



**SAN LUIS OBISPO
COUNTY OFFICE OF EDUCATION**

ANNUAL FINANCIAL REPORT

JUNE 30, 2018

SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION

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FINANCIAL SECTION



VAVRINEK, TRINE, DAY & CO., LLP
Certified Public Accountants

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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 County) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District'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 an opinion 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 *2017-2018 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 County'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 County'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 opinion.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the San Luis Obispo County Office of Education, as of June 30, 2018, and the respective changes in financial position and for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 and Note 16 to the financial statements, in 2018, the County adopted new accounting guidance, GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. In addition, the County restated beginning fund balance in the County School Service Fund. This restatement was a result of the understatement of accounts payable related to prior year's excess property tax. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 12, budgetary comparison schedule on page 63 and 64, schedule of changes in the County's total OPEB liability and related ratios on page 65, schedule of the County's proportionate share of the net OPEB liability - MPP program on page 66, schedule of the County's proportionate share of the net pension liability on page 67, and the schedule of County contributions on page 68, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 6, 2018, 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.

Vavrinek, Trine, Day & Co. LLP

Rancho Cucamonga, California

December 6, 2018



This section of San Luis Obispo County Office of Education's (the County) annual financial report presents our discussion and analysis of the County's financial performance during the fiscal year that ended on June 30, 2018, with comparative information from the fiscal year ending June 30, 2017. Please read it in conjunction with the County's financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

- The County's financial status has decreased. Total net position decreased approximately 32.4 percent over the course of the year.
 - Overall revenues were \$47,462,823, which is \$2,322,509 less than expenditures.
 - The County decreased its capital assets \$4,808,325 or 16.1 percent.
 - The County increased its outstanding long-term obligations \$376,402 or 3.7 percent.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Financial Statements

The financial statements presented herein include all of the activities of the County 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 County from the economic resources measurement focus using the accrual basis of accounting. These statements include all assets of the County (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 County Office of Education.

SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

REPORTING THE COUNTY AS A WHOLE

The Statement of Net Position and the Statement of Activities

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

These two statements report the County's net position and changes in them. Net position is the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources, which is one way to measure the County's financial health, or financial position. Over time, increases or decreases in the County's net position will serve as a useful indicator of whether the financial position of the County is improving or deteriorating. Other factors to consider are changes in the County's property tax base and the condition of the District's facilities.

The relationship between revenues and expenses is the County's *operating results*. Since the governing board's responsibility is to provide services to our students and not to generate profit as commercial entities do, one must consider other factors when evaluating the overall health of the County. The quality of the education and the safety of our schools will likely be an important component in this evaluation.

In the *Statement of Net Position* and the *Statement of Activities*, we separate the County's activities as follows:

Governmental Activities - Most of the County's services are reported in this category. This includes the education of kindergarten through grade twelve students, adult education students, the operation of child development activities, and the on-going effort to improve and maintain buildings and sites. Property taxes, State income taxes, user fees, interest income, Federal, State, and local grants, as well as general obligation bonds, finance these activities.

REPORTING THE COUNTY'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds - not the County as a whole. Some funds are required to be established by State law and by bond covenants. However, management establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money that it receives from the U.S. Department of Education.

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

SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2018

financial statements to those in the government-wide financial statements are explained in a reconciliation following each governmental fund financial statement.

THE COUNTY AS A TRUSTEE

Reporting the County 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 County's fiduciary activities are reported in the *Statements of Fiduciary Net Position*. We exclude these activities from the County's other financial statements because the County cannot use these assets to finance its operations. The County is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

FINANCIAL ANALYSIS OF THE COUNTY AS A WHOLE

Net Position

The County's *combined* net position was less on June 30, 2018, than it was the year before - decreasing approximately 32.4 percent to \$4,847,603.

Table 1

	Governmental Activities	
	2018	2017 (as Restated)
Assets		
Current assets	\$ 21,178,166	\$ 18,240,705
Noncurrent assets	1,450,875	-
Capital assets	25,100,896	29,909,221
Total Assets	<u>47,729,937</u>	<u>48,149,926</u>
Total Deferred Outflows of Resources	<u>6,388,395</u>	<u>4,162,887</u>
Liabilities		
Current liabilities	14,619,868	12,573,259
Long-term obligations	9,878,376	10,254,778
Aggregate net pension liability	22,034,801	19,015,479
Total Liabilities	<u>46,533,045</u>	<u>41,843,516</u>
Total Deferred Inflows of Resources	<u>2,737,684</u>	<u>3,299,185</u>
Net Position		
Net investment in capital assets	25,037,896	29,825,221
Restricted	1,985,036	1,366,525
Unrestricted (deficit)	(22,175,329)	(24,021,634)
Total Net Position	<u>\$ 4,847,603</u>	<u>\$ 7,170,112</u>

SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2018

Changes in Net Position

The County's total revenues increased \$5,199,457. (See Table 2) Property taxes and Federal and State formula aid accounted for 26.9 percent of the County's revenue. Another 52.2 percent came from State and Federal aid/grants for specific programs, and the remainder from fees charged for services and miscellaneous sources.

	<u>Governmental Activities</u>	
	<u>2018</u>	<u>2017</u>
Revenues		
Program revenues:		
Charges for services	\$ 5,271,852	\$ 5,388,919
Operating grants and contributions	24,767,360	21,760,133
General revenues:		
Federal and State aid not restricted	1,385,511	1,173,048
Property taxes	11,406,329	10,883,886
Other general revenues	4,631,771	3,057,380
Total Revenues	<u>47,462,823</u>	<u>42,263,366</u>
Expenses		
Instruction	8,361,071	7,842,954
Supervision of instruction	5,802,350	4,325,726
Library, media, and technology	385,033	483,905
School site administration	1,067,520	1,353,316
Pupil services	3,475,009	2,801,366
Administration	5,392,299	4,800,788
Maintenance and operations	2,219,178	2,396,287
Ancillary/Comm SVE/Enterprise	1,972,459	2,147,983
Outgo (transfers between agencies)	21,110,413	17,464,073
Total Expenses	<u>49,785,332</u>	<u>43,616,398</u>
Change in Net Position	<u>\$ (2,322,509)</u>	<u>\$ (1,353,032)</u>

The total cost of all programs and services was \$49,785,332. The County'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 County accounted for just 10.5 percent of total expenses.

Total expenses surpassed revenues, decreasing net position \$2,322,509 over last year.

SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

Governmental Activities

The cost of all *governmental activities* this year was \$49,785,332.

- The users of the County's programs financed some of the cost.
- The Federal and State governments subsidized many program costs with grants and contributions. The taxpayers of San Luis Obispo County supported the County and County programs with their property taxes. The County received a total of \$22,172,025 in property taxes of which \$11,567,278 transferred to San Luis Obispo County School District's and the County's Special Education Programs, leaving \$10,604,746 in reported property taxes. Part of these taxes is used to support County Alternative Education programs. Another portion is used for the operations of the County Office administration. The balance, in the amount of \$4,723,275 is considered excess property taxes and is reserved until the following year; therefore, it is not spendable by Education Code Section 2558(e) "If the remainder determined pursuant to subdivision (c) is a negative amount, no state aid shall be distributed to that county superintendent of schools pursuant to subdivision (d), and an amount of funds of that county superintendent of schools equal to that negative amount shall be deemed restricted and not available for expenditure during the current fiscal year. In the next fiscal year, that amount shall be considered local property tax revenue for purposes of the operation of paragraph (1) of subdivision (c)".

FINANCIAL ANALYSIS OF THE COUNTY'S FUNDS

The County maintains eight individual governmental funds. The County School Service Fund and the Special Education Pass-Through Fund are considered to be major funds. The County School Service Fund and the Special Education Pass-Through Fund information are presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances on pages 15 and 18. Data from the other funds are combined and designated as non-major governmental funds.

SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

County Schools Service Fund Budgetary Highlights (County School Service Fund Only)

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

- Local Control Funding Formula for COE's fully implemented.
- Changes made at the 1st Interim Budget Revision included increasing unrestricted revenues and expenditures to reflect the receipt of COE LCAP oversight funds; Restricted Federal and State revenues and expenses were increased to reflect prior year carryover. Other Local Revenues were increased to reflect new long-term facility lease agreements.
- Changes made at the 2nd Interim Budget Revision included decreasing unrestricted salaries and benefits to reflect attrition; Increased Restricted expenditures to reflect changes in grant and program expenses

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of 2018, the County had invested \$25,100,896 in a broad range of capital assets, net of accumulated depreciation, 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 \$4,808,325, or 16.1 percent, from last year.

Total depreciation expense for the year was \$1,238,689, while additions to equipment, furniture, and buildings amounted to \$864,354.

Table 3

	Governmental Activities	
	2018	2017
Land	\$ 2,867,682	\$ 3,769,354
Construction in progress	158,552	98,646
Land improvements	373,225	368,055
Buildings and improvements	38,561,906	43,177,293
Furniture and equipment	1,522,366	1,320,275
Buses and vehicles	709,985	777,672
Total Capital Assets	44,193,716	49,511,295
Accumulated depreciation	(19,092,820)	(19,602,074)
Net Book Value of Capital Assets	\$ 25,100,896	\$ 29,909,221

More detailed information about the County's capital assets is presented in Note 6 to the financial statements.

SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

Long-Term Obligations Other Than Pensions

At year-end, the County had \$9,878,376 in long-term obligations outstanding (including postemployment benefits) – a decrease of 3.69 percent from last year. (See Table 4)

The County is focusing on reducing long-term obligations outstanding due to unused vacation balances. In 2017-2018, the County increased their compensated absences liability by \$74,019, or 22.7 percent.

Table 4

	Governmental Activities	
	2018	2017 (as Restated)
Compensated absences	\$ 399,627	\$ 325,608
Child care facilities revolving fund loan	63,000	84,000
Other postemployment benefits (OPEB)	9,415,749	9,845,170
Total	\$ 9,878,376	\$ 10,254,778

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

Net Pension Liability (NPL)

At year-end, the County had an outstanding net pension liability of \$22,034,801, as a result of the adoption of GASB No. 68, *Accounting and Reporting for Pensions*. The County has, therefore, recorded its proportionate share of net pension liabilities for CalSTRS and CalPERS.

FACTORS BEARING ON THE COUNTY'S FUTURE

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

- The County-wide enrollment for K-12 public schools slightly decreased for the second year in a row.
- County Community School ADA continues to decline and is projected to decline ten percent (10.00 percent) each school year.
- Juvenile Court School ADA has remained consistent for the second year in row. And is projected to increase four percent (5.00 percent)
- The Local Control Funding Formula (LCFF) brought about changes for the County.
 - The County Superintendent has additional responsibilities regarding oversight of the Local Control Accountability Plan (LCAP) prepared by each of the County's ten public school districts. LCAP's will be updated annually to reflect changes and progress.
 - The County will update its own LCAP for 2018-2019.
- Redevelopment agency funds (RDA) used for facilities will slightly decrease.

SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT

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

SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION

**STATEMENT OF NET POSITION
JUNE 30, 2018**

	Governmental Activities
ASSETS	
Deposits and investments	\$ 10,767,959
Receivables	10,283,100
Prepaid expenses	127,107
Lease receivable	1,450,875
Capital assets:	
Land and construction in progress	3,026,234
Other capital assets	41,167,482
Less: Accumulated depreciation	(19,092,820)
Total Capital Assets	<u>25,100,896</u>
Total Assets	<u>47,729,937</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows of resources related to pensions	<u>6,388,395</u>
LIABILITIES	
Overdrafts	545
Accounts payable	13,616,721
Unearned revenue	1,002,602
Long-term obligations:	
Current portion of long-term obligations other than pensions	21,000
Noncurrent portion of long-term obligations other than pensions	<u>9,857,376</u>
Total Long-Term Obligations	<u>9,878,376</u>
Aggregate net pension liability	<u>22,034,801</u>
Total Liabilities	<u>46,533,045</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows of resources related to pensions	<u>2,737,684</u>
NET POSITION	
Net investment in capital assets	25,037,896
Restricted for:	
Educational programs	1,974,604
Other activities	10,432
Unrestricted (Deficit)	<u>(22,175,329)</u>
Total Net Position	<u>\$ 4,847,603</u>

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

SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018**

Functions/Programs	Expenses	Program Revenues		Net Expense and Changes in Net Position in Governmental Activities
		Charges for Services and Sales	Operating Grants and Contributions	
Governmental Activities:				
Instruction	\$ 8,361,071	\$ 1,435,266	\$ 4,867,578	\$ (2,058,227)
Instruction-related activities:				
Supervision of instruction	5,802,350	612,301	4,134,518	(1,055,531)
Instructional library, media, and technology	385,033	-	-	(385,033)
School site administration	1,067,520	209,774	376,663	(481,083)
Pupil services:				
Food services	322,202	1,045	105,356	(215,801)
All other pupil services	3,152,807	487,372	1,996,121	(669,314)
Administration:				
Data processing	1,116,187	-	-	(1,116,187)
All other administration	4,276,112	369,516	1,093,620	(2,812,976)
Plant services	2,219,178	92,249	285,836	(1,841,093)
Ancillary services	742,078	535	1,275	(740,268)
Community services	1,089,573	4,076	791,778	(293,719)
Enterprise services	140,808	-	-	(140,808)
Other outgo	21,110,413	2,059,718	11,114,615	(7,936,080)
Total Governmental Activities	\$ 49,785,332	\$ 5,271,852	\$ 24,767,360	(19,746,120)

General revenues and subventions:

Property taxes, levied for general purposes	10,985,549
Taxes levied for other specific purposes	420,780
Federal and State aid not restricted to specific purposes	1,385,511
Interest and investment earnings	173,883
Transfers between agencies	506,398
Miscellaneous	3,951,490
Subtotal, General Revenues	17,423,611
Change in Net Position	(2,322,509)
Net Position - Beginning	19,471,982
Restatement	(12,301,870)
Net Position - Beginning, as Restated	7,170,112
Net Position - Ending	\$ 4,847,603

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

SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2018

	County School Service Fund	Special Education Pass-Through Fund	Non-Major Governmental Funds	Total Governmental Funds
ASSETS				
Deposits and investments	\$ 8,338,662	\$ 1,556,560	\$ 872,737	\$ 10,767,959
Receivables	7,096,716	3,091,444	94,940	10,283,100
Prepaid expenditures	127,107	-	-	127,107
Total Assets	\$ 15,562,485	\$ 4,648,004	\$ 967,677	\$ 21,178,166
LIABILITIES AND FUND BALANCES				
Liabilities:				
Overdrafts	\$ -	\$ -	\$ 545	\$ 545
Accounts payable	8,892,162	4,648,004	76,555	13,616,721
Unearned revenue	938,188	-	64,414	1,002,602
Total Liabilities	9,830,350	4,648,004	141,514	14,619,868
Fund Balances:				
Nonspendable	152,682	-	-	152,682
Restricted	1,974,604	-	10,432	1,985,036
Assigned	2,003,683	-	815,731	2,819,414
Unassigned	1,601,166	-	-	1,601,166
Total Fund Balances	5,732,135	-	826,163	6,558,298
Total Liabilities and Fund Balances	\$ 15,562,485	\$ 4,648,004	\$ 967,677	\$ 21,178,166

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

SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JUNE 30, 2018**

Total Fund Balance - Governmental Funds **\$ 6,558,298**
**Amounts Reported for Governmental Activities in the Statement
of Net Position is Different Because:**

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.

The cost of capital assets is	\$ 44,193,716	
Accumulated depreciation is	(19,092,820)	
Net Capital Assets		25,100,896

Revenues relating to lease payments received for lease receivable were recognized on the modified accrual basis, but are not recognized on the accrual basis. 1,450,875

Deferred outflows of resources related to pensions represent a consumption of net position in a future period and is not reported in the District's funds. Deferred outflows of resources related to pensions at year end consist of:

Pension contributions subsequent to measurement date	1,727,226	
Net change in proportionate share of net pension liability	181,841	
Differences between projected and actual earnings on pension plan investments	396,689	
Differences between expected and actual experience in the measurement of the total pension liability	449,904	
Changes of assumptions	3,632,735	
Total Deferred Outflows of Resources Related to Pensions		6,388,395

Deferred inflows of resources related to pensions represent an acquisition of net position that applies to a future period and is not reported in the District's funds. Deferred inflows of resources related to pensions at year end consist of:

Net change in proportionate share of net pension liability	(2,136,912)
Difference between projected and actual earnings on pension plan investments	(281,444)
Differences between expected and actual experience in the measurement of the total pension liability	(184,315)

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

SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION (Continued)
JUNE 30, 2018**

Net pension liability is not due and payable in the current period,
and is not reported as a liability in the funds. (22,034,801)

Long-term obligations, including general obligation bonds, are not due
and payable in the current period and, therefore, are not reported as
obligations in the funds.

Long-term obligations at year-end consist of:

Compensated absences (vacations) (399,627)

Child care facilities revolving fund loan (63,000)

Net OPEB obligation (9,415,749)

Total Long-Term Obligations (9,878,376)

Total Net Position - Governmental Activities \$ 4,847,603

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, 2018**

	County School Service Fund	Special Education Pass-Through Fund	Non-Major Governmental Funds	Total Governmental Funds
REVENUES				
Local Control Funding Formula	\$ 12,012,175	\$ -	\$ -	\$ 12,012,175
Federal sources	3,879,892	6,570,417	98,092	10,548,401
Other State sources	7,114,263	6,348,808	915,090	14,378,161
Other local sources	9,716,024	-	275,496	9,991,520
Total Revenues	32,722,354	12,919,225	1,288,678	46,930,257
EXPENDITURES				
Current				
Instruction	7,768,382	-	-	7,768,382
Instruction-related activities:				
Supervision of instruction	5,404,465	-	-	5,404,465
Instructional library, media, and technology	361,195	-	-	361,195
School site administration	953,612	-	-	953,612
Pupil services:				
Food services	129,918	-	186,754	316,672
All other pupil services	2,944,964	-	-	2,944,964
Administration:				
Data processing	996,830	-	-	996,830
All other administration	4,151,524	-	87,729	4,239,253
Plant services	1,877,274	-	164,727	2,042,001
Facility acquisition and construction	609,047	-	305,053	914,100
Ancillary services	708,459	-	-	708,459
Community services	-	-	1,004,415	1,004,415
Other outgo	5,128,024	13,084,223	11,776	18,224,023
Enterprise services	140,034	-	-	140,034
Debt service				
Principal	21,000	-	-	21,000
Total Expenditures	31,194,728	13,084,223	1,760,454	46,039,405
Excess (Deficiency) of Revenues Over Expenditures	1,527,626	(164,998)	(471,776)	890,852
Other Financing Sources (Uses)				
Transfers in	13,722	-	278,225	291,947
Transfers out	(278,225)	-	(13,722)	(291,947)
Net Financing Sources (Uses)	(264,503)	-	264,503	-
NET CHANGE IN FUND BALANCES	1,263,123	(164,998)	(207,273)	890,852
Fund Balances - Beginning, as Restated	4,469,012	164,998	1,033,436	5,667,446
Fund Balances - Ending	\$ 5,732,135	\$ -	\$ 826,163	\$ 6,558,298

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

SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2018

Total Net Change in Fund Balances - Governmental Funds	\$ 890,852
Amounts Reported for Governmental Activities in the Statement of Activities are Different Because:	
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures; however, for governmental activities, those costs are shown in the Statement of Net Position and allocated over their estimated useful lives as annual depreciation expenses in the Statement of Activities.	
This is the amount by which depreciation expense exceeds capital outlays in the period.	
Depreciation expense	\$ (1,238,689)
Capital outlays	<u>864,354</u>
Net Expense Adjustment	(374,335)
Loss on disposal of capital assets is reported in the government-wide Statement of Net Position, but is not recorded in the governmental funds.	(2,886,390)
Receipt of lease receivable is a revenue in the governmental funds, but it reduces lease receivable in the Statement of Net Position:	
Lease receivable	(96,725)
In the Statement of Activities, certain operating expenses - compensated absences (vacations) are measured by the amounts earned during the year. In the governmental funds, however; expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). Vacation earned was more than the amounts paid by \$74,019.	(74,019)
In the governmental funds, pension costs are based on employer contributions made to pension plans during the year. However, in the Statement of Activities, pension expense is the net effect of all changes in the deferred outflows, deferred inflows and net pension liability during the year.	(232,313)
Postemployment benefits other than pensions (OPEB): In governmental funds, OPEB costs are recognized when employer contributions are made. In the Statement of Activities, OPEB costs are recognized on the accrual basis. This year, the difference between OPEB costs and actual employer contributions was:	429,421
Payment of principal on long-term obligations is an expenditure in the governmental funds, but it reduces long-term obligations in the Statement of Net Position and does not affect the Statement of Activities:	
Childcare facilities revolving fund loan	<u>21,000</u>
Change in Net Position of Governmental Activities	<u><u>\$ (2,322,509)</u></u>

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

SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION

**FIDUCIARY FUNDS
STATEMENT OF NET POSITION
JUNE 30, 2018**

	<u>Agency Funds</u>
ASSETS	
Deposits and investments	<u>\$ 3,614,006</u>
LIABILITIES	
Amounts held on behalf of others	<u>\$ 3,614,006</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, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

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

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

Other Related Entities

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

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

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

Basis of Presentation - Fund Accounting

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

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

SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Major Governmental Funds

County School Service Fund The County School Service 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. Two 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 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 County School Service Fund, and accordingly have been combined with the County School Service Fund for presentation in these audited financial statements.

As a result, the County School Service Fund reflects an increase in the fund balance of \$1,899,073.

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.

Cafeteria Fund The Cafeteria Fund is used to account separately for Federal, State, and local resources to operate the food service program (Education Code Sections 38090-38093) and is used only for those expenditures authorized by the governing board as necessary for the operation of the District's food service program (Education Code Sections 38091 and 38100).

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).

SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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 County School Service Fund monies for capital outlay purposes (*Education Code Section 42840*).

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

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

Basis of Accounting - Measurement Focus

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

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

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

SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Fund Financial Statements Fund financial statements report detailed information about the County. 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 County.

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 County 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, 2018

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

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

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

Investments

Investments held at June 30, 2018, with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost. Fair values of investments in county and State investment pools are determined by the program sponsor.

Prepaid Expenditures

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

Capital Assets and Depreciation

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

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

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

SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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 County'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 District reports deferred outflows of resources for pension related items.

SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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 District reports deferred inflows of resources for pension related items.

Pensions

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

Postemployment Benefits Other Than Pensions (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the County Plan and the CalSTRS Medicare Premium Payment (MPP) Program and additions to/deductions from the County Plan and the MPP's fiduciary net position have been determined on the same basis as they are reported by the County Plan and the MPP. For this purpose, the County Plan and the MPP recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for money market investments and participating interest-earning investment contracts that have a maturity at the time of purchase of one year or less, which are reported at cost.

Fund Balances - Governmental Funds

As of June 30, 2018, fund balances of the governmental funds are classified as follows:

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

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

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

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

Unassigned - all other spendable amounts.

SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Spending Order Policy

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

Minimum Fund Balance Policy

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

Net Position

Net position represents the difference between assets and liabilities. Net position net of investment in capital assets, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. The County has no related obligations outstanding as of June 30, 2018. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the County or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The County 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 \$1,985,036 in restricted net position.

Interfund Activity

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

Estimates

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

SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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 County. Local property tax revenues are recorded when received.

Change in Accounting Principles

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

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

The County has implemented the provisions of this Statement as of June 30, 2018.

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;

SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

- Classifying employer-paid member contributions for OPEB;
- Simplifying certain aspects of the alternative measurement method for OPEB; and
- Accounting and financial reporting for OPEB provided through certain multiple-employer defined benefit OPEB plans.

The County has implemented the provisions of this Statement as of June 30, 2018.

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 County has implemented the provisions of this Statement as of June 30, 2018.

New Accounting Pronouncements

In November 2016, the GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement.

This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. This Statement requires that recognition occur when the liability is both incurred and reasonably estimable. The determination of when the liability is incurred should be based on the occurrence of external laws, regulations, contracts, or court judgments, together with the occurrence of an internal event that obligates a government to perform asset retirement activities. Laws and regulations may require governments to take specific actions to retire certain tangible capital assets at the end of the useful lives of those capital assets, such as decommissioning nuclear reactors and dismantling and removing sewage treatment plants. Other obligations to retire tangible capital assets may arise from contracts or court judgments. Internal obligating events include the occurrence of contamination, placing into operation a tangible capital asset that is required to be retired, abandoning a tangible capital asset before it is placed into operation, or acquiring a tangible capital asset that has an existing ARO.

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

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.

This Statement establishes criteria for identifying fiduciary activities of all State and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and

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(2) 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 June 2017, the GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

The requirements of this Statement are effective for the reporting periods beginning after December 15, 2019. Early implementation is encouraged.

In April 2018, the GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt.

This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established.

This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses.

For notes to financial statements related to debt, this Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt.

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

In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period.

This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the

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requirements of paragraphs 5–22 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund.

This Statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged. The requirements of this Statement should be applied prospectively.

NOTE 2 - DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2018, are classified in the accompanying financial statements as follows:

Governmental activities	\$ 10,767,959
Fiduciary funds	3,614,006
Total Deposits and Investments	<u>\$ 14,381,965</u>

Deposits and investments as of June 30, 2018, consisted of the following:

Cash on hand and in banks	\$ 3,626,906
Cash in revolving	25,575
Investments	10,729,484
Total Deposits and Investments	<u>\$ 14,381,965</u>

Policies and Practices

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

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

<u>Authorized Investment Type</u>	<u>Maximum Remaining Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
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

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Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The County does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The County manages its exposure to interest rate risk by investing in the State and San Luis Obispo County Investment Pools.

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

Investment Type	Reported Amount	Average Maturity in Days
San Luis Obispo County Treasury Investment Pool	\$ 10,716,515	389
Local Agency Investment Pool	12,969	193
Total	\$ 10,729,484	

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by the California *Government Code*, the County's investment policy, or debt agreements, and the actual rating as of the year-end for each investment type. The San Luis Obispo County Investment Pool was rated "AAA" by Fitch Ratings. The County's investment in the Local Agency Investment Pool is not required to be rated, nor has it been rated.

Custodial Credit Risk - Deposits

This is the risk that in the event of a bank failure, the County's deposits may not be returned to it. The County does not have a policy for custodial credit risk for deposits. However, the California *Government Code* requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under State law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agency. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2018, the County's bank balance of \$7,053,307 was exposed to custodial credit risk because it was uninsured but collateralized with securities held by the pledging financial institution's trust department or agent, but not in the name of the County.

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NOTE 3 - FAIR VALUE MEASUREMENTS

The County 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 County 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 County's own data. The County should adjust that data if reasonably available information indicates that other market participants would use different data or certain circumstances specific to the County 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 County's transactions are based on a stable net asset value per share. All contributions and redemptions are transacted at \$1.00 net asset value per share.

The County's fair value measurements are as follows at June 30, 2018:

<u>Investment Type</u>	<u>Reported Amount</u>	<u>Uncategorized</u>
San Luis Obispo County Treasury Investment Pool	\$ 10,716,515	\$ 10,716,515
Local Agency Investment Pool	12,969	12,969
Total	<u>\$ 10,729,484</u>	<u>\$ 10,729,484</u>

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NOTES TO FINANCIAL STATEMENTS

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NOTE 4 - RECEIVABLES

Receivables at June 30, 2018, consisted of intergovernmental grants, entitlements, interest, and other local sources. All receivables are considered collectible in full.

	County School Service Fund	Special Education Pass-Through Fund	Non-Major Governmental Funds	Total Governmental Activities
Federal Government				
Categorical aid	\$ 2,280,690	\$ 2,440,272	\$ 22,492	\$ 4,743,454
State Government				
Categorical aid	3,845,284	651,172	22,702	4,519,158
Lottery	7,515	-	-	7,515
Local Government				
Other local sources	963,227	-	49,746	1,012,973
Total	<u>\$ 7,096,716</u>	<u>\$ 3,091,444</u>	<u>\$ 94,940</u>	<u>\$ 10,283,100</u>

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NOTE 5 – LEASE RECEIVABLE

The County's has entered into a lease agreement to lease facilities. Such agreements are, in substance, sales (capital assets) and are reported as lease receivable. The County's receivable on the lease agreement with options to sell is summarized below.

	Chalk Mountain Community School
Balance, July 1, 2017	\$ -
Additions	1,547,600
Payments	96,725
Balance, June 30, 2018	<u>\$ 1,450,875</u>

	Lease Receivable
<u>Fiscal Year</u>	
2019	\$ 96,725
2020	96,725
2021	96,725
2022	96,725
2023	96,725
Thereafter	967,250
Total	<u>1,450,875</u>
Less: Amount Representing Interest Revenue	-
Present Value of Minimum Lease Receivable	<u>\$ 1,450,875</u>

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**NOTES TO FINANCIAL STATEMENTS
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NOTE 6 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2018, was as follows:

	Balance July 1, 2017	Additions	Deductions	Balance June 30, 2018
Governmental Activities				
Capital Assets Not Being Depreciated				
Land	\$ 3,769,354	\$ -	\$ 901,672	\$ 2,867,682
Construction in progress	98,646	59,906	-	158,552
Total Capital Assets Not Being Depreciated	<u>3,868,000</u>	<u>59,906</u>	<u>901,672</u>	<u>3,026,234</u>
Capital Assets Being Depreciated				
Land improvements	368,055	5,170	-	373,225
Buildings and improvements	43,177,293	597,187	5,212,574	38,561,906
Furniture and equipment	1,320,275	202,091	-	1,522,366
Buses and vehicles	777,672	-	67,687	709,985
Total Capital Assets Being Depreciated	<u>45,643,295</u>	<u>804,448</u>	<u>5,280,261</u>	<u>41,167,482</u>
Less Accumulated Depreciation				
Land improvements	100,294	21,348	-	121,642
Buildings and improvements	17,914,937	1,045,612	1,680,256	17,280,293
Furniture and equipment	894,546	122,369	-	1,016,915
Buses and vehicles	692,297	49,360	67,687	673,970
Total Accumulated Depreciation	<u>19,602,074</u>	<u>1,238,689</u>	<u>1,747,943</u>	<u>19,092,820</u>
Governmental Activities Capital Assets, Net	<u>\$ 29,909,221</u>	<u>\$ (374,335)</u>	<u>\$ 4,433,990</u>	<u>\$ 25,100,896</u>

Depreciation expense was charged to governmental functions as follows:

Governmental Activities	
Instruction	\$ 356,123
Supervision of instruction	190,452
Instructional library, media, and technology	24,194
School site administration	88,783
Food services	6,612
Other pupil services	136,512
Ancillary services	35,838
Community services	64,869
Enterprise	1,319
Other general administrative	70,590
Data processing services	125,706
Plant maintenance and operations	137,691
Total Depreciation Expense Governmental Activities	<u>\$ 1,238,689</u>

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**NOTES TO FINANCIAL STATEMENTS
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NOTE 7 - INTERFUND TRANSACTIONS

Operating Transfers

Interfund transfers for the year ended June 30, 2018, consisted of the following:

Transfer In	Transfer Out		Total
	County School Service Fund	Non-Major Governmental Funds	
County School Service Fund	\$ -	\$ 13,722	\$ 13,722
Non-Major Governmental Funds	278,225	-	278,225
Total	<u>\$ 278,225</u>	<u>\$ 13,722</u>	<u>\$ 291,947</u>

The County School Service Fund transferred to the Child Development Non-Major Governmental Fund to support operations of the program.	\$ 113,669
The County School Service Fund transferred to the Cafeteria Non-Major Governmental Fund to cover costs.	104,556
The County School Service Fund transferred to the Special Reserve Fund for Capital Outlay Projects Non-Major Governmental Fund to repay the interfund loan for the First 5 Building.	60,000
The Forest Reserve Non-Major Governmental Fund transferred to the County School Service Fund for interest earned.	2,078
The Special Reserve Fund for Capital Outlay Projects Non-Major Governmental Fund transferred to the County School Service Fund for interest earned.	11,644
Total	<u>\$ 291,947</u>

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**NOTES TO FINANCIAL STATEMENTS
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NOTE 8 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2018, consisted of the following:

	County School Service Fund	Special Education Pass-Through Fund	Non-Major Governmental Funds	Total Governmental Activities
State aid apportionment	\$ 4,723,275	\$ -	\$ -	\$ 4,723,275
Vendor payables	3,198,777	-	76,125	3,274,902
Salaries and benefits	970,110	-	-	970,110
Pass-through special education apportionments	-	4,648,004	-	4,648,004
Construction	-	-	430	430
Overdrafts	-	-	545	545
Total	<u>\$ 8,892,162</u>	<u>\$ 4,648,004</u>	<u>\$ 77,100</u>	<u>\$ 13,617,266</u>

NOTE 9 - UNEARNED REVENUE

Unearned revenue at June 30, 2018, consisted of the following:

	County School Service Fund	Non-Major Governmental Funds	Total
Federal financial assistance	\$ -	\$ 64,414	\$ 64,414
State categorical aid	938,188	-	938,188
Total	<u>\$ 938,188</u>	<u>\$ 64,414</u>	<u>\$ 1,002,602</u>

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**NOTES TO FINANCIAL STATEMENTS
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NOTE 10 - LONG-TERM OBLIGATIONS

Summary

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

	Balance July 1, 2017 (as Restated)	Additions	Deductions	Balance 43281	Due in One Year
Compensated absences	\$ 325,608	\$ 105,548	\$ 31,529	\$ 399,627	\$ -
Child care facilities revolving fund loan	84,000	-	21,000	63,000	21,000
Net other postemployment benefits (OPEB) liability	9,845,170	-	429,421	9,415,749	-
	<u>\$10,254,778</u>	<u>\$ 105,548</u>	<u>\$ 481,950</u>	<u>\$ 9,878,376</u>	<u>\$ 21,000</u>

Compensated absences will be paid by the fund for which the employee worked. The Child Care Facilities Revolving Fund loan will be paid by the County School Service Fund. Payments for net other postemployment benefits (OPEB) liability will be made by the County School Service Fund.

Compensated Absences

Compensated absences are accounted for in the long-term obligations on the statement of net position. Sick leave is accumulated without limit for each employee at a rate determined by length of time in service. Leave with pay is provided when employees are absent for health reasons. However, the employees do not gain a vested right to accumulated sick leave except classified employees who have been employed for five years or more prior to July 1, 1996, at which time they can elect to receive compensation upon termination for 50 percent of their unused accrued sick leave. Certificated employees receive credit for a percentage of their accumulated sick leave towards their retirement. No accrual was made in the financial statements at June 30, 2018, for certificated accumulated sick leave. Most certificated employees do not accrue vacation time due to a ten month school year. The balance of compensated absences for the County at June 30, 2018, amounted to \$399,627.

Child Care Facilities Revolving Fund Loan

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

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Repayment of funds provided by the CDE shall begin 180 days after the final funds are released. As of June 30, 2018, the balance outstanding was \$63,000. The repayment schedule shall be in the amount sufficient to amortize the entire cost of the funds provided over a ten (10) year period.

Future payments are as follows:

Year Ending June 30,	Payments
2019	\$ 21,000
2020	21,000
2021	21,000
Total	<u>\$ 63,000</u>

Net Post Employment Benefit (OPEB) Liability

For the fiscal year ended June 30, 2018, the District reported net OPEB liability and OPEB expense for the following plans:

<u>OPEB Plan</u>	<u>Total OPEB Liability</u>	<u>OPEB Expense</u>
District Plan	\$ 9,328,715	\$ 423,654
Medicare Premium Payment (MPP) Program	87,034	(5,767)
Total	<u>\$ 9,415,749</u>	<u>\$ 417,887</u>

The details of each plan are as follows:

County Plan

Plan Administration

The District's governing board administers the Postemployment Benefits Plan (the Plan). The Plan is a single-employer defined benefit plan that is used to provide postemployment benefits other than pensions (OPEB) for eligible retirees and their spouses. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB statement No. 75.

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Plan Membership

At June 30, 2017, the Plan membership consisted of the following:

Inactive employees or beneficiaries currently receiving benefits payments	63
Active employees	2
	<hr/>
	65
	<hr/>

Benefits Provided

The Plan provides medical and dental insurance benefits to eligible retirees and their spouses. Benefits are provided through a third-party insurer, and the full cost of benefits is covered by the Plan. The District's governing board has the authority to establish and amend the benefit terms as contained within the negotiated labor agreements.

The benefit payment requirements of the Plan members and the District are established and may be amended by the District, the Teacher Education Association (TEA), the local California Service Employees Association (CSEA), and unrepresented groups. The benefit payment is based on projected pay-as-you-go financing requirements as determined annually through the agreements with the District, TEA, CSEA, and the unrepresented groups. For fiscal year 2017-2018, the District paid \$654,317 in benefits.

Total OPEB Liability of the District

The District's total OPEB liability of \$9,328,715 was measured as of June 30, 2018, and the total OPEB liability used to calculate the total OPEB liability was determined by an actuarial valuation as of that date.

Actuarial Assumptions

The total OPEB liability in the June 30, 2018 actuarial valuation was determined using the following assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.80 percent
Salary increases	3.00 percent, average, including inflation
Discount rate	3.50 percent
Health care cost trend rates	7.00 percent for 2018 and decreasing to 5.00 percent by 2021

The discount rate was based on the Bond Buyer 20-bond General Obligation Index.

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Mortality rates were based on the 2009 CalSTRS Mortality Table for certificated employees and the 2014 CalPERS Active Mortality for Miscellaneous Employees Table for classified employees. Mortality rates vary by age and sex. (Unisex mortality rates are not often used as individual OPEB benefits do not depend on the mortality table used.) If employees die prior to retirement, past contributions are available to fund benefits for employees who live to retirement. After retirement, death results in benefit termination or reeducation. Although higher mortality rates reduce service costs, the mortality assumption is not likely to vary from employer to employer.

The actual assumptions used in the June 30, 2018 valuation were based on the results of an actual experience study for the period July 1, 2017 to June 30, 2018.

Changes in the Total OPEB Liability

	Total OPEB Liability
Balance at June 30, 2017	\$ 9,752,369
Interest	320,457
Changes of assumptions or other inputs	(89,794)
Benefit payments	(654,317)
Net change in total OPEB liability	(423,654)
Balance at June 30, 2018	<u>\$ 9,328,715</u>

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following presents the total OPEB liability of the County, as well as what the County’s total OPEB liability would be if it were calculated using a discount rate that is one percent lower or higher than the current rate:

Discount Rate	Total OPEB Liability
1% decrease (2.50%)	\$ 10,296,134
Current discount rate (3.50%)	9,328,715
1% increase (4.50%)	8,504,761

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the total OPEB liability of the County, as well as what the County’s total OPEB liability would be if it were calculated using healthcare cost trend rates that are one percent lower or higher than the current healthcare costs trend rates:

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<u>Healthcare Cost Trend Rates</u>	<u>Total OPEB Liability</u>
1% decrease (6.00%)	\$ 8,433,304
Current healthcare cost trend rate rate (7.00%)	9,328,715
1% increase (8.00%)	10,357,747

OPEB Expense

For the year ended June 30, 2018, the County recognized OPEB expense of \$423,654.

Medicare Premium Payment (MPP) Program

Plan Description

The Medicare Premium Payment (MPP) Program is administered by the California State Teachers' Retirement System (CalSTRS). The MPP Program is a cost-sharing multiple-employer other postemployment benefit plan (OPEB) established pursuant to Chapter 1032, Statutes 2000 (SB 1435). CalSTRS administers the MPP Program through the Teachers' Health Benefits Fund (THBF).

A full description of the MPP Program regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2016 annual actuarial valuation report, Medicare Premium Payment Program Actuarial Valuation. This report and CalSTRS audited financial information are publicly available reports that can be found on the CalSTRS website under Publications at: <http://www.calstrs.com/member-publications>.

Benefits Provided

The MPP Program pays Medicare Part A premiums and Medicare Parts A and B late enrollment surcharges for eligible members of the State Teachers Retirement Plan (STRP) Defined Benefit (DB) Program who were retired or began receiving a disability allowance prior to July 1, 2012 and were not eligible for premium free Medicare Part A. The payments are made directly to the Centers for Medicare and Medicaid Services (CMS) on a monthly basis.

The MPP Program is closed to new entrants as members who retire after July 1, 2012, are not eligible for coverage under the MPP Program.

Contributions

The MPP Program is funded on a pay-as-you go basis from a portion of monthly District contributions. In accordance with California *Education Code* Section 25930, contributions that would otherwise be credited to the DB Program each month are instead credited to the MPP Program to fund monthly program and administrative costs. Total redirections to the MPP Program are monitored to ensure that total incurred costs do not exceed the amount initially identified as the cost of the program.

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OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the OPEB

At June 30, 2018, the County reported a liability of \$87,034 for its proportionate share of the net OPEB liability for the MPP Program. The net OPEB liability was measured as of June 30, 2016, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The County's proportion of the net OPEB liability was based on a projection of the County's long-term share of contributions to the OPEB Plan relative to the projected contributions of all participating school districts, actuarially determined. The County's proportionate share for the measurement period June 30, 2017 and June 30, 2016, respectively, was 0.0207 percent, and 0.0198 percent, resulting in an increase in the proportionate share of 0.0009 percent.

For the year ended June 30, 2018, the District recognized OPEB expense of \$(5,767).

Actuarial Methods and Assumptions

The total OPEB liability for the MPP Program as of June 30, 2016, was determined based on a financial reporting actuarial valuation that used the June 30, 2016 assumptions presented in the table below. The June 30, 2017 total OPEB liability was determined by applying update procedures to the financial reporting actuarial valuation as of June 30, 2016, and rolling forward the total OPEB liability to June 30, 2017, using the assumptions listed in the following table:

Measurement Date	June 30, 2017	June 30, 2016
Valuation Date	June 30, 2016	June 30, 2016
Experience Study	July 1, 2010 through June 30, 2016	July 1, 2010 through June 30, 2015
Actuarial Cost Method	Entry age normal	Entry age normal
Investment Rate of Return	3.58%	2.85%
Medicare Part A Premium Cost Trend Rate	3.70%	3.70%
Medicare Part B Premium Cost Trend Rate	4.10%	4.10%

For the valuation as of June 30, 2016, CalSTRS used custom mortality tables based on RP2000 Series tables issued by the Society of Actuaries, adjusted to fit CalSTRS specific experience through June 30, 2015. For the valuation as of June 30, 2017, CalSTRS changed the mortality assumptions based on the July 1, 2010 through June 30, 2015, experience study adopted by the board in February 2017. CalSTRS now uses a generational mortality assumption, which involves the use of a base mortality table and projection scales to reflect expected annual reductions in mortality rates at each age, resulting in increases in life expectancies each year into the future. The base mortality tables are CalSTRS custom tables derived to best fit the patterns of mortality among the members. The projection scale was set equal to 110 percent of the ultimate improvement factor from the Mortality Improvement Scale (MP-2016) table, issued by the Society of Actuaries.

Assumptions were made about future participation (enrollment) into the MPP Program because CalSTRS is unable to determine which members not currently participating meet all eligibility criteria for enrollment in the future. Assumed enrollment rates were derived based on past experience and are stratified by age with the probability of enrollment diminishing as the members' age increases. This estimated enrollment rate was then applied to the population of members who may meet criteria necessary for eligibility and are not currently

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enrolled in the MPP Program. Based on this, the estimated number of future enrollments used in the financial reporting valuation was 571 or an average of 0.32 percent of the potentially eligible population (177,763).

The MPP Program is funded on a pay-as-you-go basis with contributions generally being made at the same time and in the same amount as benefit payments and expenses coming due. Any funds within the MPP Program as of June 30, 2017 and 2016, were to manage differences between estimated and actual amounts to be paid and were invested in the Surplus Money Investment Fund, which is a pooled investment program administered by the State Treasurer.

Discount Rate

The discount rate used to measure the total OPEB liability as of June 30, 2017 and 2016 was 3.58 percent and 2.85 percent, respectively. The MPP Program is funded on a pay-as-you-go basis as described in Note 1, and under the pay-as-you-go method, the OPEB Plan's fiduciary net position was not projected to be sufficient to make projected future benefit payments. Therefore, a discount rate of 3.58 percent and 2.85 percent, which is the Bond Buyer 20-Bond GO Index from Bondbuyer.com as of June 30, 2017 and 2016, respectively, was applied to all periods of projected benefit payments to measure the total OPEB liability.

Sensitivity of the County's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate

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

Discount Rate	Net OPEB Liability
1% decrease (2.58%)	\$ 96,353
Current discount rate (3.58%)	87,034
1% increase (4.58%)	77,969

Sensitivity of the County's Proportionate Share of the Net OPEB Liability to Changes in the Medicare Costs Trend Rates

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

Medicare Costs Trend Rate	Net OPEB Liability
1% decrease (2.7% Part A and 3.1% Part B)	\$ 78,648
Current medicare costs trend rate (3.7% Part A and 4.1% Part B)	87,034
1% increase (4.7% Part A and 5.1% Part B)	95,336

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NOTE 11 - FUND BALANCES

Fund balances are composed of the following elements:

	County School Service Fund	Special Education Pass-Through Fund	Non-Major Governmental Funds	Total Government Funds
Nonspendable				
Revolving cash	\$ 25,575	\$ -	\$ -	\$ 25,575
Prepaid expenditures	127,107	-	-	127,107
Total Nonspendable	<u>152,682</u>	<u>-</u>	<u>-</u>	<u>152,682</u>
Restricted				
Legally restricted programs	<u>1,974,604</u>	<u>-</u>	<u>10,432</u>	<u>1,985,036</u>
Assigned				
LCAP Oversight carry-over	63,031	-	-	63,031
COE TV/Media carry-over	30,000	-	-	30,000
Ten strans carry-over	314	-	-	314
Teacher credential carry-over	3,613	-	-	3,613
SESLOC funds budgeted in 18/19	31,218	-	-	31,218
Future action	10,000	-	-	10,000
Prepaid expenditures	124,999	-	-	124,999
Arts coordinator	32,000	-	-	32,000
Lottery carry-over	4,430	-	-	4,430
EPA carry-over	2	-	-	2
Health and welfare	165,576	-	-	165,576
DP Banking	126,903	-	-	126,903
OPEB	1,411,597	-	-	1,411,597
Capital outlay projects	-	-	815,731	815,731
Total Assigned	<u>2,003,683</u>	<u>-</u>	<u>815,731</u>	<u>2,819,414</u>
Unassigned				
Reserve for economic uncertainties	1,601,166	-	-	1,601,166
Total	<u>\$ 5,732,135</u>	<u>\$ -</u>	<u>\$ 826,163</u>	<u>\$ 6,558,298</u>

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NOTE 12 - RISK MANAGEMENT

Description

The County's risk management activities are recorded in the County School Service Fund. The County participates in three public entity risk pools (JPAs) for the workers' compensation programs, property and liability, health and welfare, and purchases excess liability coverage through the JPA. Refer to Note 14 for additional information regarding the JPAs.

Property and Liability

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

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

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

Workers' Compensation

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

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

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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, 2018, the County 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	\$ 10,567,558	\$ 3,062,213	\$ 1,420,827	\$ 855,806
CalPERS	11,467,243	3,326,182	1,316,857	1,103,733
Total	<u>\$ 22,034,801</u>	<u>\$ 6,388,395</u>	<u>\$ 2,737,684</u>	<u>\$ 1,959,539</u>

The details of each plan are as follows:

California State Teachers' Retirement System (CalSTRS)

Plan Description

The County 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 publicly 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.

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

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

The STRP provisions and benefits in effect at June 30, 2018, are summarized as follows:

	STRP Defined Benefit Program	
	On or before	On or after
Hire date	December 31, 2012	January 1, 2013
Benefit formula	2% at 60	2% at 62
Benefit vesting schedule	5 Years of Service	5 Years of Service
Benefit payments	Monthly for Life	Monthly for Life
Retirement age	60	62
Monthly benefits as a percentage of eligible compensation	2.0% - 2.4%	2.0% - 2.4%
Required employee contribution rate	10.25%	9.205%
Required employer contribution rate	14.43%	14.43%
Required State contribution rate	9.328%	9.328%

Contributions

Required County and State of California contributions rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. The contributions rates are expressed as a level percentage of payroll using the entry age normal actuarial method. In accordance with AB 1469, employer contributions into the CalSTRS will be increasing to a total of 19.1 percent of applicable member earnings phased over a seven-year period. The contribution rates for each plan for the year ended June 30, 2018, are presented above and the County's total contributions were \$883,528.

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

At June 30, 2018, the County reported a liability for its proportionate share of the net pension liability that reflected a reduction for State pension support provided to the County. The amount recognized by the County 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 County were as follows:

Total net pension liability, including State share:

County's proportionate share of net pension liability	\$ 10,567,558
State's proportionate share of the net pension liability associated with the County	6,251,678
Total	<u>\$ 16,819,236</u>

The net pension liability was measured as of June 30, 2017. The County's proportion of the net pension liability was based on a projection of the County'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 County's proportionate share for the measurement period June 30, 2017 and June 30, 2016, respectively, was 0.0114 percent and 0.0111 percent, resulting in a net increase in the proportionate share of 0.0003 percent.

For the year ended June 30, 2018, the County recognized pension expense of \$855,806. In addition, the County recognized pension expense and revenue of \$629,291 for support provided by the State. At June 30, 2018, the County reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Pension contributions subsequent to measurement date	\$ 883,528	\$ -
Net change in proportionate share of net pension liability	181,841	955,068
Difference between projected and actual earnings on plan investments	-	281,444
Differences between expected and actual experience in the measurement of the total pension liability	39,080	184,315
Changes of assumptions	1,957,764	-
Total	<u>\$ 3,062,213</u>	<u>\$ 1,420,827</u>

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

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The deferred outflows/(inflows) of resources related to the difference between projected and actual earnings on pension plan investments will be amortized over a closed five-year period and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2019	\$ (233,974)
2020	177,050
2021	25,529
2022	(250,049)
Total	<u>\$ (281,444)</u>

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

Year Ended June 30,	Deferred Outflows of Resources
2019	\$ 93,148
2020	93,148
2021	93,148
2022	93,149
2023	303,594
Thereafter	363,115
Total	<u>\$ 1,039,302</u>

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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 a generational mortality assumption, which involves the use of a base mortality table and projection scales to reflect expected annual reductions in mortality rates at each age, resulting in increases in life expectancies each year into the future. The base mortality tables are CalSTRS custom tables derived to best fit the patterns of mortality among its members. The projection scale was set equal to 110 percent of the ultimate improvement factor from the Mortality Improvement Scale (MP-2016) table, issued by the Society of Actuaries.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. The best estimate ranges were developed using capital market assumptions from CalSTRS general investment consultant (Pension Consulting Alliance-PCA) as an input to the process. The actuarial investment rate of return assumption was adopted by the board in February 2017 in conjunction with the most recent experience study. For each future valuation, CalSTRS consulting actuary (Milliman) reviews the return assumption for reasonableness based on the most current capital market assumptions. Best estimates of 20-year geometrically-linked real rates of return and the assumed asset allocation for each major asset class for the year ended June 30, 2017, 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%

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Discount Rate

The discount rate used to measure the total pension liability was 7.10 percent. The projection of cash flows used to determine the discount rate assumed the contributions from plan members and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.10 percent) and assuming that contributions, benefit payments and administrative expense occurred midyear. Based on these assumptions, the STRP's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine total pension liability.

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

<u>Discount Rate</u>	<u>Net Pension Liability</u>
1% decrease (6.10%)	\$ 15,516,530
Current discount rate (7.10%)	10,567,558
1% increase (8.10%)	6,551,132

California Public Employees Retirement System (CalPERS)

Plan Description

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

A full description of the pension plans regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2015 annual actuarial valuation reports, Schools Pool Actuarial Valuation, and the Risk Pool Actuarial Valuation Report, Safety. These reports and CalPERS audited financial information are publicly available reports that can be found on the CalPERS website under Forms and Publications at: <https://www.calpers.ca.gov/page/forms-publications>.

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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, 2018, 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%	6.50%
Required employer contribution rate	15.531%	15.531%

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 County 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, 2018, are presented above and the total County contributions were \$843,698.

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

As of June 30, 2018, the County reported net pension liabilities for its proportionate share of the CalPERS net pension liability totaling \$11,467,243. The net pension liability was measured as of June 30, 2017. The County's proportion of the net pension liability was based on a projection of the County's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts, actuarially determined. The County's proportionate share for the measurement period June 30, 2017 and June 30, 2016, respectively, was 0.0480 percent and 0.0506 percent, resulting in a net decrease in the proportionate share of 0.0026 percent.

For the year ended June 30, 2018, the County recognized pension expense of \$1,103,733. At June 30, 2018, the County 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	\$ 843,698	
Net change in proportionate share of net pension liability	-	1,181,844
Difference between projected and actual earnings on pension plan investments	396,689	-
Deferrences between expected and actual experience in the measurement of the total penison liability	410,824	-
Changes of assumptions	1,674,971	135,013
Total	\$ 3,326,182	\$ 1,316,857

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

The deferred outflows/(inflows) of resources related to the difference between projected and actual earnings on pension plan investments will be amortized over a closed five-year period and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2019	\$ (10,748)
2020	457,693
2021	166,971
2022	(217,227)
Total	\$ 396,689

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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 measurement period is 3.9 years and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2019	\$ (102,636)
2020	390,362
2021	481,212
Total	<u>\$ 768,938</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, 2016
Measurement date	June 30, 2017
Experience study	July 1, 1997 through June 30, 2011
Actuarial cost method	Entry age normal
Discount rate	7.15%
Investment rate of return	7.15%
Consumer price inflation	2.75%
Wage growth	Varies by entry age and service

The mortality table used was developed based on CalPERS-specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB.

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In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first ten years) and the long-term (11+ years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the rounded single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equal to the single equivalent rate calculated above and adjusted to account for assumed administrative expenses. The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Assumed Asset Allocation	Long-term Expected Real Rate of Return
Global equity	47%	5.38%
Global debt securities	19%	2.27%
Inflation assets	6%	1.39%
Private equity	12%	6.63%
Real estate	11%	5.21%
Infrastructure and Forestland	3%	5.36%
Liquidity	2%	-0.90%

Discount Rate

The discount rate used to measure the total pension liability was 7.15 percent. The projection of cash flows used to determine the discount rate assumed the contributions from plan members and employers will be made at statutory contribution rates. Based on these assumptions, the School Employer Pool fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine total pension liability.

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

Discount rate	Net Pension Liability
1% decrease (6.15%)	\$ 16,871,989
Current discount rate (7.15%)	11,467,243
1% increase (8.15%)	6,983,554

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JUNE 30, 2018

On Behalf Payments

The State of California makes contributions to CalSTRS on behalf of the County. These payments consist of State General Fund contributions to CalSTRS in the amount of \$508,414 (9.328 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.

Alternative Pension Plan

The County is a member of the Self-Insured Schools of California Defined Benefit Plan (SISC), which provides an alternative pension to County 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 2018 is 4.44 percent. The rate is applied to all wages paid between January 1 and December 31, 2018. The rate is significantly lower than the 6.2 percent Social Security rate.

NOTE 14 - COMMITMENTS AND CONTINGENCIES

Grants

The County 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 Service 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 County at June 30, 2018.

Litigation

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

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

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

SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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

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

During the year ended June 30, 2018, the County made payments of \$3,271,812, \$50,594, and \$586,066 to SISC, SISC II, and SIPE, respectively.

NOTE 16 – RESTATEMENT OF PRIOR YEAR NET POSITION

The County adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, in the current year. Additionally, the County understated accounts payable related to prior year's excess property tax and as a result, the effect on the current fiscal year is as follows:

Government-Wide: Statement of Net Position

Net Position - Beginning	\$ 19,471,982
Inclusion of net OPEB liability from the adoption of GASB Statement No. 75	(8,536,716)
Understatement of accounts payable related to prior year's excess property tax	(3,765,154)
Net Position - Beginning as Restated	<u>\$ 7,170,112</u>

Governmental Funds: County School Service Fund

Fund Balance - Beginning	\$ 8,234,166
Understatement of accounts payable related to prior year's excess property tax	(3,765,154)
Fund Balance - Beginning, as Restated	<u>\$ 4,469,012</u>

REQUIRED SUPPLEMENTARY INFORMATION

SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION

**COUNTY SCHOOL SERVICE FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2018**

	Budgeted Amounts		Actual (GAAP Basis)	Variances -
	Original	Final		Positive
				Final
				to Actual
REVENUES				
Local Control Funding Formula	\$ 7,702,527	\$ 11,809,909	\$ 12,012,175	\$ 202,266
Federal sources	3,972,564	4,093,482	3,879,892	(213,590)
Other State sources	6,645,123	8,327,258	7,114,263	(1,212,995)
Other local sources	8,494,914	9,684,005	9,716,024	32,019
Total Revenues ¹	26,815,128	33,914,654	32,722,354	(1,192,300)
EXPENDITURES				
Current				
Certificated salaries	5,452,864	5,520,332	5,487,735	32,597
Classified salaries	6,596,354	6,218,520	6,330,549	(112,029)
Employee benefits	5,168,870	4,827,220	4,984,217	(156,997)
Books and supplies	842,964	924,005	751,264	172,741
Services and operating expenditures	8,346,472	10,727,100	7,879,543	2,847,557
Other outgo	230,603	4,111,010	5,040,296	(929,286)
Capital outlay	255,000	650,263	700,124	(49,861)
Debt service - principal	21,000	21,000	21,000	-
Total Expenditures ¹	26,914,127	32,999,450	31,194,728	1,804,722
Excess (Deficiency) of Revenues Over Expenditures	(98,999)	915,204	1,527,626	612,422
Other Financing Sources (Uses)				
Transfers in	352,215	361,304	13,722	(347,582)
Transfers out	(256,116)	(135,931)	(278,225)	(142,294)
Net Financing Sources (Uses)	96,099	225,373	(264,503)	(489,876)
NET CHANGE IN FUND BALANCES	(2,900)	1,140,577	1,263,123	122,546
Fund Balance - Beginning	4,469,012	4,469,012	4,469,012	-
Fund Balance - Ending	\$ 4,466,112	\$ 5,609,589	\$ 5,732,135	\$ 122,546

¹ On behalf payments of \$508,414 are included in the actual revenues and expenditures and have been included in the budgeted amounts. In addition, due to the consolidation of 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 Service 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 County School Service Fund budgets.

See accompanying note to required supplementary information

SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION

**SPECIAL EDUCATION PASS-THROUGH FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2018**

	Budgeted Amounts		Actual (GAAP Basis)	Variances -
	Original	Final		Positive (Negative)
				Final to Actual
REVENUES				
Federal sources	\$ 6,641,950	\$ 6,570,417	\$ 6,570,417	\$ -
Other State sources	7,058,037	6,934,898	6,348,808	(586,090)
Total Revenues	13,699,987	13,505,315	12,919,225	(586,090)
EXPENDITURES				
Current				
Other outgo	13,699,987	13,690,104	13,084,223	605,881
NET CHANGE IN FUND BALANCES				
	-	(184,789)	(164,998)	19,791
Fund Balance - Beginning	164,998	164,998	164,998	-
Fund Balance - Ending	\$ 164,998	\$ (19,791)	\$ -	\$ 19,791

See accompanying note to required supplementary information

SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION

**SCHEDULE OF CHANGES IN THE COUNTY'S TOTAL OPEB LIABILITY AND
RELATED RATIOS
FOR THE YEAR ENDED JUNE 30, 2018**

	<u>2018</u>
Total OPEB Liability	
Interest	\$ 320,457
Changes of benefit terms	(89,794)
Benefit payments	<u>(654,317)</u>
Net change in total OPEB liability	<u>(423,654)</u>
Total OPEB liability - beginning	<u>9,752,369</u>
Total OPEB liability - ending	<u><u>\$ 9,328,715</u></u>
Covered payroll	<u>N/A¹</u>
County's total OPEB liability as a percentage of covered payroll	<u>N/A¹</u>

¹ The County's OPEB Plan is not administered through a trust, and contributions are not made based on a measure of pay; therefore, no measure of payroll is presented.

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

See accompanying note to required supplementary information

SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION

SCHEDULE OF THE COUNTY'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY-MPP PROGRAM FOR THE YEAR ENDED JUNE 30, 2018

Year ended June 30,	<u>2018</u>
County's proportion of the net OPEB liability	<u>0.0207%</u>
County's proportionate share of the net OPEB liability	<u>\$ 87,034</u>
County's covered-employee payroll	<u>N/A¹</u>
County's proportionate share of the net OPEB liability as a percentage of it's covered-employee payroll	<u>N/A¹</u>
Plan fiduciary net position as a percentage of the total OPEB liability	<u>0.01%</u>

¹ As of June 30, 2012, active members are no longer eligible for future enrollment in the MPP Program; therefore, the covered payroll disclosure is not applicable.

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

See accompanying note to required supplementary information

SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION

**SCHEDULE OF THE COUNTY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
FOR THE YEAR ENDED JUNE 30, 2018**

	<u>2018</u>	<u>2017</u>
CalSTRS		
County's proportion of the net pension liability	<u>0.0114%</u>	<u>0.0111%</u>
County's proportionate share of the net pension liability	\$ 10,567,558	\$ 9,017,649
State's proportionate share of the net pension liability associated with the County	<u>6,251,678</u>	<u>5,133,587</u>
Total	<u>\$ 16,819,236</u>	<u>\$ 14,151,236</u>
County's covered - employee payroll	<u>\$ 5,967,552</u>	<u>\$ 5,190,224</u>
County's proportionate share of the net pension liability as a percentage of its covered - employee payroll	<u>177.08%</u>	<u>173.74%</u>
Plan fiduciary net position as a percentage of the net pension liability	<u>69%</u>	<u>70%</u>
 CalPERS		
County's proportion of the net pension liability	<u>0.0480%</u>	<u>0.0506%</u>
County's proportionate share of the net pension liability	<u>\$ 11,467,243</u>	<u>\$ 9,997,830</u>
County's covered - employee payroll	<u>\$ 5,140,611</u>	<u>\$ 6,241,890</u>
County's proportionate share of the net pension liability as a percentage of its covered - employee payroll	<u>223.07%</u>	<u>160.17%</u>
Plan fiduciary net position as a percentage of the net pension liability	<u>72%</u>	<u>74%</u>

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

See accompanying note to required supplementary information

<u>2016</u>	<u>2015</u>
<u>0.0115%</u>	<u>0.0133%</u>
\$ 7,759,824	\$ 7,797,181
<u>4,104,092</u>	<u>4,708,275</u>
<u>\$ 11,863,916</u>	<u>\$ 12,505,456</u>
<u>\$ 5,165,890</u>	<u>\$ 5,567,124</u>
<u>150.21%</u>	<u>150.94%</u>
<u>74%</u>	<u>77%</u>
<u>0.0560%</u>	<u>0.0655%</u>
<u>\$ 8,248,932</u>	<u>\$ 7,433,258</u>
<u>\$ 6,836,126</u>	<u>\$ 7,032,092</u>
<u>120.67%</u>	<u>120.54%</u>
<u>79%</u>	<u>83%</u>

See accompanying note to required supplementary information

SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION

**SCHEDULE OF COUNTY CONTRIBUTIONS
FOR THE YEAR ENDED JUNE 30, 2018**

	<u>2018</u>	<u>2017</u>
CalSTRS		
Contractually required contribution	\$ 883,528	\$ 750,718
Contributions in relation to the contractually required contribution	<u>883,528</u>	<u>750,718</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
County's covered - employee payroll	<u>\$ 6,122,855</u>	<u>\$ 5,967,552</u>
Contributions as a percentage of covered - employee payroll	<u>14.43%</u>	<u>12.58%</u>
CalPERS		
Contractually required contribution	\$ 843,698	\$ 713,928
Contributions in relation to the contractually required contribution	<u>843,698</u>	<u>713,928</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
County's covered - employee payroll	<u>\$ 5,432,348</u>	<u>\$ 5,140,611</u>
Contributions as a percentage of covered - employee payroll	<u>15.53%</u>	<u>13.89%</u>

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

See accompanying note to required supplementary information

<u>2016</u>	<u>2015</u>
\$ 556,911	\$ 458,731
<u>556,911</u>	<u>458,731</u>
<u>\$ -</u>	<u>\$ -</u>
<u>\$ 5,190,224</u>	<u>\$ 5,165,890</u>
<u>10.73%</u>	<u>8.88%</u>
\$ 739,664	\$ 804,612
<u>739,664</u>	<u>804,612</u>
<u>\$ -</u>	<u>\$ -</u>
<u>\$ 6,241,890</u>	<u>\$ 6,836,126</u>
<u>11.85%</u>	<u>11.77%</u>

See accompanying note to required supplementary information

SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION JUNE 30, 2018

NOTE 1 - PURPOSE OF SCHEDULES

Budgetary Comparison Schedule

The County employs budget control by object codes and by individual appropriation accounts. Budgets are prepared on the modified accrual basis of accounting in accordance with accounting principles generally accepted in the United State of America as prescribed by the Governmental Accounting Standards Board and provisions of the California *Education Code*. The governing board is required to hold a public hearing and adopt an operating budget no later than July 1 of each year. 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.

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

Schedule of Changes in the County's Total OPEB Liability and Related Ratios

This schedule presents information on the County's changes in the total OPEB liability, including beginning and ending balances. In the future, as data becomes available, ten years of information will be presented.

Change in Benefit Terms – There were no changes in the benefit terms since the previous valuation.

Changes of Assumptions – There were no changes of assumptions since the previous valuation.

Schedule of the County's Proportionate Share of the Net OPEB Liability - MPP Program

Changes in Benefit Terms – There were no changes in the benefit terms since the previous valuation.

Changes of Assumptions – The plan rate of investment return assumption was changed from 2.85 percent to 3.58 percent since the previous valuation.

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

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

Changes in Benefit Terms – There were no changes in benefit terms since the previous valuations for both CalSTRS and CalPERS.

Changes of Assumptions – There were no changes in economic assumptions for either the CalSTRS or CalPERS plans from the previous valuations.

SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION

**NOTE TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2018**

Schedule of County Contributions

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

SUPPLEMENTARY INFORMATION

SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2018**

Federal Grantor/Pass-Through Grantor/Program	CFDA Number	Pass-Through Entity Identifying Number	Program Expenditures	Passed Through To Subrecipients
U.S. DEPARTMENT OF AGRICULTURE				
Passed through California Department of Education (CDE):				
Child Nutrition Cluster:				
Especially Needy Breakfast	10.553	13526	21,488	-
National School Lunch Program	10.555	13524	34,453	-
Total Child Nutrition Cluster			<u>55,941</u>	-
CACFP Claims - Centers and Family Day Care	10.558	13393	28,297	-
Forest Reserve	10.665	10044	13,854	-
Total U.S. Department of Agriculture			<u>98,092</u>	-
U.S. DEPARTMENT OF EDUCATION				
Passed through California Department of Education (CDE):				
Special Education Cluster:				
Basic Local Assistance Entitlement, Part B, Section 611	84.027	13379	\$ 5,603,950	\$ 5,541,982
Preschool Local Entitlement, Part B, Section 611 (Age 3-4-5)	84.173	13430	293,429	253,727
Preschool Grants, Part B, Section 619 (Age 3-4-5)	84.027A	13682	775,030	735,329
Mental Health Allocation Plan, Part B, Sec 611	84.027A	15197	385,236	-
Preschool Staff Development, Part B, Section 619	84.173A	13431	1,346	-
Alternative Dispute Resolution, Part B, Section 611	84.173A	13007	30,823	-
Total Special Education Cluster			<u>7,089,814</u>	<u>6,531,038</u>
Early Intervention Programs, Part C	84.181	23761	62,152	-
Title I, Part A and D Grants:				
Title I, Part A, Basic Grants Low Income and Neglected	84.010	14329	845,312	-
Title I, Part D, Local Delinquent Programs	84.010	14357	90,782	-
Total Title I, Part A and D Grants			<u>936,094</u>	-
Title I, Part C, Migrant Ed (Regular and Summer Program)	84.011	14326	2,121,865	-
Title II, Part A, Supporting Effective Instruction	84.367	14341	15,930	-
Title III, English Learner Student Program	84.365	14346	18,568	-
Title X, McKinney-Vento Homeless Children Assistance Grants	84.196	14332	156,519	-
Total U.S. Department of Education			<u>10,400,942</u>	<u>6,531,038</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES				
Passed through California Department of Health Services:				
Foster Care - Title IV-E	93.658	[1]	10,703	-
Medi-Cal Billing Option	93.778	10013	38,664	-
Total U.S. Department of Health and Human Services			<u>49,367</u>	-
Total Federal Programs			<u>\$ 10,548,401</u>	<u>\$ 6,531,038</u>

[1] Pass-Through Entity Identifying Number not available

See accompanying note to supplementary information.

SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE JUNE 30, 2018

ORGANIZATION

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

GOVERNING BOARD

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

ADMINISTRATION

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

See accompanying note to supplementary information.

SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION

**SCHEDULE OF AVERAGE DAILY ATTENDANCE
FOR THE YEAR ENDED JUNE 30, 2018**

	Final Report	
	Second Period Report	Annual Report
ELEMENTARY		
Juvenile halls, homes, and camps	0.46	0.83
Community schools pupils - Probation referred, Expelled	3.00	3.61
Total Elementary	3.46	4.44
SECONDARY		
Juvenile halls, homes, and camps	29.90	28.41
Community schools pupils - Probation referred, Expelled	71.05	69.79
Total Secondary	100.95	98.20
Total ADA	104.41	102.64

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

	Final Report	
	Second Period Report	Annual Report
Extended Year Special Education		
Transitional kindergarten through third	0.87	0.89
Fourth through sixth	1.82	2.05
Seventh and eighth	-	0.26
Ninth through twelfth	3.72	3.47
Total Extended Year Special Education	6.41	6.67
Extended Year Special Education, Nonpublic, Nonsectarian Schools		
Transitional kindergarten through third	0.11	0.11
Fourth through sixth	0.16	0.16
Ninth through twelfth	0.43	0.43
Total Extended Year Special Education, Nonpublic, Nonsectarian Schools	0.70	0.70
Total ADA	7.11	7.37

See accompanying note to supplementary information.

SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION

RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT WITH AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

Summarized below are the fund balance reconciliations between the Unaudited Actual Financial Report and the audited financial statements.

	County School Service Fund
FUND BALANCE	
Balance, June 30, 2018, Unaudited Actuals	\$ 10,260,327
Increase in:	
Accounts payable	(4,723,275)
Decrease in:	
Unearned revenue	195,083
Balance, June 30, 2018, Audited Financial Statement	<u>\$ 5,732,135</u>

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, 2018**

	(Budget) 2019 ¹	2018	2017	2016
COUNTY SCHOOL SERVICES FUND				
Revenues	\$ 25,504,694	\$ 30,823,281	\$ 26,983,031	\$ 24,526,273
Other sources and transfers in	361,304	13,722	660,461	6,325
Total Revenues and Other Sources	25,865,998	30,837,003	27,643,492	24,532,598
Expenditures	26,216,323	31,194,728	27,655,188	25,136,146
Other uses and transfers out	135,931	278,225	329,300	306,017
Total Expenditures and Other Uses	26,352,254	31,472,953	27,984,488	25,442,163
CHANGE IN FUND BALANCE	\$ (486,256)	\$ (635,950)	\$ (340,996)	\$ (909,565)
ENDING FUND BALANCE	\$ 3,346,806	\$ 3,833,062	\$ 4,469,012	\$ 4,810,008
AVAILABLE RESERVES²	\$ 1,493,805	\$ 1,406,083	\$ 828,090	\$ 1,272,108
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO^{3, 4}	5.67%	4.47%	2.96%	5.00%
LONG-TERM OBLIGATIONS⁵	N/A	\$ 9,878,376	\$ 10,254,778	\$ 1,777,476
K-12 AVERAGE DAILY ATTENDANCE AT P-2	139	112	136	172

The County School Service Fund balance has decreased by \$976,946 over the past two years. The fiscal year 2018-2019 budget projects a decrease of \$486,256 (12.69 percent). For a County this size, the State recommends available reserves of at least three percent of total County School Service Fund expenditures, transfers out, and other uses (total outgo).

The County has incurred operating deficits in all of the past three years and anticipates incurring an operating deficit during the 2018-2019 fiscal year. Total long-term obligations have increased by \$8,100,900 over the past two years.

Average daily attendance has decreased by 60 over the past two years. A growth of 27 ADA is anticipated during fiscal year 2018-2019.

¹ Budget 2019 is included for analytical purposes only and has not been subjected to audit.

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

³ On-behalf payments of \$508,414, \$442,829, and \$396,889, have been included in the calculation of available reserves for fiscal years ending June 30, 2018, 2017, and 2016, respectively.

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

⁵ Long-term obligations have been restated, as of June 30, 2017, due to the implementation of GASB Statement No. 75.

See accompanying note to supplementary information.

SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION

**SCHEDULE OF CHARTER SCHOOLS
FOR THE YEAR ENDED JUNE 30, 2018**

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

See accompanying note to supplementary information.

SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION

**NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2018**

	Child Development Fund	Cafeteria Fund
	<u> </u>	<u> </u>
ASSETS		
Deposits and investments	\$ -	\$ 52,976
Receivables	79,741	15,199
Total Assets	<u>\$ 79,741</u>	<u>\$ 68,175</u>
 LIABILITIES AND FUND BALANCES		
Liabilities:		
Overdrafts	\$ 545	\$ -
Accounts payable	68,764	3,761
Unearned revenue	-	64,414
Total Liabilities	<u>69,309</u>	<u>68,175</u>
Fund Balances:		
Restricted	10,432	-
Assigned	-	-
Total Fund Balances	<u>10,432</u>	<u>-</u>
Total Liabilities and Fund Balances	<u>\$ 79,741</u>	<u>\$ 68,175</u>

See accompanying note to supplementary information.

Special Reserve Fund for Capital Outlay Projects	Non-Major Governmental Funds
\$ 819,761	\$ 872,737
-	94,940
<u>\$ 819,761</u>	<u>\$ 967,677</u>

\$ -	\$ 545
4,030	76,555
-	64,414
<u>4,030</u>	<u>141,514</u>

-	10,432
815,731	815,731
<u>815,731</u>	<u>826,163</u>

<u>\$ 819,761</u>	<u>\$ 967,677</u>
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See accompanying note to supplementary information.

SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION

**NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2018**

	Child Development Fund	Cafeteria Fund	Forest Reserve Fund
REVENUES			
Federal sources	\$ 28,297	55,941	\$ 13,854
Other State sources	910,337	4,753	-
Other local sources	205,058	16,011	-
Total Revenues	1,143,692	76,705	13,854
EXPENDITURES			
Current			
Pupil services:			
Food services	15,755	170,999	-
Administration:			
All other administration	79,249	8,480	-
Plant services	155,707	1,782	-
Community services	1,004,415	-	-
Other outgo	-	-	11,776
Facility acquisition and construction	-	-	-
Total Expenditures	1,255,126	181,261	11,776
Excess (Deficiency) of Revenues Over Expenditures	(111,434)	(104,556)	2,078
Other Financing Sources (Uses)			
Transfers in	113,669	104,556	-
Transfers out	-	-	(2,078)
Net Financing Sources (Uses)	113,669	104,556	(2,078)
NET CHANGE IN FUND BALANCES	2,235	-	-
Fund Balances - Beginning	8,197	-	-
Fund Balances - Ending	\$ 10,432	\$ -	\$ -

See accompanying note to supplementary information.

Special Reserve Fund for Capital Outlay Projects	Non-Major Governmental Funds
\$ -	\$ 98,092
-	915,090
54,427	275,496
<u>54,427</u>	<u>1,288,678</u>
-	186,754
-	87,729
7,238	164,727
-	1,004,415
-	11,776
305,053	305,053
<u>312,291</u>	<u>1,760,454</u>
-	-
<u>(257,864)</u>	<u>(471,776)</u>
60,000	278,225
(11,644)	(13,722)
48,356	264,503
<u>(209,508)</u>	<u>(207,273)</u>
1,025,239	1,033,436
<u>\$ 815,731</u>	<u>\$ 826,163</u>

See accompanying note to supplementary information.

SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2018

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 County 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 County 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 County'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 County. 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 County's financial trends by displaying past years' data along with current year budget information. These financial trend disclosures are used to evaluate the County'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 County, and displays information for each Charter School on whether or not the Charter School is included in the County audit.

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

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

INDEPENDENT AUDITOR'S REPORTS

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

Compliance and Other Matters

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

Purpose of This Report

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

Vavrinek, Trine, Day & Co. LLP

Rancho Cucamonga, California
December 6, 2018



**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 (the County) 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 major Federal programs for the year ended June 30, 2018. 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.

Opinion on Each Major Federal Program

In our opinion, San Luis Obispo County Office of Education complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the year ended June 30, 2018.

Report on Internal Control Over Compliance

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

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

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

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

Vavrinek, Trine, Day & Co., LLP

Rancho Cucamonga, California
December 6, 2018



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 County) compliance with the types of compliance requirements as identified in the *2017-2018 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 San Luis Obispo County Office of Education's State government programs as noted below for the year ended June 30, 2018.

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 San Luis Obispo County Office of Education's State programs based on our audit of the types of compliance requirements referred to above. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *2017-2018 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 San Luis Obispo County Office of Education's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions. Our audit does not provide a legal determination of San Luis Obispo County Office of Education's compliance with those requirements.

Basis for Qualified Opinion on Educator Effectiveness

As described in the accompanying schedule of findings and questioned costs, San Luis Obispo County Office of Education did not comply with requirements regarding Educator Effectiveness, as identified in finding 2018-001. Compliance with such requirements is necessary, in our opinion, for San Luis Obispo County Office of Education to comply with the requirements applicable to that program.

Qualified Opinion on Educator Effectiveness

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, San Luis Obispo County Office of Education complied, in all material respects, with the types of compliance requirements referred to above for the year ended June 30, 2018, except as described in the Schedule of State Awards Findings and Questioned Costs Section of the accompanying Schedules of Findings and Questioned Costs.

Unmodified Opinion on Each of the Other Programs

In our opinion, San Luis Obispo County Office of Education complied, in all material respects, with the compliance requirements referred to above that are applicable to the government programs noted below that were audited for the year ended June 30, 2018, except as described in the Schedule of State Awards Findings and Questioned Costs Section of the accompanying Schedules of Findings and Questioned Costs.

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

	<u>Procedures Performed</u>
LOCAL EDUCATION AGENCIES OTHER THAN CHARTER SCHOOLS	
Attendance	Yes
Teacher Certification and Misassignments	Yes
Kindergarten Continuance	No, see below
Independent Study	Yes
Continuation Education	No, see below
Instructional Time	No, see below
Instructional Materials	Yes
Ratios of Administrative Employees to Teachers	No, see below
Classroom Teacher Salaries	No, see below
Early Retirement Incentive	No, see below
Gann Limit Calculation	Yes
School Accountability Report Card	Yes
Juvenile Court Schools	Yes
Middle or Early College High Schools	No, see below
K-3 Grade Span Adjustment	No, see below
Transportation Maintenance of Effort	No, see below
Apprenticeship: Related and Supplemental Instruction	Yes
SCHOOL DISTRICTS, COUNTY OFFICES OF EDUCATION, AND CHARTER SCHOOLS	
Educator Effectiveness	Yes
California Clean Energy Jobs Act	Yes
After/Before School Education and Safety Program:	
General Requirements	No, see below
After School	No, see below
Before School	No, see below

	<u>Procedures Performed</u>
Proper Expenditure of Education Protection Account Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control Accountability Plan	Yes
Independent Study - Course Based	No, see below
 CHARTER SCHOOLS	
Attendance	No, see below
Mode of Instruction	No, see below
Non Classroom-Based Instruction/Independent Study for Charter Schools	No, see below
Determination of Funding for Non Classroom-Based Instruction	No, see below
Annual Instruction Minutes Classroom-Based	No, see below
Charter School Facility Grant Program	No, see below

The County does not offer a Kindergarten Program; therefore we did not perform procedures related to the Kindergarten Continuance Attendance Program

The County 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 County; therefore, we did not perform procedures related to the Instructional Time.

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

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

The County 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 County 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 County; therefore, we did not perform procedures related to the K-3 Grade Span Adjustment Program.

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

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

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

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

Vavrinek, Trine, Day & Co. LLP

Rancho Cucamonga, California
December 6, 2018

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION

**SUMMARY OF AUDITOR'S RESULTS
FOR THE YEAR ENDED JUNE 30, 2018**

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>None reported</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>
<u>84.010</u>	<u>Title I, Part A and Part D Grants</u>
<u>84.011</u>	<u>Title I, Part C, Migrant Ed (Regular and Summer Program)</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>
Unmodified for all programs except for the following program which was qualified:	

<u>Name of Program</u>
<u>Educator Effectiveness</u>

SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION

**FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2018**

None reported.

SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION

**FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2018**

None reported.

SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION

STATE AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2018

The following finding represent an instance of noncompliance relating to State program laws and regulations. The findings have been coded as follows:

<u>Five Digit Code</u>	<u>AB 3627 Finding Type</u>
40000	State Compliance

2018-001 Code

40000 – Educator Effectiveness

Criteria or Specific Requirements

Under the requirements set forth by the California Department of Education's guide on use of Educator Effectiveness Funds and Assembly Bill (AB) 104, Section 58 as amended by Senate Bill (SB) 103, Section 8, a school district, county office of education, charter school, or state special school shall on or before July 1, 2018, report detailed expenditure information to the California Department of Education, including, but not limited to, special purchases made and the number of teachers, administrators, or paraprofessional educators that received professional development.

Condition

The County submitted the Educator Effectiveness Final Expenditure Report to California Department of Education on July 2, 2018.

Questioned Costs

There are no questioned costs associated with the condition found.

Context

As a result of the condition identified the County was not compliant with California Department of Education's guide on reporting the detailed expenditure information for Educator Effectiveness funds and Assembly Bill (AB) 104, Section 58 as amended by Senate Bill (SB) 103, Section 8. Provisions of the program did not identify specific financial or other consequences that the County would face as a result of the condition identified.

Effect

The County has not complied with Assembly Bill (AB) 104, Section 58 as amended by Senate Bill (SB) 103, Section 8.

Cause

The condition identified has materialized as a result of not meeting the Educator Effectiveness Final Expenditure Report submission deadline via the California Department of Education's website.

SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION

STATE AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2018

Recommendation

The County should review the requirements stated in Assembly Bill (AB) 104, Section 58 as amended by Senate Bill (SB) 103, Section 8 in order to ensure all deadlines are being met.

Corrective Action Plan

The County has developed an action plan to ensure future deadlines will be met to adhere to any applicable compliance requirements.

SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2018**

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

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

2017-001 Code

60000 – Fiscal Condition (Deficit Spending – Child Development Fund)

Criteria or Specific Requirements

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

Condition

The Child Development Fund has continued a pattern of deficit spending over the past several years. This has impacted the cash flow of the fund whereby a loan in the amount of \$270,178 from the County School Services Fund was owed at June 30, 2017. The County School Services Fund augmented the program with transfers in the amount of \$269,300.

Questioned costs

There were no questioned costs associated with the condition found.

Context

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

Effect

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

Cause

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

SAN LUIS OBISPO COUNTY OFFICE OF EDUCATION

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2018**

Recommendation

The County 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

Implemented.