



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

**SAN LUIS OBISPO  
COUNTY OFFICE OF EDUCATION**

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**ANNUAL FINANCIAL REPORT**

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**JUNE 30, 2017**



**Vavrinek, Trine, Day & Co., LLP**  
Certified Public Accountants



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**JUNE 30, 2017**

# SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION

## TABLE OF CONTENTS

JUNE 30, 2017

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### ***FINANCIAL SECTION***

Independent Auditor's Report	2
Management's Discussion and Analysis	5
Basic Financial Statements	
Government-Wide Financial Statements	
Statement of Net Position	13
Statement of Activities	14
Fund Financial Statements	
Governmental Funds - Balance Sheet	15
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	16
Governmental Funds - Statement of Revenues, Expenditures, and Changes in Fund Balances	17
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities	18
Fiduciary Funds - Statement of Net Position	19
Notes to Financial Statements	20

### ***REQUIRED SUPPLEMENTARY INFORMATION***

County School Services Fund - Budgetary Comparison Schedule	58
Special Education Pass-Through Fund - Budgetary Comparison Schedule	59
Schedule of Other Postemployment Benefits (OPEB) Funding Progress	60
Schedule of the COE Proportionate Share of the Net Pension Liability	61
Schedule of COE Contributions	62
Note to Required Supplementary Information	63

### ***SUPPLEMENTARY INFORMATION***

Schedule of Expenditures of Federal Awards	65
Local Education Agency Organization Structure	66
Schedule of Average Daily Attendance	67
Reconciliation of Annual Financial and Budget Report With Audited Financial Statements	68
Schedule of Financial Trends and Analysis	69
Schedule of Charter Schools	70
Combining Statements - Non-Major Governmental Funds	
Combining Balance Sheet	71
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	72
Note to Supplementary Information	73

### ***INDEPENDENT AUDITOR'S REPORTS***

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Governmental Auditing Standards</i>	75
Report on Compliance for Each Major Program and Report on Internal Control Over Compliance Required by the Uniform Guidance	77
Report on State Compliance	79

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***FINANCIAL SECTION***

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## 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, 2017, 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 the *2016-2017 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, 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.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated November 26, 2017, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of San Luis Obispo County Office of Education's 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.

*Varinck, Tein, Day & Co., LLP*

Rancho Cucamonga, California  
November 26, 2017



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

This section of San Luis Obispo County Office of Education's (the COE) annual financial report presents our discussion and analysis of the COE's financial performance during the fiscal year that ended on June 30, 2017, with comparative information from the fiscal year ending June 30, 2016. 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 6.5 percent over the course of the year.
  - Overall revenues were \$42,263,366, which is \$1,353,032 less than expenditures.
  - The COE decreased its capital assets \$1,589,013 or 5.0 percent.
  - The COE decreased its outstanding long-term obligations \$59,414 or 3.3 percent of total debt.

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

#### **The Financial Statements**

The financial statements presented herein include all of the activities of the COE using the integrated approach as prescribed by Governmental Accounting Standards Board (GASB) Statement No. 34.

The *Government-Wide Financial Statements* present the financial picture of the COE from the economic resources measurement focus using the accrual basis of accounting. These statements include all assets of the District (including capital assets), as well as all liabilities (including long-term obligations). Additionally, certain eliminations have occurred as prescribed by the statement in regards to interfund activity, payables, and receivables.

The *Fund Financial Statements* include statements for each of the two categories of activities: governmental and fiduciary.

The *Governmental Activities* are prepared using the current financial resources measurement focus and modified accrual basis of accounting.

The *Fiduciary Activities* are prepared using the economic resources measurement focus and the accrual basis of accounting.

*Reconciliation of the Fund Financial Statements to the Government-Wide Financial Statements* is provided to explain the differences created by the integrated approach.

The Primary unit of the government is the San Luis Obispo School District.

# SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2017

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### THE COE AS A TRUSTEE

#### Reporting the COE Fiduciary Responsibilities

The District is the trustee, or *fiduciary*, for funds held on behalf of others, like our funds for the pass-through agency fund. The COE's fiduciary activities are reported in the *Statements of Fiduciary Net Position*. We exclude these activities from the COE's other financial statements because the COE cannot use these assets to finance its operations. The COE is responsible for ensuring that the assets reported in these funds are used for their intended purposes.



**SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2017**

**Changes in Net Position**

The COE's total revenues increased \$2,077,307. (See Table 2) Property taxes and Federal and State formula aid accounted for 28.5 percent of the COE's revenue. Another 51.5 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	
	2017	2016
<b>Revenues</b>		
Program revenues:		
Charges for services	\$ 5,388,919	\$ 4,337,248
Operating grants and contributions	21,760,133	21,703,736
General revenues:		
Federal and State aid not restricted	1,173,048	1,403,506
Property taxes	10,883,886	10,251,720
Other general revenues	3,057,380	2,489,849
<b>Total Revenues</b>	<u>42,263,366</u>	<u>40,186,059</u>
<b>Expenses</b>		
Instruction	7,842,954	6,878,553
Supervision of instruction	4,325,726	4,395,686
Library, media, and technology	483,905	449,204
School site administration	1,353,316	1,422,177
Pupil services	2,801,366	2,639,229
Administration	4,800,788	4,345,685
Maintenance and operations	2,396,287	2,148,213
Ancillary/Comm SVE/Enterprise	2,147,983	2,122,915
Outgo (transfers between agencies)	17,464,073	17,094,625
<b>Total Expenses</b>	<u>43,616,398</u>	<u>41,496,287</u>
<b>Change in Net Position</b>	<u>\$ (1,353,032)</u>	<u>\$ (1,310,228)</u>

The total cost of all programs and services was \$43,616,398. 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 11.0 percent of total expenses.

Total expenses surpassed revenues, decreasing net position \$1,353,032 over last year.

**SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2017**

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets**

By the end of 2017, the COE had invested \$49,511,295 in a broad range of capital assets, including land, construction in progress, land improvements, buildings and improvements, furniture and equipment, and buses and vehicles. (See Table 3) This amount represents a net decrease of \$313,367, or 0.6 percent, from last year.

Total depreciation expense for the year was \$1,335,858, while additions to equipment, furniture, and buildings amounted to \$939,492.

**Table 3**

	Governmental Activities	
	2017	2016
Land	\$ 3,769,354	\$ 4,844,354
Construction in progress	98,646	8,540
Land improvements	368,055	413,540
Buildings and improvements	43,177,293	42,609,781
Furniture and equipment	1,320,275	1,123,093
Buses and vehicles	777,672	825,354
<b>Total Capital Assets</b>	<u>49,511,295</u>	<u>49,824,662</u>
Accumulated depreciation	<u>(19,602,074)</u>	<u>(18,326,428)</u>
<b>Net Book Value of Capital Assets</b>	<u>\$ 29,909,221</u>	<u>\$ 31,498,234</u>

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

**Long-Term Obligations Other Than Pensions**

At year-end, the COE had \$1,718,062 in long-term obligations outstanding (including postemployment benefits) - a decrease of 3.3 percent from last year. (See Table 4)

The COE is focusing on reducing long-term obligations outstanding due to unused vacation balances. In 2016-2017, the COE increased their compensated absences liability by \$4,374, or 1.4 percent.

**Table 4**

	Governmental Activities	
	2017	2016
Compensated absences	\$ 325,608	\$ 321,234
Child care facilities revolving fund loan	84,000	105,000
Other postemployment benefits (OPEB)	1,308,454	1,351,242
<b>Total</b>	<u>\$ 1,718,062</u>	<u>\$ 1,777,476</u>

**SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION**

**STATEMENT OF NET POSITION  
JUNE 30, 2017**

	<u>Governmental Activities</u>
<b>ASSETS</b>	
Deposits and investments	\$ 11,810,123
Receivables	6,322,163
Prepaid expenses	108,419
Capital assets:	
Land and construction in progress	3,868,000
Other capital assets	45,643,295
Less: Accumulated depreciation	<u>(19,602,074)</u>
Total Capital Assets	<u>29,909,221</u>
<b>Total Assets</b>	<u><b>48,149,926</b></u>
 <b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Deferred outflows of resources related to pensions	<u>4,162,887</u>
 <b>LIABILITIES</b>	
Overdrafts	93,976
Accounts payable	5,843,525
Unearned revenue	2,870,604
Long-term obligations:	
Current portion of long-term obligations other than pensions	21,000
Noncurrent portion of long-term obligations other than pensions	<u>1,697,062</u>
Total Long-Term Obligations	<u>1,718,062</u>
Aggregate net pension liability	<u>19,015,479</u>
<b>Total Liabilities</b>	<u><b>29,541,646</b></u>
 <b>DEFERRED INFLOWS OF RESOURCES</b>	
Deferred inflows of resources related to pensions	<u>3,299,185</u>
 <b>NET POSITION</b>	
Net investment in capital assets	29,825,221
Restricted for:	
Educational programs	1,366,525
Unrestricted (Deficit)	<u>(11,719,764)</u>
<b>Total Net Position</b>	<u><b>\$ 19,471,982</b></u>

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

**SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION**

**GOVERNMENTAL FUNDS  
BALANCE SHEET  
JUNE 30, 2017**

	<b>County School Services Fund</b>	<b>Special Education Pass-Through Fund</b>	<b>Non-Major Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>ASSETS</b>				
Deposits and investments	\$ 9,052,609	\$ 1,698,870	\$ 1,058,644	\$11,810,123
Receivables	4,299,972	1,854,929	167,262	6,322,163
Prepaid expenditures	108,419	-	-	108,419
<b>Total Assets</b>	<b>\$ 13,461,000</b>	<b>\$ 3,553,799</b>	<b>\$ 1,225,906</b>	<b>\$18,240,705</b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities:</b>				
Overdrafts	\$ -	\$ -	\$ 93,976	\$ 93,976
Accounts payable	2,356,230	3,388,801	98,494	5,843,525
Unearned revenue	2,870,604	-	-	2,870,604
<b>Total Liabilities</b>	<b>5,226,834</b>	<b>3,388,801</b>	<b>192,470</b>	<b>8,808,105</b>
<b>Fund Balances:</b>				
Nonspendable	134,144	-	-	134,144
Restricted	1,193,330	164,998	8,197	1,366,525
Assigned	5,883,604	-	1,025,239	6,908,843
Unassigned	1,023,088	-	-	1,023,088
<b>Total Fund Balances</b>	<b>8,234,166</b>	<b>164,998</b>	<b>1,033,436</b>	<b>9,432,600</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 13,461,000</b>	<b>\$ 3,553,799</b>	<b>\$ 1,225,906</b>	<b>\$18,240,705</b>

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

**SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION**

**GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
JUNE 30, 2017**

	County School Services Fund	Special Education Pass-Through Fund	Non-Major Governmental Funds	Total Governmental Funds
<b>REVENUES</b>				
Local Control Funding Formula	\$ 11,348,432	\$ -	\$ -	\$ 11,348,432
Federal sources	2,121,820	6,633,419	39,236	8,794,475
Other State sources	5,184,913	7,323,938	790,673	13,299,524
Other local sources	8,347,485	-	416,682	8,764,167
<b>Total Revenues</b>	<b>27,002,650</b>	<b>13,957,357</b>	<b>1,246,591</b>	<b>42,206,598</b>
<b>EXPENDITURES</b>				
Current				
Instruction	7,337,319	-	-	7,337,319
Instruction-related activities:				
Supervision of instruction	4,048,446	-	-	4,048,446
Instructional library, media, and technology	461,814	-	-	461,814
School site administration	1,244,422	-	-	1,244,422
Pupil services:				
Food services	115,738	-	18,396	134,134
All other pupil services	2,478,025	-	-	2,478,025
Administration:				
Data processing	998,665	-	-	998,665
All other administration	3,538,681	-	93,711	3,632,392
Plant services	2,095,905	-	169,651	2,265,556
Facility acquisition and construction	296,163	-	638,447	934,610
Ancillary services	673,788	-	-	673,788
Community services	150	-	1,195,646	1,195,796
Other outgo	3,553,295	13,900,443	10,335	17,464,073
Enterprise services	169,380	-	-	169,380
Debt service				
Principal	21,000	-	-	21,000
<b>Total Expenditures</b>	<b>27,032,791</b>	<b>13,900,443</b>	<b>2,126,186</b>	<b>43,059,420</b>
<b>Excess (Deficiency) of</b>				
<b>Revenues Over Expenditures</b>	<b>(30,141)</b>	<b>56,914</b>	<b>(879,595)</b>	<b>(852,822)</b>
<b>Other Financing Sources (Uses)</b>				
Transfers in	7,654	-	329,300	336,954
Other sources	-	-	748,320	748,320
Transfers out	(329,300)	-	(7,654)	(336,954)
<b>Net Financing Sources (Uses)</b>	<b>(321,646)</b>	<b>-</b>	<b>1,069,966</b>	<b>748,320</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>(351,787)</b>	<b>56,914</b>	<b>190,371</b>	<b>(104,502)</b>
<b>Fund Balances - Beginning</b>	<b>8,585,953</b>	<b>108,084</b>	<b>843,065</b>	<b>9,537,102</b>
<b>Fund Balances - Ending</b>	<b>\$ 8,234,166</b>	<b>\$ 164,998</b>	<b>\$ 1,033,436</b>	<b>\$ 9,432,600</b>

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, 2017**

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	<u>Agency Funds</u>
<b>ASSETS</b>	
Deposits and investments	<u>\$ 3,939,301</u>
<b>LIABILITIES</b>	
Amounts held on behalf of others	<u>\$ 3,939,301</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, 2017

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### Major Governmental Funds

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

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

As a result, the County School Services Fund reflects a decrease in the fund balance of \$351,787.

**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, 2017

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**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.

**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.



# SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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### **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.

### **Compensated Absences**

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

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

### **Accrued Liabilities and Long-Term Obligations**

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

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

### **Deferred Outflows/Inflows of Resources**

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

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

# SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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### 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, 2017. 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 \$1,366,525 in restricted net position.

### Interfund Activity

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

### Estimates

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

### Budgetary Data

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

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

### 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.

# SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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expenditures, and liabilities; note disclosures; and required supplementary information for pensions that have the characteristics described above.

The District has implemented the provisions of this Statement as of June 30, 2017.

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

The District has implemented the provisions of this Statement as of June 30, 2017.

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

The District has implemented the provisions of this Statement as of June 30, 2017, except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017.

### **New Accounting Pronouncements**

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pension*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

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

# SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

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the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Early implementation is encouraged.

In March 2017, the GASB issued Statement No. 85, *Omnibus 2017*. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). Specifically, this Statement addresses the following topics:

- Blending a component unit in circumstances in which the primary government is a business-type activity that reports in a single column for financial statement presentation;
- Reporting amounts previously reported as goodwill and "negative" goodwill;
- Classifying real estate held by insurance entities;
- Measuring certain money market investments and participating interest-earning investment contracts at amortized cost;
- Timing of the measurement of pension or OPEB liabilities and expenditures recognized in financial statements prepared using the current financial resources measurement focus;
- Recognizing on-behalf payments for pensions or OPEB in employer financial statements;
- Presenting payroll-related measures in required supplementary information for purposes of reporting by OPEB plans and employers that provide OPEB;
- Classifying employer-paid member contributions for OPEB;
- Simplifying certain aspects of the alternative measurement method for OPEB;
- Accounting and financial reporting for OPEB provided through certain multiple-employer defined benefit OPEB plans.

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

In May 2017, the GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*. The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance.

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

# SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

**Investment in County Treasury** - The COE is considered to be an involuntary participant in an external investment pool as the COE is required to deposit all receipts and collections of monies with their County Treasurer (*Education Code* Section 41001). The fair value of the COE's investment in the pool is reported in the accompanying financial statements at amounts based upon the COE's pro-rata share of the fair value provided by the County Treasurer for the entire portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by the County Treasurer, which is recorded on the amortized cost basis.

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

### 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

**SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017**

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**NOTE 3 - FAIR VALUE MEASUREMENTS**

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

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

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

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

Uncategorized - Investments in the San Luis Obispo County Treasury Investment Pool and Local Agency Investment Funds are not measured using the input levels above because the COE's transactions are based on a stable net asset value per share. All contributions and redemptions are transacted at \$1.00 net asset value per share.

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

<u>Investment Type</u>	<u>Fair Value</u>	<u>Uncategorized</u>
San Luis Obispo County Treasury Investment Pool	\$ 11,707,465	\$ 11,707,465
State Investment Pool	12,772	12,772
Total	<u>\$ 11,720,237</u>	<u>\$ 11,720,237</u>

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

**SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017**

**NOTE 5 - CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2017, was as follows:

	Balance July 1, 2016	Additions	Deductions	Balance June 30, 2017
<b>Governmental Activities</b>				
<b>Capital Assets Not Being Depreciated</b>				
Land	\$ 4,844,354	\$ -	\$ 1,075,000	\$ 3,769,354
Construction in progress	8,540	94,986	4,880	98,646
Total Capital Assets Not Being Depreciated	<u>4,852,894</u>	<u>94,986</u>	<u>1,079,880</u>	<u>3,868,000</u>
<b>Capital Assets Being Depreciated</b>				
Land improvements	413,540	79,812	125,297	368,055
Buildings and improvements	42,609,781	567,512	-	43,177,293
Furniture and equipment	1,123,093	197,182	-	1,320,275
Buses and vehicles	825,354	-	47,682	777,672
Total Capital Assets Being Depreciated	<u>44,971,768</u>	<u>844,506</u>	<u>172,979</u>	<u>45,643,295</u>
<b>Less Accumulated Depreciation</b>				
Land improvements	99,456	13,368	12,530	100,294
Buildings and improvements	16,684,634	1,230,303	-	17,914,937
Furniture and equipment	851,719	42,827	-	894,546
Buses and vehicles	690,619	49,360	47,682	692,297
Total Accumulated Depreciation	<u>18,326,428</u>	<u>1,335,858</u>	<u>60,212</u>	<u>19,602,074</u>
<b>Governmental Activities Capital Assets, Net</b>	<u>\$31,498,234</u>	<u>\$ (396,366)</u>	<u>\$ 1,192,647</u>	<u>\$29,909,221</u>

Depreciation expense was charged to governmental functions as follows:

<b>Governmental Activities</b>	
Instruction	\$ 384,059
Supervision of instruction	205,393
Instructional library, media, and technology	26,092
School site administration	95,748
Food services	7,130
Other pupil services	147,220
Ancillary services	38,649
Community services	69,957
Enterprise	1,423
Other general administrative	76,127
Data processing services	135,567
Plant maintenance and operations	148,493
Total Depreciation Expense Governmental Activities	<u>\$ 1,335,858</u>

**SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017**

**NOTE 7 - ACCOUNTS PAYABLE**

Accounts payable at June 30, 2017, consisted of the following:

	County School Services Fund	Special Education Pass-Through Fund	Non-Major Governmental Funds	Total Governmental Activities
LCFF State aid	\$ 11,855	\$ 125,372	\$ -	\$ 137,227
Vendor payables	1,340,934	-	51,122	1,392,056
Salaries and benefits	987,458	-	-	987,458
Pass-through special education apportionments	-	3,263,429	-	3,263,429
Construction	15,983	-	47,372	63,355
Overdrafts	-	-	93,976	93,976
Total	<u>\$ 2,356,230</u>	<u>\$ 3,388,801</u>	<u>\$ 192,470</u>	<u>\$ 5,937,501</u>

**NOTE 8 - UNEARNED REVENUE**

Unearned revenue at June 30, 2017, consisted of the following:

	County School Services Fund
State categorical aid	<u>\$ 2,870,604</u>

**NOTE 9 - LONG-TERM OBLIGATIONS**

**Summary**

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

	Balance July 1, 2016	Additions	Deductions	Balance June 30, 2017	Due in One Year
Compensated absences	\$ 321,234	\$ 4,374	\$ -	\$ 325,608	\$ -
Child care facilities revolving fund loan	105,000	-	21,000	84,000	21,000
Other postemployment benefits	1,351,242	766,608	809,396	1,308,454	-
	<u>\$ 1,777,476</u>	<u>\$ 770,982</u>	<u>\$ 830,396</u>	<u>\$ 1,718,062</u>	<u>\$ 21,000</u>



**SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017**

**NOTE 10 - FUND BALANCES**

Fund balances are composed of the following elements:

	County School Services Fund	Special Education Pass-Through Fund	Non-Major Governmental Funds	Total Government Funds
<b>Nonspendable</b>				
Revolving cash	\$ 25,725	\$ -	\$ -	\$ 25,725
Prepaid expenditures	108,419	-	-	108,419
<b>Total Nonspendable</b>	<b>134,144</b>	<b>-</b>	<b>-</b>	<b>134,144</b>
<b>Restricted</b>				
Legally restricted programs	1,193,330	164,998	8,197	1,366,525
<b>Assigned</b>				
Ten Strands PD Contract	267	-	-	267
School Teacher Credential Program	52,000	-	-	52,000
CCSESA Research	2,911	-	-	2,911
Bonus	29,700	-	-	29,700
Employee Education Incentives	39,582	-	-	39,582
16-17 Excess Property Taxes	3,765,154	-	-	3,765,154
Reserve for Lottery Expenditures	11,066	-	-	11,066
Data Processing Expenditures	126,903	-	-	126,903
Health and Welfare	165,576	-	-	165,576
Postemployment Benefits	1,690,445	-	-	1,690,445
Capital Outlay Projects	-	-	1,025,239	1,025,239
<b>Total Assigned</b>	<b>5,883,604</b>	<b>-</b>	<b>1,025,239</b>	<b>6,908,843</b>
<b>Unassigned</b>				
Reserve for economic uncertainties	1,015,863	-	-	1,015,863
Remaining unassigned	7,225	-	-	7,225
<b>Total Unassigned</b>	<b>1,023,088</b>	<b>-</b>	<b>-</b>	<b>1,023,088</b>
<b>Total</b>	<b>\$ 8,234,166</b>	<b>\$ 164,998</b>	<b>\$ 1,033,436</b>	<b>\$ 9,432,600</b>

**SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017**

---

**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, 2016	\$ -	\$10,297,255	\$ 10,297,255	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.

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, 2017, was 23 years. The actuarial value of assets was not determined in this actuarial valuation as there were none.

**SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017**

**NOTE 13 - EMPLOYEE RETIREMENT SYSTEMS**

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

For the fiscal year ended June 30, 2017, the COE reported net pension liabilities, deferred outflows of resources, deferred inflows of resources, and pension expense for each of the above plans as follows:

<u>Pension Plan</u>	<u>Collective Net Pension Liability</u>	<u>Collective</u>		<u>Collective Pension Expense</u>
		<u>Deferred Outflows of Resources</u>	<u>Collective Deferred Inflow of Resources</u>	
CalSTRS	\$ 9,017,649	\$ 1,467,616	\$ 1,403,861	\$ 605,378
CalPERS	9,997,830	2,695,271	1,895,324	578,199
Total	<u>\$ 19,015,479</u>	<u>\$ 4,162,887</u>	<u>\$ 3,299,185</u>	<u>\$ 1,183,577</u>

The details of each plan are as follows:

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

**Plan Description**

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

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

<http://www.calstrs.com/member-publications>.

**Benefits Provided**

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

**SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017**

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

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

Total net pension liability, including State share:

COE's proportionate share of net pension liability	\$ 9,017,649
State's proportionate share of the net pension liability associated with the COE	<u>5,133,587</u>
Total	<u>\$ 14,151,236</u>

The net pension liability was measured as of June 30, 2016. The COE's proportion of the net pension liability was based on a projection of the COE's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts and the State, actuarially determined. The COE's proportionate share for the measurement period June 30, 2016 and June 30, 2015, respectively, was 0.0111 percent and 0.0115 percent, resulting in a net decrease in the proportionate share of 0.0004 percent.

For the year ended June 30, 2017, the COE recognized pension expense of \$605,378. In addition, the COE recognized pension expense and revenue of \$496,215 for support provided by the State. At June 30, 2017, the COE reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 750,718	\$ -
Net change in proportionate share of net pension liability	-	1,183,886
Difference between projected and actual earnings on plan investments	716,898	-
Differences between expected and actual experience in the measurement of the total pension liability	-	<u>219,975</u>
Total	<u>\$ 1,467,616</u>	<u>\$ 1,403,861</u>

The deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the subsequent fiscal year.

**SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017**

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**Actuarial Methods and Assumptions**

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

Valuation date	June 30, 2015
Measurement date	June 30, 2016
Experience study	July 1, 2006 through June 30, 2010
Actuarial cost method	Entry age normal
Discount rate	7.60%
Investment rate of return	7.60%
Consumer price inflation	3.00%
Wage growth	3.75%

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

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

Asset Class	Assumed Asset Allocation	Long-term Expected Real Rate of Return
Global equity	47%	6.30%
Fixed income	12%	0.30%
Real estate	13%	5.20%
Private equity	13%	9.30%
Absolute Return/Risk Mitigating Strategies	9%	2.90%
Inflation sensitive	4%	3.80%
Cash/liquidity	2%	-1.00%

# SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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### Benefits Provided

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

The CalPERS provisions and benefits in effect at June 30, 2017, are summarized as follows:

	School Employer Pool (CalPERS)	
	On or before December 31, 2012	On or after January 1, 2013
Hire date	December 31, 2012	January 1, 2013
Benefit formula	2% at 55	2% at 62
Benefit vesting schedule	5 Years of Service	5 Years of Service
Benefit payments	Monthly for Life	Monthly for Life
Retirement age	55	62
Monthly benefits as a percentage of eligible compensation	1.1% - 2.5%	1.0% - 2.5%
Required employee contribution rate	7.00%	6.00%
Required employer contribution rate	13.89%	13.89%

### Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Total plan contributions are calculated through the CalPERS annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The COE is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. The contributions rates are expressed as percentage of annual payroll. The contribution rates for each plan for the year ended June 30, 2017, are presented above and the total COE contributions were \$713,928.

**SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017**

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

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2018	\$ (688,222)
2019	(635,170)
2020	(141,930)
Total	<u>\$ (1,465,322)</u>

**Actuarial Methods and Assumptions**

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

Valuation date	June 30, 2015
Measurement date	June 30, 2016
Experience study	July 1, 1997 through June 30, 2011
Actuarial cost method	Entry age normal
Discount rate	7.65%
Investment rate of return	7.65%
Consumer price inflation	2.75%
Wage growth	Varies by entry age and service

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

# SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

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### **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 \$442,829 (8.828 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 2017 is 4.44 percent. The rate is applied to all wages paid between January 1 and December 31, 2017. The rate is significantly lower than the 6.2 percent Social Security rate.

## **NOTE 14 - COMMITMENTS AND CONTINGENCIES**

### **Grants**

The COE received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the County School Services Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the COE at June 30, 2017.

### **Litigation**

The COE is involved in various litigation arising from the normal course of business.



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***REQUIRED SUPPLEMENTARY INFORMATION***

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**SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION**

**COUNTY SCHOOL SERVICES FUND  
BUDGETARY COMPARISON SCHEDULE  
FOR THE YEAR ENDED JUNE 30, 2017**

	<b>Budgeted Amounts</b>		<b>Actual (GAAP Basis)</b>	<b>Variances -</b>
	<b>Original</b>	<b>Final</b>		<b>Positive</b>
				<b>Final</b>
				<b>to Actual</b>
<b>REVENUES</b>				
Local Control Funding Formula	\$ 8,115,789	\$ 11,342,600	\$ 11,348,432	\$ 5,832
Federal sources	1,793,128	2,155,211	2,121,820	(33,391)
Other State sources	5,933,434	6,081,022	5,184,913	(896,109)
Other local sources	7,493,483	8,339,259	8,347,485	8,226
<b>Total Revenues <sup>1</sup></b>	<b>23,335,834</b>	<b>27,918,092</b>	<b>27,002,650</b>	<b>(915,442)</b>
<b>EXPENDITURES</b>				
<b>Current</b>				
Certificated salaries	5,659,652	5,916,018	5,945,471	(29,453)
Classified salaries	6,129,176	6,103,302	6,192,311	(89,009)
Employee benefits	4,813,732	4,716,088	4,795,630	(79,542)
Books and supplies	719,684	906,925	712,530	194,395
Services and operating expenditures	5,427,110	6,764,045	5,682,935	1,081,110
Other outgo	229,996	3,442,223	3,459,586	(17,363)
Capital outlay	708,342	765,378	223,328	542,050
Debt service - principal	-	-	21,000	(21,000)
<b>Total Expenditures <sup>1</sup></b>	<b>23,687,692</b>	<b>28,613,979</b>	<b>27,032,791</b>	<b>1,581,188</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>(351,858)</b>	<b>(695,887)</b>	<b>(30,141)</b>	<b>665,746</b>
<b>Other Financing Sources (Uses)</b>				
Transfers in	15,000	623,099	7,654	(615,445)
Transfers out	(388,772)	(288,393)	(329,300)	(40,907)
<b>Net Financing Sources (Uses)</b>	<b>(373,772)</b>	<b>334,706</b>	<b>(321,646)</b>	<b>(656,352)</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>(725,630)</b>	<b>(361,181)</b>	<b>(351,787)</b>	<b>9,394</b>
<b>Fund Balance - Beginning</b>	<b>5,241,553</b>	<b>5,774,841</b>	<b>8,585,953</b>	<b>2,811,112</b>
<b>Fund Balance - Ending</b>	<b>\$ 4,515,923</b>	<b>\$ 5,413,660</b>	<b>\$ 8,234,166</b>	<b>\$ 2,820,506</b>

<sup>1</sup> On behalf payments of \$442,829 are included in the actual revenues and expenditures and have been included in the budgeted amounts. In addition, due to the consolidation of Fund 14, Deferred Maintenance Fund, Fund 17, Special Reserve Fund for Other Than Capital Outlay Projects, and Fund 20, Special Reserve Fund for Postemployment Benefits for reporting purposes into the County School Services Fund, additional revenues and expenditures pertaining to these other funds are included in the Actual (GAAP Basis) revenues and expenditures, however are not included in the original and final General Fund budgets.

**SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION**

**SCHEDULE OF OTHER POSTEMPLOYMENT BENEFITS (OPEB) FUNDING  
 PROGRESS  
 FOR THE YEAR ENDED JUNE 30, 2017**

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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, 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
July 1, 2016	-	10,297,255	10,297,255	0%	N/A	N/A

See accompanying note to required supplementary information

**SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION**

**SCHEDULE OF COE CONTRIBUTIONS  
FOR THE YEAR ENDED JUNE 30, 2017**

	<u>2017</u>	<u>2016</u>	<u>2015</u>
<b>CalSTRS</b>			
Contractually required contribution	\$ 750,718	\$ 556,911	\$ 458,731
Contributions in relation to the contractually required contribution	<u>750,718</u>	<u>556,911</u>	<u>458,731</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
COE's covered - employee payroll	<u>\$ 5,967,552</u>	<u>\$ 5,190,224</u>	<u>\$ 5,165,890</u>
Contributions as a percentage of covered - employee payroll	<u>12.58%</u>	<u>10.73%</u>	<u>8.88%</u>
<b>CalPERS</b>			
Contractually required contribution	\$ 713,928	\$ 739,664	\$ 804,612
Contributions in relation to the contractually required contribution	<u>713,928</u>	<u>739,664</u>	<u>804,612</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
COE's covered - employee payroll	<u>\$ 5,140,611</u>	<u>\$ 6,241,890</u>	<u>\$ 6,836,126</u>
Contributions as a percentage of covered - employee payroll	<u>13.89%</u>	<u>11.85%</u>	<u>11.77%</u>

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

See accompanying note to required supplementary information

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***SUPPLEMENTARY INFORMATION***

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**SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2017**

Federal Grantor/Pass-Through Grantor/Program	CFDA Number	Pass-Through Entity Identifying Number	Program Expenditures	Passed Through To Subrecipients
<b>U.S. DEPARTMENT OF EDUCATION</b>				
Passed through California Department of Education (CDE):				
Individuals with Disabilities Act (IDEA)				
Special Education (IDEA) Cluster:				
Basic Local Assistance Entitlement, Part B, Section 611	84.027	13379	\$ 5,667,418	\$ 5,635,397
Mental Health Allocation Plan, Part B, Sec 611	84.027	15197	382,809	253,593
Preschool Local Entitlement, Part B, Section 611 (Age 3-4-5)	84.027A	13682	292,972	744,429
Preschool Grants, Part B, Section 619 (Age 3-4-5)	84.173	13430	783,808	-
Preschool Staff Development, Part B, Section 619	84.173A	13431	1,929	-
Alternative Dispute Resolution, Part B, Section 611	84.173A	13007	36,095	-
Total Special Education (IDEA) Cluster			7,165,031	6,633,419
Early Intervention Programs, Part C	84.181	23761	62,152	-
No Child Left Behind Act (NCLB)				
Title I, Part A and D Grants:				
Title I, Part A, Basic Grants Low Income and Neglected	84.010	14329	1,106,697	348,071
Title I, Part D, Local Delinquent Programs	84.010	14357	94,897	-
Total Title I, Part A and D Grants			1,201,594	348,071
Title II, Part A, Improving Teacher Quality Local Grants	84.367	14341	15,304	-
Title III, Limited English Proficient (LEP) Student Program	84.365	14346	12,991	2,689
Title X, McKinney-Vento Homeless Children Assistance Grants	84.196	14332	183,821	-
Total U.S. Department of Education			8,640,893	6,984,179
<b>U.S. DEPARTMENT OF AGRICULTURE</b>				
Passed through California Department of Education (CDE):				
CACFP Claims - Centers and Family Day Care	10.558	13393	27,077	-
Forest Reserve	10.665	10044	12,159	10,335
Total U.S. Department of Agriculture			39,236	10,335
<b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>				
Passed through California Department of Health Services:				
Medi-Cal Billing Option	93.778	10013	114,346	-
Total Federal Programs			\$ 8,794,475	\$ 6,994,514

See accompanying note to supplementary information.

**SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION**

**SCHEDULE OF AVERAGE DAILY ATTENDANCE  
FOR THE YEAR ENDED JUNE 30, 2017**

	Final Report	
	Second Period Report	Annual Report
<b>ELEMENTARY</b>		
Juvenile halls, homes, and camps	0.85	1.36
Community schools pupils - Probation referred, Expelled	10.16	13.00
Total Elementary	11.01	14.36
<b>SECONDARY</b>		
Juvenile halls, homes, and camps	26.92	28.06
Community schools pupils - Probation referred, Expelled	90.41	95.87
Total Secondary	117.33	123.93
Total ADA	128.34	138.29

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

	Final Report	
	Second Period Report	Annual Report
<b>Extended Year Special Education</b>		
Transitional kindergarten through third	1.39	1.45
Fourth through sixth	2.78	2.89
Seventh and eighth	0.92	0.92
Ninth through twelfth	1.82	2.08
Total Extended Year Special Education	6.91	7.34
<b>Extended Year Special Education, Nonpublic, Nonsectarian Schools</b>		
Transitional kindergarten through third	0.21	0.21
Fourth through sixth	0.26	0.26
Seventh and eighth	0.07	0.07
Ninth through twelfth	0.10	0.10
Total Extended Year Special Education, Nonpublic, Nonsectarian Schools	0.64	0.64
Total ADA	7.55	7.98

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, 2017**

	(Budget) 2018 <sup>1</sup>	2017	2016	2015 <sup>6</sup>
<b>COUNTY SCHOOL SERVICES FUND<sup>5</sup></b>				
Revenues	\$ 26,815,128	\$ 26,983,031	\$ 24,526,273	\$ 22,050,033
Other sources and transfers in	352,215	660,461	6,325	27,183
Total Revenues and Other Sources	27,167,343	27,643,492	24,532,598	22,077,216
Expenditures	26,914,127	27,032,792	25,136,146	24,144,239
Other uses and transfers out	256,116	329,300	306,017	344,767
Total Expenditures and Other Uses	27,170,243	27,362,092	25,442,163	24,489,006
CHANGE IN FUND BALANCE	\$ (2,900)	\$ 281,400	\$ (909,565)	\$ (2,411,790)
ENDING FUND BALANCE	\$ 5,088,508	\$ 5,091,408	\$ 4,810,008	\$ 6,629,138
AVAILABLE RESERVES <sup>2</sup>	\$ 1,022,153	\$ 828,090	\$ 1,272,108	\$ 1,696,719
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO <sup>3, 4</sup>	3.76%	3.03%	5.00%	6.93%
LONG-TERM OBLIGATIONS	N/A	\$ 1,718,062	\$ 1,777,476	\$ 1,827,059
K-12 AVERAGE DAILY ATTENDANCE AT P-2	139	136	172	197

The General Fund balance has decreased by \$1,537,730 over the past two years. The fiscal year 2017-2018 budget projects a further decrease of \$2,900 (0.06 percent). For a COE this size, the State recommends available reserves of at least 3 percent of total General Fund expenditures, transfers out, and other uses (total outgo).

The COE has incurred operating deficits in two of the past three years and anticipates incurring an operating deficit during the 2017-2018 fiscal year. Total long-term obligations have decreased by \$108,997 over the past two years.

Average daily attendance has decreased by 61 over the past two years. Additional growth of 3 ADA is anticipated during fiscal year 2017-2018.

<sup>1</sup> Budget 2018 is included for analytical purposes only and has not been subjected to audit.

<sup>2</sup> 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.

<sup>3</sup> On-behalf payments of \$442,829, \$396,889, and \$313,813, have been included in the calculation of available reserves for fiscal years ending June 30, 2017, 2016, and 2015, respectively.

<sup>4</sup> 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.

<sup>5</sup> 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.

<sup>6</sup> 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**

**NON-MAJOR GOVERNMENTAL FUNDS  
COMBINING BALANCE SHEET  
JUNE 30, 2017**

	<b>Child Development Fund</b>	<b>Special Reserve Capital Outlay Fund</b>	<b>Non-Major Governmental Funds</b>
<b>ASSETS</b>			
Deposits and investments	\$ -	\$ 1,058,644	\$ 1,058,644
Receivables	153,295	13,967	167,262
<b>Total Assets</b>	<b>\$ 153,295</b>	<b>\$ 1,072,611</b>	<b>\$ 1,225,906</b>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>Liabilities:</b>			
Overdrafts	\$ 93,976	\$ -	\$ 93,976
Accounts payable	51,122	47,372	98,494
<b>Total Liabilities</b>	<b>145,098</b>	<b>47,372</b>	<b>192,470</b>
<b>Fund Balances:</b>			
Restricted	8,197	-	8,197
Assigned	-	1,025,239	1,025,239
<b>Total Fund Balances</b>	<b>8,197</b>	<b>1,025,239</b>	<b>1,033,436</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 153,295</b>	<b>\$ 1,072,611</b>	<b>\$ 1,225,906</b>

See accompanying note to supplementary information.

# SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION

## NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2017

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### NOTE 1 - PURPOSE OF SCHEDULES

#### **Schedule of Expenditures of Federal Awards**

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

#### **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.

#### **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.

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***INDEPENDENT AUDITOR'S REPORTS***

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**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, 2017, 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 November 26, 2017.

**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. 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 significant deficiencies; item 2017-001.



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

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 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, 2017. 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 federal statutes, regulations, and the terms and conditions of its Federal awards applicable to its Federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about 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.



## 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 *2016-2017 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* that could have a direct and material effect on each of the COE's State government programs as noted below for the year ended June 30, 2017.

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

Management is responsible for compliance with the requirements of State laws, regulations, and the terms and conditions of its State awards applicable to its State programs.

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

Our responsibility is to express an opinion on compliance of each of the COE'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 *2016-2017 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. 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 the COE'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 the COE's compliance with those requirements.

### ***Unmodified Opinion***

In our opinion, the COE 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, 2017.

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

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

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

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

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

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

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

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

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

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

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

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

*Vannink, Tein, Day & Co., LLP*  
Rancho Cucamonga, California  
November 26, 2017

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***SCHEDULE OF FINDINGS AND QUESTIONED COSTS***

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**SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION**

**SUMMARY OF AUDITOR'S RESULTS  
FOR THE YEAR ENDED JUNE 30, 2017**

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**FINANCIAL STATEMENTS**

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

**FEDERAL AWARDS**

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

Identification of major Federal programs:

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

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

**STATE AWARDS**

Type of auditor's report issued on compliance for State programs:	<u>Unmodified</u>
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# **SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION**

## **FINANCIAL STATEMENT FINDINGS FOR THE YEAR ENDED JUNE 30, 2017**

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### **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 \$269,300 to support the operating deficit in the State Preschool Program. For 2016-2017, the COE restricted the program in an effort to increase revenues and reduce the structural deficit. The COE looks to provide high quality preschool programs to our most at-risk students.

**SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION**

**STATE AWARDS FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2017**

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None reported.

**SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2017**

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**Recommendation**

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

**Current Status**

Not implemented; see finding 2017-001.