



**SAN LUIS OBISPO
COUNTY OFFICE OF EDUCATION**

ANNUAL FINANCIAL REPORT

JUNE 30, 2014

SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION

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FINANCIAL SECTION



INDEPENDENT AUDITOR'S REPORT

Governing Board
San Luis Obispo County Office of Education
San Luis Obispo, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the San Luis Obispo County Office of Education (the COE) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the COE's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Standards and Procedures for Audits of California K-12 Local Education Agencies 2013-2014*, issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the San Luis Obispo County Office of Education, as of June 30, 2014, 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 required supplementary information, such as management's discussion and analysis on pages 5 through 11, and budgetary comparison and other postemployment benefit information on pages 45 through 47, respectively, 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 non-major fund financial statements and Schedule of Expenditures of Federal Awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* 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.

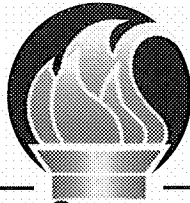
The accompanying supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of 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 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, 2014, 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.

Vannine, Time, Day & Co., LLP.

Rancho Cucamonga, California
December 12, 2014



**SAN LUIS OBISPO COUNTY
OFFICE OF EDUCATION**
LEADERSHIP * COMMUNITY * SERVICE
JULIAN D. CROCKER, 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, 2014, with comparative information from the fiscal year ending June 30, 2013. 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 \$37,770,119, which is \$3,397,696 less than expenses.
 - The COE decreased its capital assets \$4,022,779 or 10.7 percent.
 - The COE increased its outstanding long-term obligations \$31,677 or 1.7 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*.

SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2014

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.

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.

SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2014

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.

FINANCIAL ANALYSIS OF THE COE AS A WHOLE

Net Position

The COE's *combined* net position was less on June 30, 2014, than it was the year before - decreasing approximately 7.1 percent to \$44,357,243.

Table 1

	Governmental Activities	
	2014	2013
Assets		
Current and other assets	\$ 17,433,248	\$ 21,196,664
Capital assets	33,471,231	37,494,010
Total Assets	<u>50,904,479</u>	<u>58,690,674</u>
Liabilities		
Current liabilities	4,685,158	9,105,334
Long-term obligations	1,862,078	1,830,401
Total Liabilities	<u>6,547,236</u>	<u>10,935,735</u>
Net Position		
Net investment in capital assets	33,324,231	37,326,010
Restricted	3,504,587	3,471,090
Unrestricted	7,528,425	6,957,839
Total Net Position	<u>\$ 44,357,243</u>	<u>\$ 47,754,939</u>

SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2014

Changes in Net Position

The COE's total revenues decreased \$3,052,603. (See Table 2) Property taxes and Federal and State formula aid accounted for 23 percent of the COE's revenue. Another 50.7 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	
	2014	2013
Revenues		
Program revenues:		
Charges for services	\$ 7,034,814	\$ 5,720,913
Operating grants and contributions	19,159,930	22,266,311
General revenues:		
Federal and State aid not restricted	951,253	1,633,636
Property taxes	7,718,980	9,113,555
Other general revenues	2,905,142	2,088,307
Total Revenues	<u>37,770,119</u>	<u>40,822,722</u>
Expenses		
Instruction	8,469,630	8,896,423
Supervision of instruction	3,283,545	3,479,290
Library, media, and technology	394,485	373,370
School site administration	1,544,700	1,591,391
Pupil services	2,825,091	2,603,361
Administration	4,142,006	3,672,921
Maintenance and operations	1,781,410	1,844,674
Ancillary/Comm SVE/Enterprise	2,110,426	2,627,366
Outgo (transfers between agencies)	16,616,522	15,287,611
Interest on long-term obligations	-	87,971
Total Expenses	<u>41,167,815</u>	<u>40,464,378</u>
Change in Net Position	<u>\$ (3,397,696)</u>	<u>\$ 358,344</u>

The total cost of all programs and services was \$41,167,815. 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 10.1 percent of total expenses.

Total expenses surpassed revenues, decreasing net position \$3,397,696 over last year.

SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2014

Governmental Activities

The cost of all *governmental activities* this year was \$41,167,815.

- 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 \$17,875,133 in property taxes of which \$10,573,768 transferred to San Luis Obispo County School District, leaving \$7,301,365 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 implemented at .6331567500 GAP funding rate.
- Changes made at the 1st Interim Budget Revision included increasing revenues and expenditures to reflect the receipt of one-time funding for Common Core and Proposition 39. Carryovers were recorded for Federal Programs.
- Changes made at the 2nd Interim Budget Revision included transferring funds from Fund 10 to Fund 01 to cover one-time construction costs to set up an additional Special Education classroom. One time funds were transferred in from Fund 17 to Fund 01 for one-time purchases of data processing servers and support.

SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION

**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014**

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of 2014, the COE had invested \$33,471,231 in a broad range of capital assets, including land, construction in progress, buildings and improvements, furniture and equipment, and buses and vehicles. (See Table 3) This amount represents a net decrease of \$4,022,779, or 10.7 percent, from last year. Total depreciation expense for the year was \$1,325,203, while additions to equipment, furniture, and buildings amounted to \$329,157.

Table 3

	Governmental Activities	
	2014	2013
Land	\$ 4,844,354	\$ 4,844,354
Construction in progress	5,461	-
Buildings and improvements	42,514,965	46,619,764
Furniture and equipment	989,167	869,528
Buses and vehicles	770,004	871,261
Total Capital Assets	49,123,951	53,204,907
Accumulated depreciation	(15,652,720)	(15,710,897)
Net Book Value of Capital Assets	\$ 33,471,231	\$ 37,494,010

More detailed information about the COE's capital assets is presented in Note 4 to the financial statements.

Long-Term Obligations

At year-end, the COE had \$1,862,078 in long-term obligations outstanding (including postemployment benefits) - an increase of 1.7 percent from last year. (See Table 4)

The COE is focusing on reducing long-term obligations outstanding due to unused vacation balances. In 2013-2014, the COE increased their compensated absences liability by \$15,217, or 5.9 percent.

Table 4

	Governmental Activities	
	2014	2013
Compensated absences	\$ 273,679	\$ 258,462
Child care facilities revolving fund loan	147,000	168,000
Other postemployment benefits (OPEB)	1,441,399	1,403,939
Total	\$ 1,862,078	\$ 1,830,401

More detailed information about the COE's long-term obligations is presented in Note 8 to the financial statements.

SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2014

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 slightly over the next several years.
- The Local Control Funding Formula (LCFF) brought about changes that are mostly positive for the COE.
 - LCFF will be fully implemented for the COE in fiscal year 2014-2015.
 - 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 2015-2016.
- 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 Mary Jarvis, 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, 2014**

	<u>Governmental Activities</u>
ASSETS	
Deposits and investments	\$ 11,101,939
Receivables	6,250,190
Prepaid expenses	81,119
Capital assets:	
Land and construction in progress	4,849,815
Other capital assets	44,274,136
Less: Accumulated depreciation	<u>(15,652,720)</u>
Total Capital Assets	<u>33,471,231</u>
Total Assets	<u>50,904,479</u>
LIABILITIES	
Accounts payable	4,666,046
Unearned revenue	19,112
Long-term obligations:	
Current portion of long-term obligations	89,420
Noncurrent portion of long-term obligations	<u>1,772,658</u>
Total Long-Term Obligations	<u>1,862,078</u>
Total Liabilities	<u>6,547,236</u>
NET POSITION	
Net investment in capital assets	33,324,231
Restricted for:	
Educational programs	3,504,587
Unrestricted	<u>7,528,425</u>
Total Net Position	<u>\$ 44,357,243</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, 2014**

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	\$ 8,469,630	\$ 2,096,333	\$ 3,117,222	\$ (3,256,075)
Instruction-related activities:				
Supervision of instruction	3,283,545	613,491	1,300,153	(1,369,901)
Instructional library, media, and technology	394,485	28,184	15,219	(351,082)
School site administration	1,544,700	337,255	475,221	(732,224)
Pupil services:				
Food services	114,824	7,910	19,301	(87,613)
All other pupil services	2,710,267	438,973	1,848,761	(422,533)
Administration:				
Data processing	892,033	-	87,252	(804,781)
All other administration	3,249,973	330,414	578,092	(2,341,467)
Plant services	1,781,410	314,751	348,137	(1,118,522)
Ancillary services	848,195	115	62	(848,018)
Community services	1,096,105	170,377	639,726	(286,002)
Enterprise services	166,126	-	-	(166,126)
Other outgo	16,616,522	2,697,011	10,730,784	(3,188,727)
Total Governmental Activities	\$ 41,167,815	\$ 7,034,814	\$ 19,159,930	(14,973,071)

General revenues and subventions:

Property taxes, levied for general purposes	7,301,365
Taxes levied for other specific purposes	417,615
Federal and State aid not restricted to specific purposes	951,253
Interest and investment earnings	22,781
Transfers between agencies	371,930
Miscellaneous	2,510,431
Subtotal, General Revenues	11,575,375

Change in Net Position

Net Position - Beginning	47,754,939
Net Position - Ending	\$ 44,357,243

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

SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION

**GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2014**

	County School Services Fund	Special Education Pass-Through Fund	Non-Major Governmental Funds	Total Governmental Funds
ASSETS				
Deposits and investments	\$ 8,792,029	\$ 1,595,921	\$ 713,989	\$ 11,101,939
Receivables	4,947,893	992,935	309,362	6,250,190
Due from other funds	269,566	-	-	269,566
Prepaid expenditures	81,119	-	-	81,119
Total Assets	\$ 14,090,607	\$ 2,588,856	\$ 1,023,351	\$ 17,702,814
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 2,155,504	\$ 2,490,741	\$ 19,801	\$ 4,666,046
Due to other funds	-	-	269,566	269,566
Unearned revenue	19,112	-	-	19,112
Total Liabilities	2,174,616	2,490,741	289,367	4,954,724
Fund Balances:				
Nonspendable	106,769	-	-	106,769
Restricted	3,386,477	98,115	19,995	3,504,587
Assigned	6,493,942	-	713,989	7,207,931
Unassigned	1,928,803	-	-	1,928,803
Total Fund Balances	11,915,991	98,115	733,984	12,748,090
Total Liabilities and Fund Balances	\$ 14,090,607	\$ 2,588,856	\$ 1,023,351	\$ 17,702,814

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, 2014**

Total Fund Balance - Governmental Funds		\$ 12,748,090
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	\$ 49,123,951	
Accumulated depreciation is	<u>(15,652,720)</u>	
Net Capital Assets		33,471,231
Long-term obligations at year-end consist of:		
Compensated absences (vacations)	273,679	
Child care facilities revolving fund loan	147,000	
Net OPEB obligation	<u>1,441,399</u>	
Total Long-Term Obligations		<u>(1,862,078)</u>
Total Net Position - Governmental Activities		<u><u>\$ 44,357,243</u></u>

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

SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION

**STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2014**

	County School Services Fund	Special Education Pass-Through Fund	Non-Major Governmental Funds	Total Governmental Funds
REVENUES				
Local Control Funding Formula	\$ 8,163,953	\$ -	\$ -	\$ 8,163,953
Federal sources	3,002,553	6,192,299	74,788	9,269,640
Other State sources	2,713,129	6,926,758	607,183	10,247,070
Other local sources	9,727,715	-	361,741	10,089,456
Total Revenues	23,607,350	13,119,057	1,043,712	37,770,119
EXPENDITURES				
Current				
Instruction	7,587,462	-	-	7,587,462
Instruction-related activities:				
Supervision of instruction	3,280,330	-	-	3,280,330
Instructional library, media, and technology	394,056	-	-	394,056
School site administration	1,541,023	-	-	1,541,023
Pupil services:				
Food services	91,934	-	22,890	114,824
All other pupil services	2,706,931	-	-	2,706,931
Administration:				
Data processing	891,409	-	-	891,409
All other administration	2,965,371	-	97,424	3,062,795
Plant services	1,770,747	-	119,631	1,890,378
Facility acquisition and construction	167,242	-	772	168,014
Ancillary services	608,744	-	-	608,744
Community services	-	-	1,096,105	1,096,105
Other outgo	255,176	13,320,868	8,284	13,584,328
Enterprise services	165,960	-	-	165,960
Debt service				
Principal	21,000	-	-	21,000
Total Expenditures	22,447,385	13,320,868	1,345,106	37,113,359
Excess (Deficiency) of Revenues Over Expenditures	1,159,965	(201,811)	(301,394)	656,760
Other Financing Sources (Uses)				
Transfers in	3,072	-	317,296	320,368
Transfers out	(317,296)	-	(3,072)	(320,368)
Net Financing Sources (Uses)	(314,224)	-	314,224	-
NET CHANGE IN FUND BALANCES	845,741	(201,811)	12,830	656,760
Fund Balances - Beginning	11,070,250	299,926	721,154	12,091,330
Fund Balances - Ending	\$ 11,915,991	\$ 98,115	\$ 733,984	\$ 12,748,090

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, 2014

Total Net Change in Fund Balances - Governmental Funds	\$ 656,760
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	\$ (1,325,203)
Capital outlays	<u>334,618</u>
Net Expense Adjustment	(990,585)
Loss on disposal of capital assets is reported in the government-wide Statement of Net Position, but is not recorded in the governmental funds.	(3,032,194)
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 \$15,217.	(15,217)
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:	(37,460)
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	<u>21,000</u>
Change in Net Position of Governmental Activities	<u><u>\$ (3,397,696)</u></u>

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, 2014**

	<u>Agency Funds</u>
ASSETS	
Deposits and investments	<u>\$ 3,119,304</u>
LIABILITIES	
Amounts held on behalf of others	<u>\$ 3,119,304</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, 2014

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:

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.

SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

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 General Fund reflects an increase in assets, fund balance, revenues, and expenditures of \$2,866,106, \$2,866,106, \$7,042, and \$4,745, respectively.

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, 2014

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, 2014

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, 2014

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, 2014, 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, 2014

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.

Fund Balances - Governmental Funds

As of June 30, 2014, 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.

SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

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.

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, 2014. 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 \$3,504,587 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.

SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

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.

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 March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined the elements included in financial statements, including deferred outflows of resources and deferred inflows of resources. In addition, Concepts Statement No. 4 provides that reporting a deferred outflow of resources or a deferred inflow of resources should be limited to those instances identified by the Board in authoritative pronouncements that are established after applicable due process. Prior to the issuance of this Statement, only two such pronouncements have been issued. Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, requires the reporting of a deferred outflow of resources or a deferred inflow of resources for the changes in fair value of hedging derivative instruments, and Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, requires a deferred inflow of resources to be reported by a transferor government in a qualifying service concession arrangement. This Statement amends the financial statement element classification of certain items previously reported as assets and liabilities to be consistent with the definitions in Concepts Statement No. 4. This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term *deferred* in financial statement presentations.

The District has implemented the provisions of this Statement for the year ended June 30, 2014.

SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

New Accounting Pronouncements

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements No. 27 and No. 50 remain applicable for pensions that are not covered by the scope of this Statement.

The scope of this Statement addresses accounting and financial reporting for pensions that are provided to the employees of state and local governmental employers through pension plans that are administered through trusts that have the following characteristics:

- Contributions from employers and non-employer contributing entities to the pension plan and earnings on those contributions are irrevocable.
- Pension plan assets are dedicated to providing pensions to plan members in accordance with the benefit terms.
- Pension plan assets are legally protected from the creditors of employers, non-employer contributing entities, and the pension plan administrator. If the plan is a defined benefit pension plan, plan assets also are legally protected from creditors of the plan members.

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

Note disclosure and required supplementary information requirements about pensions also are addressed. Distinctions are made regarding the particular requirements for employers based on the number of employers whose employees are provided with pensions through the pension plan and whether pension obligations and pension plan assets are shared. Employers are classified in one of the following categories for purposes of this Statement:

- Single employers are those whose employees are provided with defined benefit pensions through single-employer pension plans—pension plans in which pensions are provided to the employees of only one employer (as defined in this Statement).

SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

- Agent employers are those whose employees are provided with defined benefit pensions through agent multiple-employer pension plans—pension plans in which plan assets are pooled for investment purposes but separate accounts are maintained for each individual employer so that each employer's share of the pooled assets is legally available to pay the benefits of only its employees.
- Cost-sharing employers are those whose employees are provided with defined benefit pensions through cost-sharing multiple-employer pension plans—pension plans in which the pension obligations to the employees of more than one employer are pooled and plan assets can be used to pay the benefits of the employees of any employer that provides pensions through the pension plan.

In addition, this Statement details the recognition and disclosure requirements for employers with liabilities (payables) to a defined benefit pension plan and for employers whose employees are provided with defined contribution pensions. This Statement also addresses circumstances in which a non-employer entity has a legal requirement to make contributions directly to a pension plan.

This Statement is effective for fiscal years beginning after June 15, 2014. Early implementation is encouraged.

In November 2013, the GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date — An Amendment of GASB Statement No. 68*. The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability.

Statement No. 68 requires a state or local government employer (or nonemployer contributing entity in a special funding situation) to recognize a net pension liability measured as of a date (the measurement date) no earlier than the end of its prior fiscal year. If a state or local government employer or nonemployer contributing entity makes a contribution to a defined benefit pension plan between the measurement date of the reported net pension liability and the end of the government's reporting period, Statement No. 68 requires that the government recognize its contribution as a deferred outflow of resources. In addition, Statement No. 68 requires recognition of deferred outflows of resources and deferred inflows of resources for changes in the net pension liability of a state or local government employer or nonemployer contributing entity that arise from other types of events. At transition to Statement No. 68, if it is not practical for an employer or nonemployer contributing entity to determine the amounts of *all* deferred outflows of resources and deferred inflows of resources related to pensions, paragraph 137 of Statement No. 68 required that beginning balances for deferred outflows of resources and deferred inflows of resources not be reported.

Consequently, if it is not practical to determine the amounts of all deferred outflows of resources and deferred inflows of resources related to pensions, contributions made after the measurement date of the beginning net pension liability could not have been reported as deferred outflows of resources at transition. This could have resulted in a significant understatement of an employer or nonemployer contributing entity's beginning net position and expense in the initial period of implementation.

SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

This Statement amends paragraph 137 of Statement No. 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. Statement No. 68, as amended, continues to require that beginning balances for other deferred outflows of resources and deferred inflows of resources related to pensions be reported at transition only if it is practical to determine all such amounts.

The provisions of this Statement are required to be applied simultaneously with the provisions of Statement No. 68.

NOTE 2 - DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2014, are classified in the accompanying financial statements as follows:

Governmental activities	\$ 11,101,939
Fiduciary funds	3,119,304
Total Deposits and Investments	<u>\$ 14,221,243</u>

Deposits and investments as of June 30, 2014, consisted of the following:

Cash on hand and in banks	\$ 3,153,584
Cash in revolving	25,650
Cash with fiscal agent	1,094,872
Investments	9,947,137
Total Deposits and Investments	<u>\$ 14,221,243</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.

SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

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.

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.

SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

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	\$ 9,941,331	251
State Treasurer's Investment Pool (LAIF)	12,627	232
Total	\$ 9,953,958	

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, 2014, the COE's bank balance of \$3,714,176 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.

SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 3 - RECEIVABLES

Receivables at June 30, 2014, consisted of intergovernmental grants, entitlements, interest, and other local sources. All receivables are considered collectible in full.

	County School Services Fund	Special Education Pass-Through Fund	Non-Major Governmental Funds	Total Governmental Activities
Federal Government				
Categorical aid	\$ 1,055,715	\$ 32,080	\$ 3,432	\$ 1,091,227
State Government				
Categorical aid	34,300	-	1,771	36,071
Lottery	15,063	-	-	15,063
Special education billings	3,421,296	960,855	-	4,382,151
Local Government				
Other local sources	421,519	-	304,159	725,678
Total	<u>\$ 4,947,893</u>	<u>\$ 992,935</u>	<u>\$ 309,362</u>	<u>\$ 6,250,190</u>

SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 4 - CAPITAL ASSETS

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

	Balance July 1, 2013	Additions	Deductions	Balance June 30, 2014
Governmental Activities				
Capital Assets Not Being Depreciated				
Land	\$ 4,844,354	\$ -	\$ -	\$ 4,844,354
Construction in progress	-	5,461	-	5,461
Total Capital Assets Not Being Depreciated	4,844,354	5,461	-	4,849,815
Capital Assets Being Depreciated				
Land improvements	192,964	-	-	192,964
Buildings and improvements	46,426,800	138,822	4,243,621	42,322,001
Furniture and equipment	869,528	119,639	-	989,167
Buses/Vehicles	871,261	70,696	171,953	770,004
Total Capital Assets Being Depreciated	48,360,553	329,157	4,415,574	44,274,136
Less Accumulated Depreciation				
Land improvements	57,889	9,648	-	67,537
Buildings and improvements	14,241,062	1,227,579	1,247,950	14,220,691
Furniture and equipment	688,247	53,443	-	741,690
Buses/Vehicles	723,699	34,533	135,430	622,802
Total Accumulated Depreciation	15,710,897	1,325,203	1,383,380	15,652,720
Governmental Activities Capital Assets, Net	<u>\$ 37,494,010</u>	<u>\$ (990,585)</u>	<u>\$ 3,032,194</u>	<u>\$ 33,471,231</u>

Depreciation expense was charged to governmental functions as follows:

Governmental Activities	
Instruction	\$ 861,381
Ancillary services	238,538
All other general administration	225,284
Total Depreciation Expense Governmental Activities	<u>\$ 1,325,203</u>

SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 5 - INTERFUND TRANSACTIONS

Interfund Receivables/Payables (Due To/Due From)

Interfund receivable and payable balances arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed. Interfund receivable and payable balances at June 30, 2014, between major and non-major governmental funds are as follows:

	Due From Non-Major Governmental Funds
Due To	
County School Services Fund	\$ 269,566

A balance of \$269,566 is due to the County School Services Fund from the Child Development Non-Major Governmental Fund for temporary cash flow purposes.

Operating Transfers

Interfund transfers for the year ended June 30, 2014, consisted of the following:

Transfer In	County School Services Fund	Transfer Out Non-Major Governmental Funds	Total
County School Services Fund	\$ -	\$ 3,072	\$ 3,072
Non-Major Governmental Funds	317,296	-	317,296
Total	\$ 317,296	\$ 3,072	\$ 320,368

The County School Services Fund transferred to the Child Development Non-Major Governmental Fund to support operations of the program. \$ 257,296

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 forest reserve fees. 1,462

The Special Reserve Fund for Capital Outlay Projects Non-Major Governmental Fund transferred to the County School Services Fund for interest earned. 1,610

Total \$ 320,368

SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 6 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2014, consisted of the following:

	County School Services Fund	Special Education Pass-Through Fund	Non-Major Governmental Funds	Total Governmental Activities
LCFF State aid	\$ 280,898	\$ -	\$ -	\$ 280,898
Vendor payables	387,050	-	4,882	391,932
Pass-through special education apportionments	-	2,490,741	-	2,490,741
Construction	419,748	-	-	419,748
Accrued payroll	1,067,808	-	14,919	1,082,727
Total	<u>\$ 2,155,504</u>	<u>\$ 2,490,741</u>	<u>\$ 19,801</u>	<u>\$ 4,666,046</u>

NOTE 7 - UNEARNED REVENUE

Unearned revenue at June 30, 2014, consisted of the following:

	County School Services Fund
Federal financial assistance	<u>\$ 19,112</u>

NOTE 8 - LONG-TERM OBLIGATIONS

Summary

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

	Balance July 1, 2013	Additions	Deductions	Balance June 30, 2014	Due in One Year
Compensated absences	\$ 258,462	\$ 15,217	\$ -	\$ 273,679	\$ 68,420
Child care facilities revolving fund loan	168,000	-	21,000	147,000	21,000
Other postemployment benefits	1,403,939	665,322	627,862	1,441,399	-
	<u>\$ 1,830,401</u>	<u>\$ 680,539</u>	<u>\$ 648,862</u>	<u>\$ 1,862,078</u>	<u>\$ 89,420</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.

SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

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, 2014, 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, 2014, amounted to \$273,679.

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, 2014, 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, 2014, the balance outstanding was \$147,000. 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
2015	\$ 21,000
2016	21,000
2017	21,000
2018	21,000
2019	21,000
2020-2021	42,000
Total	<u>\$ 147,000</u>

Other Postemployment Benefits (OPEB) Obligation

The COE's annual required contribution for the year ended June 30, 2014, was \$684,994, and contributions made by the COE during the year were \$627,862. Interest on the net OPEB obligation and adjustments to the annual required contribution were \$70,197 and \$(89,869), respectively, which resulted in an increase to the net OPEB obligation of \$37,460. As of June 30, 2014, the net OPEB obligation was \$1,441,399. See Note 10 for additional information regarding the OPEB obligation and the postemployment benefits plan.

SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE 9 - 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	\$ 25,650	\$ -	\$ -	\$ 25,650
Prepaid expenditures	81,119	-	-	81,119
Total Nonspendable	<u>106,769</u>	<u>-</u>	<u>-</u>	<u>106,769</u>
Restricted				
Legally restricted programs	<u>3,386,477</u>	<u>98,115</u>	<u>19,995</u>	<u>3,504,587</u>
Assigned				
Excess property taxes	3,530,067	-	-	3,530,067
Lottery	97,769	-	-	97,769
Five year plan	3	-	-	3
Health and welfare	542,471	-	-	542,471
Retiree health benefits	2,323,632	-	-	2,323,632
Capital projects	-	-	713,989	713,989
Total Assigned	<u>6,493,942</u>	<u>-</u>	<u>713,989</u>	<u>7,207,931</u>
Unassigned				
Reserve for economic uncertainties	1,121,052	-	-	1,121,052
Remaining unassigned	807,751	-	-	807,751
Total Unassigned	<u>1,928,803</u>	<u>-</u>	<u>-</u>	<u>1,928,803</u>
Total	<u>\$ 11,915,991</u>	<u>\$ 98,115</u>	<u>\$ 733,984</u>	<u>\$ 12,748,090</u>

SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE 10 - 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 2013-2014, the COE contributed \$627,862 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	70,197
Adjustment to annual required contribution	(89,869)
Annual OPEB cost (expense)	<u>665,322</u>
Contributions made	<u>(627,862)</u>
Increase in net OPEB obligation	37,460
Net OPEB obligation, beginning of year	<u>1,403,939</u>
Net OPEB obligation, end of year	<u>\$ 1,441,399</u>

SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

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
2012	\$ 884,870	\$ 698,528	79%	\$ 1,167,604
2013	881,461	645,126	73%	1,403,939
2014	665,322	627,862	94%	1,441,399

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.

SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

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, 2014, was 24 years. The actuarial value of assets was not determined in this actuarial valuation as there were none.

NOTE 11 - 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 14 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, 2014

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 12 - EMPLOYEE RETIREMENT SYSTEMS

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

CalSTRS

Plan Description

The COE contributes to CalSTRS; a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalSTRS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and survivor benefits to beneficiaries. As a result of the Public Employee Pension Reform Act of 2013 (PEPRA), changes have been made to the defined benefit pension plan effective January 1, 2013. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law. CalSTRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalSTRS annual financial report may be obtained from CalSTRS, 100 Waterfront Place, West Sacramento, California 95605.

Funding Policy

Due to the implementation of the PEPRA, new members must pay at least 50 percent of the normal costs of the plan, which can fluctuate from year to year. For 2013-2014, the required contribution rate for new members is 8.0 percent. "Classic" plan members are also required to contribute 8.0 percent of their salary. The COE is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by CalSTRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2013-2014, was 8.25 percent of annual payroll. The contribution requirements of the plan members are established by State statute. The COE's contributions to CalSTRS for the fiscal years ending June 30, 2014, 2013, and 2012, were \$491,214, \$488,622, and \$504,595, respectively, and equal 100 percent of the required contributions for each year.

SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

CalPERS

Plan Description

The COE contributes to the School Employer Pool under CalPERS; a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and survivor benefits to plan members and beneficiaries. As a result of the PEPRAs, changes have been made to the defined benefit pension plan effective January 1, 2013. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Laws. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS's annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, California 95811.

Funding Policy

As a result of the implementation of the PEPRAs, new members must pay at least 50 percent of the normal costs of the plan, which can fluctuate from year to year. For 2013-2014, the normal cost is 11.85 percent, which rounds to a 6.0 percent contribution rate. "Classic" plan members continue to contribute 7.0 percent. The COE is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2013-2014 was 11.442 percent of covered payroll. The contribution requirements of the plan members are established by State statute. The COE's contributions to CalPERS for the fiscal years ending June 30, 2014, 2013, and 2012, were \$772,768, \$743,725, and \$702,299, respectively, and equal 100 percent of the required contributions for each year.

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 \$338,904 (5.541 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 2014 is 3.10 percent. The rate is applied to all wages paid between January 1 and December 31, 2014. The rate is significantly lower than the 6.2 percent Social Security rate.

SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE 13 - 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, 2014.

Litigation

The COE may become involved in litigation proceedings arising from the normal course of business. In the opinion of management and legal counsel, the disposition of all litigation pending is not expected to have a material adverse effect on the overall financial position of the COE at June 30, 2014.

NOTE 14 - 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, 2014, the COE made payments of \$3,604,667, \$1,742, and \$413 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, 2014**

	Budgeted Amounts		Actual (GAAP Basis)	Variances -
	Original	Final		Positive (Negative)
				Final to Actual
REVENUES				
Local Control Funding Formula	\$ 7,278,073	\$ 8,145,546	\$ 8,163,953	\$ 18,407
Federal sources	2,862,299	2,771,770	3,002,553	230,783
Other State sources	1,411,313	1,319,049	2,713,129	1,394,080
Other local sources	8,395,794	9,670,796	9,727,715	56,919
Total Revenues ¹	19,947,479	21,907,161	23,607,350	1,700,189
EXPENDITURES				
Current				
Certificated salaries	5,630,355	6,056,465	6,437,718	(381,253)
Classified salaries	5,942,833	6,430,924	6,589,985	(159,061)
Employee benefits	4,082,899	4,185,006	4,142,147	42,859
Books and supplies	613,776	1,096,490	919,106	177,384
Services and operating expenditures	2,157,339	4,007,381	3,850,576	156,805
Other outgo	298,224	252,596	157,752	94,844
Capital outlay	20,000	362,233	329,101	33,132
Debt service - principal	21,000	21,000	21,000	-
Total Expenditures ¹	18,766,426	22,412,095	22,447,385	(35,290)
Excess (Deficiency) of Revenues Over Expenditures	1,181,053	(504,934)	1,159,965	1,664,899
Other Financing Sources (Uses)				
Transfers in	12,600	250,745	3,072	(247,673)
Transfers out	(252,013)	(399,017)	(317,296)	81,721
Net Financing Sources (Uses)	(239,413)	(148,272)	(314,224)	(165,952)
NET CHANGE IN FUND BALANCES	941,640	(653,206)	845,741	1,498,947
Fund Balance - Beginning	11,070,250	11,070,250	11,070,250	-
Fund Balance - Ending	\$ 12,011,890	\$ 10,417,044	\$ 11,915,991	\$ 1,498,947

¹ On behalf payments of \$338,904 are included in the actual revenues and expenditures, but have not 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.

SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION

**SPECIAL EDUCATION PASS-THROUGH FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2014**

	Budgeted Amounts		Actual (GAAP Basis)	Variances -
	Original	Final		Positive (Negative)
				Final to Actual
REVENUES				
Federal sources	\$ 6,267,876	\$ 6,192,302	\$ 6,192,299	\$ (3)
Other State sources	8,180,112	7,053,459	6,926,758	(126,701)
Total Revenues	14,447,988	13,245,761	13,119,057	(126,704)
EXPENDITURES				
Current				
Other outgo	14,447,988	13,545,687	13,320,868	224,819
NET CHANGE IN FUND BALANCES	-	(299,926)	(201,811)	98,115
Fund Balance - Beginning	299,926	299,926	299,926	-
Fund Balance - Ending	\$ 299,926	\$ -	\$ 98,115	\$ 98,115

SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION

**SCHEDULE OF OTHER POSTEMPLOYMENT BENEFITS (OPEB) FUNDING
PROGRESS
FOR THE YEAR ENDED JUNE 30, 2014**

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

SUPPLEMENTARY INFORMATION

SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2014**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Pass-Through Entity Identifying Number	Program Expenditures
U.S. DEPARTMENT OF AGRICULTURE			
Passed through California Department of Education (CDE):			
Child Care Food Program Centers and Family Day Care	10.558	13393	\$ 25,087
Forest Reserve	10.665	10044	8,284
Total U.S. Department of Agriculture			<u>33,371</u>
U.S. DEPARTMENT OF EDUCATION			
Small, Rural Scholar Achievement Program	84.358A		20,316
Passed through California Department of Education (CDE):			
No Child Left Behind			
Title I Cluster:			
Title I, Part A, Basic Grants Low-Income and Neglected	84.010	14329	1,167,369
Title I, Part A, Program Improvement LEA Corrective Action, Extensive Performance Problems	84.010	14955	11,149
Title I, Part D, Local Delinquent Programs	84.010	14357	42,057
Subtotal Title I Cluster			<u>1,220,575</u>
Title II, Part A, Improving Teacher Quality	84.367	14341	16,199
Title III, Limited English Proficient (LEP) Student Program	84.365	14346	42,419
Title X, McKinney-Vento Homeless Assistance Grants	84.196	14332	66,877
Individuals with Disabilities Education Act			
Special Education (IDEA) Cluster:			
Alternative Dispute Resolution	84.173A	13007	15,000
Basic Local Assistance Entitlement	84.027	13379	5,525,299
Mental Health Allocation Plan	84.027A	14468	455,195
Preschool Local Entitlement	84.027A	13682	497,704
Preschool Grants, Part B, Section 619	84.173	13430	291,251
Preschool Staff Development	84.173A	13431	1,583
Subtotal Special Education (IDEA) Cluster			<u>6,786,032</u>
Early Intervention Grants	84.181	23761	62,152
Total U.S. Department of Education			<u>8,214,570</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed through California Department of Health Services:			
Medicaid Cluster:			
Medi-Cal Billing Option	93.778	10013	1,156,707
Medi-Cal Administrative Services (MAA)	93.778	10060	106,990
Drug Medi-Cal	93.778	[1]	178,913
Subtotal Medicaid Cluster			<u>1,442,610</u>
Passed through California Department of Education (CDE):			
Child Development: Federal Child Care, Center-based	93.596	13609	39,955
Total U.S. Department of Health and Human Services			<u>1,482,565</u>
Total Expenditures of Federal Awards			<u>\$ 9,730,506</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, 2014

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>
Paul Madonna	President	2014
Diane Ward	Vice President	2016
Floyd Moffatt	Member	2014
Larry Peterson	Member	2016
Gave Galvan	Member	2014

ADMINISTRATION

Julian D. Crocker	Superintendent
Pamela Ables	Assistant Superintendent
AJ Pittenger	Assistant Superintendent
Mary Jarvis	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, 2014**

	Final Report	
	Second Period Report	Annual Report
ELEMENTARY		
Juvenile halls, homes, and camps	1.30	1.79
Community schools pupils - Probation referred, Expelled	9.39	12.53
Total Elementary	<u>10.69</u>	<u>14.32</u>
SECONDARY		
Juvenile halls, homes, and camps	26.74	26.86
Community schools pupils - Probation referred, Expelled	183.36	179.27
Total Secondary	<u>210.10</u>	<u>206.13</u>
Total ADA	<u><u>220.79</u></u>	<u><u>220.45</u></u>

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

Extended Year Special Education		
Transitional kindergarten through third	24.14	25.61
Fourth through sixth	22.83	23.98
Seventh and eighth	10.02	11.75
Ninth through twelfth	49.52	52.18
Total Extended Year Special Education	<u>106.51</u>	<u>113.52</u>
Extended Year Special Education, Nonpublic, Nonsectarian Schools		
Transitional kindergarten through third	1.66	-
Fourth through sixth	1.70	-
Seventh and eighth	0.90	-
Ninth through twelfth	5.09	-
Total Extended Year Special Education, Nonpublic, Nonsectarian Schools	<u>9.35</u>	<u>-</u>
Total ADA	<u><u>115.86</u></u>	<u><u>113.52</u></u>

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, 2014.

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, 2014**

	(Budget) 2015 ¹	2014	2013	2012 ⁶
COUNTY SCHOOL SERVICES FUND ⁵				
Revenues	\$ 20,723,786	\$ 23,600,307	\$ 24,545,439	\$ 15,771,983
Other sources and transfers in	41,000	14,326	10,593	18,310
Total Revenues and Other Sources	20,764,786	23,614,633	24,556,032	15,790,293
Expenditures	23,494,689	22,442,639	22,156,799	21,055,554
Other uses and transfers out	408,579	317,296	433,356	287,094
Total Expenditures and Other Uses	23,903,268	22,759,935	22,590,155	21,342,648
CHANGE IN FUND BALANCE	\$ (3,138,482)	\$ 854,698	\$ 1,965,877	\$ (5,552,355)
ENDING FUND BALANCE	\$ 5,911,403	\$ 9,049,885	\$ 8,195,187	\$ 6,229,310
AVAILABLE RESERVES ²	\$ 1,987,328	\$ 1,928,803	\$ 1,076,623	\$ 3,048,071
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO ^{3, 4}	8.31%	8.60%	4.84%	14.48%
LONG-TERM OBLIGATIONS	N/A	\$ 1,862,078	\$ 1,830,401	\$ 1,613,793
K-12 AVERAGE DAILY ATTENDANCE AT P-2	218	221	250	276

The General Fund balance has increased by \$2,820,575 over the past two years. The fiscal year 2014-2015 budget projects a decrease of \$3,138,482 (34.68 percent). For a county office of education 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 surpluses in two of the past three years but anticipates incurring an operating deficit during the 2014-2015 fiscal year. Total long-term obligations have increased by \$248,285 over the past two years.

Average daily attendance has decreased by 55 over the past two years. An additional decline of three ADA is anticipated during fiscal year 2014-2015.

¹ Budget 2015 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 \$338,904, \$327,503, and \$296,947, have been excluded from the calculation of available reserves for fiscal years ending June 30, 2014, 2013, and 2012, 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, 2014**

<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, 2014**

	Child Development Fund	Special Reserve Fund for Capital Outlay Projects	Non-Major Governmental Funds
ASSETS			
Deposits and investments	\$ -	\$ 713,989	\$ 713,989
Receivables	309,362	-	309,362
Total Assets	\$ 309,362	\$ 713,989	\$ 1,023,351
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 19,801	\$ -	\$ 19,801
Due to other funds	269,566	-	269,566
Total Liabilities	289,367	-	289,367
Fund Balances:			
Restricted	19,995	-	19,995
Assigned	-	713,989	713,989
Total Fund Balances	19,995	713,989	733,984
Total Liabilities and Fund Balances	\$ 309,362	\$ 713,989	\$ 1,023,351

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, 2014**

	Child Development Fund	Forest Reserve Fund	Special Reserve Fund for Capital Outlay Projects	Total Non-Major Governmental Funds
REVENUES				
Federal sources	\$ 65,042	\$ 9,746	\$ -	\$ 74,788
Other State sources	607,183	-	-	607,183
Other local sources	360,131	-	1,610	361,741
Total Revenues	1,032,356	9,746	1,610	1,043,712
EXPENDITURES				
Current				
Pupil services:				
Food services	22,890	-	-	22,890
Administration:				
All other administration	97,424	-	-	97,424
Plant services	119,631	-	-	119,631
Facility acquisition and construction	772	-	-	772
Community services	1,096,105	-	-	1,096,105
Other outgo	-	8,284	-	8,284
Total Expenditures	1,336,822	8,284	-	1,345,106
Excess (Deficiency) of				
Revenues Over Expenditures	(304,466)	1,462	1,610	(301,394)
Other Financing Sources (Uses)				
Transfers in	257,296	-	60,000	317,296
Transfers out	-	(1,462)	(1,610)	(3,072)
Net Financing Sources (Uses)	257,296	(1,462)	58,390	314,224
NET CHANGE IN FUND BALANCES	(47,170)	-	60,000	12,830
Fund Balances - Beginning	67,165	-	653,989	721,154
Fund Balances - Ending	\$ 19,995	\$ -	\$ 713,989	\$ 733,984

See accompanying note to supplementary information.

SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION

**NOTE TO SUPPLEMENTARY INFORMATION
JUNE 30, 2014**

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 the United States Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

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 of funds that in the previous period were recorded as revenues but were unspent. These unspent balances have been expended in the current period. In addition, funds have been recorded in the current period as revenues that have not been expended as of June 30, 2014. These unspent balances are reported as legally restricted ending balances within the County School Services Fund.

Description	CFDA Number	Amount
Total Federal Revenues From the Statement of Revenues, Expenditures, and Changes in Fund Balances:		\$ 9,269,640
Medi-Cal Billing Option	93.778	485,024
Medi-Cal Administrative Services (MAA)	93.778	(22,667)
Title II, Part A, Improving Teacher Quality	84.367	(29)
Forest Reserve	10.665	(1,462)
Total Expenditures of Federal Awards		<u>\$ 9,730,506</u>

SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION

**NOTE TO SUPPLEMENTARY INFORMATION
JUNE 30, 2014**

Subrecipients

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

Federal Grantor/Pass-Through Grantor/Program	CFDA Number	Amount Provided to Subrecipients
U.S. DEPARTMENT OF EDUCATION		
Passed through California Department of Education (CDE)		
No Child Left Behind:		
Title I, Part A, Basic Grants Low-Income and Neglected	84.010	\$ 236,095
Title III, Limited English Proficient (LEP) Student Program	84.365	15,991
Basic Local Assistance Entitlement	84.027	5,473,332
Preschool Local Entitlement	84.027A	462,709
Preschool Grants, Part B, Section 619	84.173	256,259
Subtotal		<u>6,444,386</u>
U.S. DEPARTMENT OF AGRICULTURE		
Passed through California Department of Education (CDE)		
Forest Reserve	10.665	8,284
Subtotal		<u>8,284</u>
Total Subrecipient Federal Awards		<u><u>\$ 6,452,670</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, 2014

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



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

Governing Board
San Luis Obispo County Office of Education
San Luis Obispo, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of San Luis Obispo County Office of Education (the COE) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise San Luis Obispo County Office of Education's basic financial statements, and have issued our report thereon dated December 12, 2014.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs, that we consider to be a significant deficiency as item 2014-001.

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 the Finding

San Luis Obispo County Office of Education's response to the finding identified in our audit is described in the accompanying 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 result 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.

Vaurine, Time, Day & Co., LLP.

Rancho Cucamonga, California
December 12, 2014



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
EACH MAJOR PROGRAM AND REPORT ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

Governing Board
San Luis Obispo County Office of Education
San Luis Obispo, California

Report on Compliance for Each Major Federal Program

We have audited San Luis Obispo County Office of Education's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of San Luis Obispo County Office of Education's (the COE) major Federal programs for the year ended June 30, 2014. San Luis Obispo County Office of Education's major Federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

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, 2014.

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 OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of 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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Vaurine, Tine, Day & Co., LLP.

Rancho Cucamonga, California
December 12, 2014



INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Governing Board
San Luis Obispo County Office of Education
San Luis Obispo, California

Report on State Compliance

We have audited San Luis Obispo County Office of Education's (the COE) compliance with the types of compliance requirements as identified in the *Standards and Procedures for Audit of California K-12 Local Educational Agencies 2013-2014* that could have a direct and material effect on each of the San Luis Obispo County Office of Education's State government programs as noted below for the year ended June 30, 2014.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance of each of the San Luis Obispo County Office of Education's State programs based on our audit of the types of compliance requirements referred to above. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2013-2014*. These standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the applicable government programs noted below. An audit includes examining, on a test basis, evidence about San Luis Obispo County Office of Education's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions. Our audit does not provide a legal determination of San Luis Obispo County Office of Education's compliance with those requirements.

Unmodified Opinion on Each of the Programs

In our opinion, San Luis Obispo County Office of Education complied, in all material respects, with the compliance requirements referred to above that are applicable to the government programs noted below that were audited for the year ended June 30, 2014.

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 in Audit Guide	Procedures Performed
Attendance Accounting:		
Attendance Reporting	6	Yes
Teacher Certification and Misassignments	3	Yes
Kindergarten Continuance	3	Not Applicable
Independent Study	23	Yes
Continuation Education	10	Not Applicable
Instructional Time:		
School Districts	10	Not Applicable
Instructional Materials:		
General Requirements	8	Yes
Ratios of Administrative Employees to Teachers	1	Not Applicable
Classroom Teacher Salaries	1	Not Applicable
Early Retirement Incentive	4	Not Applicable
Gann Limit Calculation	1	Yes
School Accountability Report Card	3	Yes
Juvenile Court Schools	8	Yes
Local Control Funding Formula Certification	1	Yes
California Clean Energy Jobs Act	3	No, see below
After School Education and Safety Program:		
General Requirements	4	Not Applicable
After School	5	Not Applicable
Before School	6	Not Applicable
Education Protection Account Funds	1	Yes
Common Core Implementation Funds	3	Yes
Unduplicated Local Control Funding Formula Pupil Counts	3	Yes
Charter Schools:		
Contemporaneous Records of Attendance	8	Not Applicable
Mode of Instruction	1	Not Applicable
Non Classroom-Based Instruction/Independent Study	15	Not Applicable
Determination of Funding for Non Classroom-Based Instruction	3	Not Applicable
Annual Instruction Minutes Classroom-Based	4	Not Applicable
Charter School Facility Grant Program	1	Not Applicable

We did not perform testing for the California Clean Energy Jobs Act because the COE did not have expenditures related to the program in the current year.

Vaurine, Time, Day & Co., LLP.

Rancho Cucamonga, California
December 12, 2014

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION

**SUMMARY OF AUDITOR'S RESULTS
FOR THE YEAR ENDED JUNE 30, 2014**

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 .510(a) of OMB Circular A-133?	<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>\$ 300,000</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>
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SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION

FINANCIAL STATEMENT FINDINGS FOR THE YEAR ENDED JUNE 30, 2014

The following finding represents a significant deficiency and/or instances of noncompliance related to the financial statements that are required to be reported in accordance with *Government Auditing Standards*. The finding has been coded as follows:

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

2014-001 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 \$269,566 from the County School Services Fund was owed at June 30, 2014. The County School Services Fund augmented the program with transfers in the amount of \$257,296.

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.

Corrective Action Plan

The COE agrees with the finding that the County School Services Fund contributed over \$250,000 to support the operating deficit in the State Preschool program. For 2014-2015, the COE restructured the program in an effort to increase revenues and reduce the structural deficit by adding two extended day classes which has increased enrollment and revenues. The number of sites served has been reduced, and most sites now serve students in the morning and the afternoon. The COE remains committed to providing high quality preschool programs to our most at-risk youngsters.

SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION

**FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2014**

None reported.

SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION

**STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2014**

None reported.

SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2014

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 Findings and Questioned Costs.

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

2013-001 60000 - Child Development Fund Deficit Spending

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 \$110,000 from the County School Services Fund was owed at June 30, 2013. The County School Services Fund augmented the program with transfers in the amount of \$313,356.

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.

Current Status

Not implemented. See financial statement finding 2014-001.