced funding sources. Continued deficit spending and interfund borrowing may have a negative impact on the continued fiscal solvency of the COE.

Cause

Program requirements of the Child Development Fund and reductions in funding through local sources have contributed to the continued deficit spending.

SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2016

Recommendation

The COE should continue to monitor the spending through the Child Development Fund, as well as look for possible revenue sources for the program. The impact of the deficit spending on the County School Services Fund ending balance must be included in the monitoring process.

Current Status

Not implemented; see finding 2016-001.