

**SOLANO COUNTY OFFICE
OF EDUCATION**

**ANNUAL FINANCIAL REPORT
JUNE 30, 2018**

SOLANO COUNTY OFFICE OF EDUCATION

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JUNE 30, 2018

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FINANCIAL SECTION



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

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INDEPENDENT AUDITOR'S REPORT

County Board of Education
Solano County Office of Education
Fairfield, 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 Solano County Office of Education (the COE) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the COE's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *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 Entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

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

Emphasis of Matter - Change in Accounting Principles

As discussed in Note 1 and Note 15 to the financial statements, in 2018, the COE adopted new accounting guidance, GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. 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, budgetary comparison schedule, schedule of changes in the COE's OPEB liability and related ratios, schedule of the COE's proportionate share of the net pension liability, and the schedule of COE contributions as listed in the table of contents, 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 Solano 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 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 17, 2018, on our consideration of the Solano 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 Solano 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 Solano County Office of Education’s internal control over financial reporting and compliance.

Vavrinek, Time, Day & Co., LLP

Pleasanton, California
December 17, 2018

SOLANO COUNTY OFFICE OF EDUCATION

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2018

Introduction

Our discussion and analysis of the Solano County Office of Education's (SCOE) financial performance provides an overview of the SCOE's financial activities for the fiscal year ended June 30, 2018. It should be read in conjunction with the SCOE's financial statements, which follow this section.

Overview of the Financial Statements

Management's discussion and analysis acts as an introduction to the basic financial statements. The basic financial statements are composed of three sections: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. The statements are followed by a section of required supplementary information that contains additional financial information.

Financial Highlights

- The County Office's County School Service Fund (General Fund) decreased by \$1,036,851 from June 30, 2017 to June 30, 2018. The increase for unrestricted was \$2,009,802 and the decrease for restricted was \$3,046,653.
- Local Control Funding Formula (LCFF) revenue totaled \$17,168,150 as compared to \$15,930,233 in the prior year.
- Total County School Service Fund expenditures increased by \$2,763,976 or 6%.
- The County Office ended the year in the County School Service Fund with an ending balance of \$29,637,699 which consists of \$21,375,902 unrestricted and \$8,261,797 restricted.
- The total capital assets, net of accumulated depreciation, are \$12,889,674.

Government-Wide Financial Statements

The government-wide financial statements are intended to give readers a broad overview of the County Office's finances in a format that is similar to a private-sector business.

The Statement of Net Position presents information on all of the County Office's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the County Office is improving or worsening. A one or two year trend in a particular direction (up or down) may be due to temporary or planned circumstances, and may not be indicative of the County Office's overall, ongoing fiscal position.

SOLANO COUNTY OFFICE OF EDUCATION

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2018

The Statement of Activities presents information on how the County Office's net position changed during the year. This statement is similar to an income statement in private business. It summarizes the County Office's revenues and expenditures based on function. Therefore, the Statement of Activities includes revenues that had been earned but not received, and expenditures that had been incurred but not paid out, as of June 30, 2018.

Fund Financial Statements

A fund is a fiscal and accounting entity with a self-balancing set of accounts. It records cash and other financial resources together with all related liabilities and residual balances. Funds used in accounting for local education agencies include governmental funds, proprietary funds and fiduciary funds.

Governmental funds: All of the County Office's financial activities are reported in governmental funds. The County Office operates four governmental funds. The largest fund is the County School Service Fund, which accounts for day-to-day financial activities of the County Office. Governmental funds focus on near-term inflows and outflows of expendable resources, as well as on the balances of those resources that are available at the end of the fiscal year. This information is helpful in determining the County Office's near-term financing needs.

Financial Analysis of the Government-Wide Financial Statements

Table 1 summarizes the County Office's net position as of June 30:

	<u>2018</u>	<u>2017, as restated</u>
Current assets	\$ 48,556,112	\$ 41,563,316
Capital assets	12,889,674	13,209,446
Total Assets	<u>61,445,786</u>	<u>54,772,762</u>
Deferred Outflows of Resources	<u>12,620,186</u>	<u>8,701,353</u>
Current liabilities	16,777,784	8,747,513
Long term liabilities	51,000,723	46,478,601
Total Liabilities	<u>67,778,507</u>	<u>55,226,114</u>
Deferred Inflows of Resources	<u>4,465,549</u>	<u>3,576,356</u>
Net investment in capital assets	12,741,184	13,081,084
Restricted	10,385,694	13,447,877
Unrestricted	(21,304,962)	(21,857,316)
Total Net Position	<u>\$ 1,821,916</u>	<u>\$ 4,671,645</u>

SOLANO COUNTY OFFICE OF EDUCATION

**MANAGEMENT’S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2018**

Table 2 summarizes the County Office’s change in net position for the year ended June 30:

	<u>2018</u>	<u>2017</u>
Total Revenues	\$ 67,427,250	\$ 65,632,359
Total Expenditures	<u>70,276,979</u>	<u>62,901,250</u>
Change in Net Position	(2,849,729)	2,731,109
Beginning Net Position, restated	4,671,645	1,940,536
Ending Net Position	<u>\$ 1,821,916</u>	<u>\$ 4,671,645</u>

Financial Analysis of the Individual Funds

County School Service Fund - The County School Service Fund decreased by \$1,036,851. The total ending fund balance is \$29,637,699.

Special Education Pass-Through Fund – The Special Education Pass-Through Fund was established in 2011-12. The ending fund balance is \$0.

County School Facilities Fund - The County School Facilities Fund decreased by \$1,956. The ending fund balance is \$2,136,550.

Child Development Fund – The Child Development Fund increased by \$1,332. The ending fund balance is \$4,079.

Capital Assets

As of June 30, 2018 the County Office had \$12,889,674 in capital assets, net of accumulated depreciation.

	<u>2018</u>	<u>2017</u>	<u>Percent Change</u>
Land	\$ 1,464,659	\$ 1,464,659	0.00%
Land Improvements	632,806	470,569	34.48%
Buildings and Improvements	10,148,101	10,698,680	(5.15)%
Furniture and Equipment	547,152	529,260	3.38%
Construction in Progress	<u>96,956</u>	<u>46,278</u>	100.00%
Total	<u>\$ 12,889,674</u>	<u>\$ 13,209,446</u>	<u>(2.42)%</u>

We present more detailed information about capital assets in the Notes to Financial Statements.

SOLANO COUNTY OFFICE OF EDUCATION

MANAGEMENT’S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2018

Long-Term Obligations

At June 30, 2018, the County Office had \$51,000,723 in long-term obligations.

	<u>2018</u>	<u>2017, as restated</u>	<u>Percent Change</u>
Capital Leases	\$ 148,490	\$ 128,362	15.68%
Compensated Absences	344,464	425,745	(19.09)%
Net Other Postemployment Benefits (OPEB) Liability	8,452,199	8,011,319	5.50%
Aggregate Net Pension Liability	42,055,570	37,913,175	10.93%
Total	<u>\$ 51,000,723</u>	<u>\$ 46,478,601</u>	<u>9.73%</u>

We present more detailed information about long-term obligations in the Notes to Financial Statements.

Factors Impacting the County Office’s Future

The County Office is faced with the same economic pressures as districts and county offices throughout the state. The financial well-being of the County Office is determined in large part due to the state funding formula. The County Office continues to work closely with its districts to monitor their fiscal positions.

Contacting the County Office’s Financial Management

This financial report is designed to provide our citizens, taxpayers, parents, investors and creditors with a general overview of the County Office’s finances and to demonstrate the County Office’s accountability for the money it receives. If you have any questions regarding this report or need additional financial information, contact the Business Department at Solano County Office of Education, 5100 Business Center Drive, Fairfield, CA 94534-1658 (707) 399-4419.

SOLANO COUNTY OFFICE OF EDUCATION

STATEMENT OF NET POSITION

JUNE 30, 2018

	<u>Governmental Activities</u>
ASSETS	
Deposits and investments	\$ 38,837,471
Receivables	9,116,515
Prepaid expenses	602,126
Capital assets not depreciated	1,561,615
Capital assets, net of accumulated depreciation	<u>11,328,059</u>
Total Assets	<u>61,445,786</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows of resources related to pensions	12,135,047
Deferred outflows of resources related to other postemployment benefits (OPEB) liability	<u>485,139</u>
Total Deferred Outflows of Resources	<u>12,620,186</u>
LIABILITIES	
Accounts payable	16,380,440
Unearned revenue	397,344
Long-term obligations:	
Current portion of long-term obligations other than pensions	60,633
Noncurrent portion of long-term obligations other than pensions	8,884,520
Total Long-Term Obligations	<u>8,945,153</u>
Aggregate net pension liability	<u>42,055,570</u>
Total Liabilities	<u>67,778,507</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows of resources related to pensions	<u>4,465,549</u>
NET POSITION	
Net investment in capital assets	12,741,184
Restricted for:	
Capital projects	2,136,550
Educational programs	8,245,065
Other activities	4,079
Unrestricted	<u>(21,304,962)</u>
Total Net Position	<u>\$ 1,821,916</u>

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

SOLANO COUNTY OFFICE OF EDUCATION

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

Functions/Programs	Expenses	Program Revenues Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Net (Expenses) Revenues and Changes in Net Position Governmental Activities
Governmental Activities:					
Instruction	\$ 23,256,596	\$ 3,126,951	\$ 13,233,572	\$ 133,601	\$ (6,762,472)
Instruction-related activities:					
Supervision of instruction	4,674,645	164,292	2,546,462	-	(1,963,891)
School site administration	2,171,039	262,848	1,062,433	-	(845,758)
Pupil services:					
Home-to-school transportation	1,493,906	-	-	-	(1,493,906)
Food services	1,322	229	734	-	(359)
All other pupil services	6,438,910	594,622	3,992,060	-	(1,852,228)
Administration:					
Data processing	1,998,433	-	-	-	(1,998,433)
All other administration	6,657,069	174,066	1,188,687	-	(5,294,316)
Plant services	1,874,655	179,172	730,246	-	(965,237)
Ancillary services	1,250,868	-	1,066,158	-	(184,710)
Community services	1,985	-	-	-	(1,985)
Interest on long-term obligations	7,326	-	-	-	(7,326)
Other outgo	20,450,225	1,743,025	16,389,881	-	(2,317,319)
Total Governmental Activities	\$ 70,276,979	\$ 6,245,205	\$ 40,210,233	\$ 133,601	\$ (23,687,940)
General revenues and subventions:					
Property taxes, levied for general purposes					11,675,402
Taxes levied for other specific purposes					293,207
Federal and State aid not restricted to specific purposes					5,940,388
Interest and investment earnings					405,501
Miscellaneous					2,523,713
				Subtotal, General Revenues	20,838,211
Change in Net Position					(2,849,729)
Net Position - Beginning, as restated					4,671,645
Net Position - Ending					\$ 1,821,916

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

SOLANO COUNTY OFFICE OF EDUCATION

**GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2018**

	General Fund	Special Education Pass-Through Fund	Non-Major Governmental Funds	Total Governmental Funds
ASSETS				
Deposits and investments	\$ 35,242,154	\$ 1,204,678	\$ 2,390,639	\$ 38,837,471
Receivables	7,148,473	1,860,466	107,576	9,116,515
Due from other funds	879,977	10,431,175	-	11,311,152
Prepaid expenditures	602,126	-	-	602,126
Total Assets	\$ 43,872,730	\$ 13,496,319	\$ 2,498,215	\$ 59,867,264
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 3,602,391	\$ 12,764,332	\$ 13,717	\$ 16,380,440
Due to other funds	10,431,175	731,987	147,990	11,311,152
Unearned revenue	201,465	-	195,879	397,344
Total Liabilities	14,235,031	13,496,319	357,586	28,088,936
Fund Balances:				
Nonspendable	617,127	-	-	617,127
Restricted	8,245,065	-	2,136,550	10,381,615
Assigned	4,840,085	-	4,079	4,844,164
Unassigned	15,935,422	-	-	15,935,422
Total Fund Balance	29,637,699	-	2,140,629	31,778,328
Total Liabilities and Fund Balances	\$ 43,872,730	\$ 13,496,319	\$ 2,498,215	\$ 59,867,264

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

SOLANO 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		\$ 31,778,328
Amounts Reported for Governmental Activities in the Statement of Net Position are 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	\$ 26,608,470	
Accumulated depreciation is	<u>(13,718,796)</u>	
Net Capital Assets		12,889,674
Deferred outflows of resources related to pensions represent a consumption of net position in a future period and is not reported in the COE's funds. Deferred outflows of resources related to pensions at year-end consist of:		
Pension contributions subsequent to measurement date	3,475,351	
Differences between projected and actual earnings on pension plan investments	895,948	
Differences between expected and actual experience in the measurement of the total pension liability.	987,621	
Changes of assumptions	<u>6,776,127</u>	
Total Deferred Outflows of Resources Related to Pensions		12,135,047
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	3,448,547	
Differences between projected and actual earnings on pension plan investments	430,280	
Differences between expected and actual experience in the measurement of the total pension liability.	281,787	
Changes of assumptions	<u>304,935</u>	
Total Deferred Inflows of Resources Related to Pensions		(4,465,549)
Deferred outflows of resources related to OPEB represent a consumption of net position in a future period and is not reported in the COE's funds. Deferred outflows of resources related to OPEB at year-end consist of OPEB contributions subsequent to measurement date.		485,139
Net pension liability is not due and payable in the current period, and is not reported as a liability in the funds.		(42,055,570)
Long-term obligations at year-end consist of:		
Capital leases payable	(148,490)	
Compensated absences (vacations)	(344,464)	
Net other postemployment benefits (OPEB) liability	<u>(8,452,199)</u>	
Total Long-Term Obligations		<u>(8,945,153)</u>
Total Net Position - Governmental Activities		<u>\$ 1,821,916</u>

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

SOLANO COUNTY OFFICE OF EDUCATION

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

	<u>General Fund</u>	<u>Special Education Pass-Through Fund</u>	<u>Non-Major Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES				
Local Control Funding Formula	\$ 17,168,150	\$ -	\$ -	\$ 17,168,150
Federal sources	3,900,089	8,234,339	159,143	12,293,571
Other state sources	11,966,786	12,215,886	380,523	24,563,195
Other local sources	13,373,994	-	28,340	13,402,334
Total Revenues	<u>46,409,019</u>	<u>20,450,225</u>	<u>568,006</u>	<u>67,427,250</u>
EXPENDITURES				
Current				
Instruction	22,105,505	-	-	22,105,505
Instruction-related activities:				
Supervision of instruction	4,133,999	-	393,417	4,527,416
School site administration	2,090,469	-	-	2,090,469
Pupil services:				
Home-to-school transportation	1,350,651	-	-	1,350,651
Food services	1,280	-	-	1,280
All other pupil services	6,244,881	-	-	6,244,881
Administration:				
Data processing	1,869,659	-	-	1,869,659
All other administration	6,244,539	-	39,656	6,284,195
Plant services	1,989,702	-	-	1,989,702
Ancillary services	1,211,392	-	-	1,211,392
Other outgo	-	20,450,225	-	20,450,225
Facility acquisition and construction	293,056	-	59,096	352,152
Debt service				
Principal	56,187	-	-	56,187
Interest and other	5,637	-	-	5,637
Total Expenditures	<u>47,596,957</u>	<u>20,450,225</u>	<u>492,169</u>	<u>68,539,351</u>
Excess (Deficiency) of Revenues Over Expenditures	(1,187,938)	-	75,837	(1,112,101)
Other Financing Sources (Uses)				
Transfers in	76,461	-	-	76,461
Other sources	74,626	-	-	74,626
Transfers out	-	-	(76,461)	(76,461)
Net Financing Sources (Uses)	<u>151,087</u>	<u>-</u>	<u>(76,461)</u>	<u>74,626</u>
NET CHANGE IN FUND BALANCES	(1,036,851)	-	(624)	(1,037,475)
Fund Balance - Beginning	30,674,550	-	2,141,253	32,815,803
Fund Balance - Ending	<u>\$ 29,637,699</u>	<u>\$ -</u>	<u>\$ 2,140,629</u>	<u>\$ 31,778,328</u>

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

SOLANO 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 **\$ (1,037,475)**
Amounts Reported for Governmental Activities in the Statement of Activities are Different Because:

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

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

Depreciation expense	\$ (916,625)	
Capital outlays	<u>596,853</u>	
Net Expense Adjustment		(319,772)

Some of the capital assets acquired this year were financed with capital leases. The amount financed by the leases is reported in the governmental funds as a source of financing. On the other hand, the capital leases are not revenues in the Statement of Activities, but rather constitute long-term obligations in the Statement of Net Position.

(74,626)

In the Statement of Activities, certain operating expenses, such as 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 less than the amounts used.

81,281

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.

(1,597,894)

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

44,259

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.

54,498

Change in Net Position of Governmental Activities

\$ (2,849,729)

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

SOLANO COUNTY OFFICE OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The Solano County Office of Education (the SCOE) was organized under the laws of the State of California. The SCOE operates under a locally elected seven-member Board form of government and provides educational services to grades K-12 as mandated by the State and/or Federal agencies. The SCOE is the administrative agency for one Special Educational Local Plan Area and operates special education classes at various school sites within the County of Solano. The SCOE operates education programs at Juvenile Hall and community school sites.

A reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure the financial statements are not misleading. The primary government of the SCOE consists of all funds, departments, boards, and agencies that are not legally separate from the SCOE. The SCOE determined that there are no potential component units that meet the criteria for inclusion within the reporting entity.

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 SCOE's funds are grouped into governmental.

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.

Major Governmental Funds

County School Service (General) Fund The County School Service (General) Fund is the chief operating fund for all LEAs. It is used to account for ordinary operations of the SCOE. All transactions except those accounted for in another fund are accounted for in this fund.

Special Education Pass-Through Fund Fund 10, Special Education Pass-Through Fund was established during 2011-12. This fund is used by the SCOE to account for Special Education revenue passed through to other member LEAs. Revenues typically reported in this Fund include State special education apportionments, Federal local assistance under the Individuals with Disabilities Education Act, Federal preschool funding, and State mental health funding.

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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 the financing of particular activities 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.

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

County School Facilities Fund The County School Facilities Fund is established pursuant to *Education Code* Section 17070.43 to receive apportionments from the 1998 State School Facilities Fund (Proposition 1A), the 2002 State School Facilities Fund (Proposition 47), the 2004 State School Facilities Fund (Proposition 55), the 2006 State Schools Facilities Fund (Proposition 1D), or the 2016 State School Facilities Fund (Proposition 51) authorized by the State Allocation Board for new school facility construction, modernization projects, and facility hardship grants, as provided in the Leroy F. Greene School Facilities Act of 1998 (*Education Code* Section 17070 et seq.).

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. This is the same approach used in the preparation of the proprietary fund financial statements, but differs from the manner in which governmental fund financial statements are prepared.

The government-wide statement of activities presents a comparison between expenses, both direct and indirect, and program revenues for each governmental function, and exclude fiduciary activity. Direct expenses are those that are specifically associated with a service, program, or department and are therefore, clearly identifiable to a particular function. The SCOE does not allocate indirect expenses to functions in the Statement of Activities, except for depreciation. 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 SCOE. Eliminations have been made to deal with the double counting of internal activities.

Net position should be reported as restricted when constraints placed on net position use 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 activities result from special revenue funds and the restrictions on their use.

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

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Governmental Funds All governmental funds are accounted for using the 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 reconciliations with brief explanations to better identify the relationship between the government-wide financial statements, prepared using the economic resources measurement focus and the accrual basis of accounting, and the governmental fund financial statements, prepared using the flow of current financial resources measurement focus and the modified accrual basis of accounting.

Revenues – Exchange and Non-Exchange Transactions Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded 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 45 or 60 days. However, to achieve comparability of reporting among California local educational agencies 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 local educational agencies 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 SCOE 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 restrictions. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

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

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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 entity-wide statements.

Cash and Cash Equivalents

The SCOE's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

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 investment pools are determined by the program sponsor.

Restricted Assets

Restricted assets arise when restrictions on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. Restricted assets in the General Fund represent investments required by State covenants to be set aside by the SCOE for the purpose of satisfying certain requirements of the entitlement.

Prepaid Expenditures (Expenses)

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

Capital Assets and Depreciation

The accounting and reporting treatment applied to the capital assets associated with a fund are determined by its measurement focus. Capital assets are long-lived assets of the SCOE. The SCOE maintains a capitalization threshold of \$50,000. The SCOE 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 capitalized, but are expensed as incurred.

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

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Depreciation is computed using the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are as follows:

Land improvements	5 to 30 years
Building and improvements	25 to 50 years
Furniture and equipment	5 to 10 years

Interfund Balances

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

Compensated Absences

Compensated 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 SCOE'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 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 governmental 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 governmental fund financial statements only to the extent that they are due for payment during the current year. Bonds, capital leases, and other long-term obligations are recognized as liabilities in the governmental fund financial statements when due.

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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 SCOE reports deferred outflows of resources for current year pension contributions, for pension related items, and for OPEB related items.

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 SCOE reports deferred inflows of resources for the difference between projected and actual earnings on pension plan investments specific to the net pension liability, and for 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 District Plan and additions to/deductions from the District Plan's fiduciary net position have been determined on the same basis as they are reported by the District Plan. For this purpose, the District Plan recognizes benefit payments when due and payable in accordance with the benefit terms.

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 SCOE's highest level of decision making authority. The Superintendent is the highest level of decision-making authority for the COE. Commitments may be established, modified, or rescinded only through resolutions or other action as approved by the county board of education. The COE currently does not have any committed funds.

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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 SCOE's practice, only the chief business officer/associate superintendent of administrative services and operations may assign amounts for specific purposes. The SCOE currently does not have any assigned funds.

Unassigned - all other unrestricted spendable amounts. It is the SCOE's practice to maintain an amount equal to at least three percent of the General Fund annual expenditures for Economic Uncertainties.

Spending Order Policy

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

Minimum Fund Balance Policy

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

Net Position

Net position represents the difference between assets and liabilities. Net position, net of investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. The COE has no related debt 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 SCOE or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The SCOE first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available. The government wide financial statements report \$10,385,694 of 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 in the financial statements. Interfund transfers are eliminated in 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.

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Property Tax

Secured property taxes attach as an enforceable lien on property as of March 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 Solano bills and collects the taxes on behalf of the SCOE. 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 COE 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;

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- 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 COE 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 COE 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 (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.

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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 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

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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	<u>\$38,837,471</u>
Total Deposits and Investments	<u>\$38,837,471</u>

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

Revolving cash	\$ 15,000
Investments	<u>38,822,471</u>
Total Deposits and Investments	<u>\$38,837,471</u>

Policies and Practices

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

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

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General Authorizations

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

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

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The SCOE manages its exposure to interest rate risk by investing in the County Pool and have the Pool purchase a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Weighted Average Maturity

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

Investment Type	Fair Value	Weighted Average Maturity in Years
County Pool	\$ 38,621,371	1.10

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Credit Risk - Investment

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. The investment pool is not required to be rated, nor has it been rated as of June 30, 2018.

Custodial Credit Risk - Deposits

This is the risk that in the event of a bank failure, the SCOE's deposits may not be returned to it. The SCOE does not have a policy for custodial credit risk for deposits. However, the California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2018, the SCOE's bank balance of \$15,000 was not exposed to custodial credit risk because it was insured and collateralized with securities held by the pledging financial institution's trust department or agent.

NOTE 3 - FAIR VALUE MEASUREMENTS

The SCOE 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 SCOE 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 SCOE's own data. The SCOE should adjust that data if reasonable available information indicates that other market participants would use different data or certain circumstances specific to the SCOE are not available to other market participants.

Uncategorized - Investments in the Solano County Treasury Investment Pool is not measured using the input levels above because the SCOE'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.

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NOTES TO FINANCIAL STATEMENTS

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The SCOE’s fair value measurements are as follows at June 30, 2018:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Fair Value Measurements Using</u>			<u>Uncategorized</u>
		<u>Level 1 Inputs</u>	<u>Level 2 Inputs</u>	<u>Level 3 Inputs</u>	
County Pool	\$ 38,621,371	\$ -	\$ -	\$ -	\$ 38,621,371

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.

	<u>General Fund</u>	<u>Special Education Pass-through Fund</u>	<u>Non-Major Governmental Funds</u>	<u>Total</u>
Federal Government				
Categorical aid	\$ 1,311,091	\$ 1,234,358	\$ -	\$ 2,545,449
State Government				
Categorical aid	4,807,603	-	107,576	4,915,179
Lottery	45,237	-	-	45,237
Other State	642	626,108	-	626,750
Local Government				
Other local sources	983,900	-	-	983,900
Total	<u>\$ 7,148,473</u>	<u>\$ 1,860,466</u>	<u>\$ 107,576</u>	<u>\$ 9,116,515</u>

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**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 5 - 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	\$ 1,464,659	\$ -	\$ -	\$ 1,464,659
Construction in Progress	46,278	96,956	46,278	96,956
Total Capital Assets Not Being Depreciated	<u>1,510,937</u>	<u>96,956</u>	<u>46,278</u>	<u>1,561,615</u>
Capital Assets Being Depreciated:				
Land Improvements	2,172,875	243,806	-	2,416,681
Buildings and Improvements	20,081,064	-	-	20,081,064
Furniture and Equipment	2,572,395	302,369	325,654	2,549,110
Total Capital Assets Being Depreciated	<u>24,826,334</u>	<u>546,175</u>	<u>325,654</u>	<u>25,046,855</u>
Total Capital Assets	<u>26,337,271</u>	<u>643,131</u>	<u>371,932</u>	<u>26,608,470</u>
Less Accumulated Depreciation:				
Land Improvements	1,702,306	81,569	-	1,783,875
Buildings and Improvements	9,382,384	550,579	-	9,932,963
Furniture and Equipment	2,043,135	284,477	325,654	2,001,958
Total Accumulated Depreciation	<u>13,127,825</u>	<u>916,625</u>	<u>325,654</u>	<u>13,718,796</u>
Governmental Activities Capital Assets, Net	<u>\$ 13,209,446</u>	<u>\$ (273,494)</u>	<u>\$ 46,278</u>	<u>\$ 12,889,674</u>

Depreciation expense was charged as a direct expense to governmental functions as follows:

Governmental Activities		
Instruction		\$ 430,719
School site administration		17,499
Home-to-school transportation		99,845
Community services		1,985
All other administration		164,335
Data processing		81,747
Plant services		120,495
Total Depreciation Expenses Governmental Activities		<u>\$ 916,625</u>

SOLANO COUNTY OFFICE OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

NOTE 6 – INTERFUND TRANSACTIONS

Interfund Receivables/Payables (Due To/Due From)

Interfund receivable and payable balances arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed. Interfund receivable and payable balances at June 30, 2018, between major and non-major governmental funds are as follows:

Due To	Due From		
	General Fund	Special Education Pass-through Fund	Total
General Fund	\$ -	\$ 10,431,175	\$ 10,431,175
Special Education Pass-through Fund	731,987	-	731,987
Non-Major Governmental Funds	147,990	-	147,990
Total	<u>\$ 879,977</u>	<u>\$ 10,431,175</u>	<u>\$ 11,311,152</u>

Operating Transfers

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

Transfers To	Transfers From	
	General Fund	Total
Non-Major Governmental Funds	<u>\$ 76,461</u>	<u>\$ 76,461</u>

The General Fund transferred to the County School Facilities Fund for Larsen pump project expenses.

Interfund transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

SOLANO COUNTY OFFICE OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

NOTE 7 - ACCOUNTS PAYABLE

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

	General Fund	Special Education Pass-Through Fund	Non-Major Governmental Funds	Total
Vendor payables	\$ 1,853,932	\$ 12,764,332	\$ 13,717	\$ 14,631,981
Salaries and benefits	1,748,459	-	-	1,748,459
Total	<u>\$ 3,602,391</u>	<u>\$ 12,764,332</u>	<u>\$ 13,717</u>	<u>\$ 16,380,440</u>

NOTE 8 - UNEARNED REVENUE

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

	General Fund	Non-Major Governmental Funds	Total
Federal financial assistance	\$ 12,439	\$ 61,239	\$ 73,678
State categorical aid	127,347	134,640	261,987
Other local	61,679	-	61,679
Total	<u>\$ 201,465</u>	<u>\$ 195,879</u>	<u>397,344</u>

NOTE 9 - LONG-TERM OBLIGATIONS

Summary

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

	Balance July 1, 2017 as restated	Additions	Deductions	Balance June 30, 2018	Due in One Year
Compensated absences	\$ 425,745	\$ -	\$ 81,281	\$ 344,464	\$ -
Capital leases	128,362	74,626	54,498	148,490	60,633
Net other postemployment benefits (OPEB) liability	8,011,319	440,880	-	8,452,199	-
Aggregate net pension liability	37,913,175	4,142,395	-	42,055,570	-
	<u>\$46,478,601</u>	<u>\$4,657,901</u>	<u>\$ 135,779</u>	<u>\$51,000,723</u>	<u>\$60,633</u>

SOLANO COUNTY OFFICE OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

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Payments on the capital leases are made by the County School Service Fund. The compensated absences, other post-employment benefits and pension liabilities will be paid for by the fund for which the employee worked.

Accumulated Unpaid Employee Vacation

The long-term portion of accumulated unpaid employee vacation for the SCOE at June 30, 2018, amounted to \$344,464.

Capital Leases

The SCOE has entered into agreements to lease equipment and vehicles. Such agreements are in substance, purchases (capital leases) and are reported as capital lease obligations. The SCOE’s liability on the lease agreements, with option to purchase, is summarized below:

	<u>Vehicles and Equipment</u>
Balance, July 1, 2017	\$ 128,362
Additions	74,626
Payments	<u>(54,498)</u>
Balance, June 30, 2018	<u>\$ 148,490</u>

The capital leases have minimum lease payments as follows:

<u>Year Ending June 30,</u>	<u>Lease Payment</u>
2019	\$ 60,633
2020	56,057
2021	26,623
2022	<u>15,843</u>
Subtotal	159,156
Less: Amount Representing Interest	<u>(10,666)</u>
Present Value of Minimum Lease Payments	<u>\$ 148,490</u>

SOLANO COUNTY OFFICE OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

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Leased equipment and vehicles under capital leases in capital assets and accumulated depreciation at June 30, 2018, include the following:

Equipment	\$ 152,467
Vehicles	149,093
Less: Accumulated depreciation	(97,864)
Total	<u>\$ 203,696</u>

Amortization of leased equipment and vehicles under capital leases is included with depreciation expense.

Net Other Post Employment Benefit (OPEB) Liability

For the fiscal year ended June 30, 2018, the COE reported net OPEB liability, deferred outflows of resources, deferred inflows of resources, and OPEB expense for the following plans:

OPEB Plan	Net OPEB Liability	Deferred Outflows of Resources	Deferred Inflows of Resources	OPEB Expense
SCOE Plan	<u>\$ 8,452,199</u>	<u>\$ 485,139</u>	<u>\$ -</u>	<u>\$ 787,611</u>

The details of the plan are as follows:

The COE Plan

Plan Administration

The COE'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.

Plan Membership

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

Inactive employees or beneficiaries currently receiving benefits payments	122
Active employees	<u>372</u>
	<u>494</u>

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 SCOE's governing board has the authority to establish and amend the benefit terms as contained within the negotiated labor agreements.

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Contributions

The benefit payment requirements of the Plan members and the SCOE are established and may be amended by the SCOE, the Solano County Education Association (SCEA), the local California Service Employees Association (CSEA), the Public Employees Union (PEU), and unrepresented groups. The benefit payment is based on projected pay-as-you-go financing requirements as determined annually through the agreements with the SCOE, SCEA, CSEA, PEU, and the unrepresented groups. For fiscal year 2017-2018, the COE paid \$360,600 in benefits.

Total OPEB Liability of the COE

The SCOE's total OPEB liability of \$8,452,199 was measured as of June 30, 2017, 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, 2017 actuarial valuation was determined using the following assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.75 percent
Salary increases	2.75 percent, average including inflation
Discount rate	3.5 percent
Health care cost trend rates	4.0 percent for 2017

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

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 reduction. 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, 2017 valuation were based on the results of an actual experience study for the period July 1, 2016 to June 30, 2017.

Changes in the Total OPEB Liability

Balance at June 30, 2016	\$	8,011,319
Service Cost		504,693
Interest		282,918
Benefit payments		<u>(346,731)</u>
Net change in total OPEB liability		<u>440,880</u>
Balance at June 30, 2017	\$	<u><u>8,452,199</u></u>

SOLANO COUNTY OFFICE OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

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

The following presents the total OPEB liability of the SCOE, as well as what the SCOE’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:

<u>Discount Rate</u>	<u>Net OPEB Liability</u>
1% decrease (2.5%)	\$ 9,796,250
Current discount rate (3.5%)	8,452,199
1% increase (4.5%)	7,373,720

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

The following presents the total OPEB liability of the SCOE, as well as what the SCOE’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:

<u>Healthcare Cost Trend Rate</u>	<u>Net OPEB Liability</u>
1% decrease (3%)	\$ 7,568,154
Current healthcare cost trend rate (4%)	8,452,199
1% increase (5%)	9,507,908

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources related to OPEB

For the year ended June 30, 2018, the COE recognized OPEB expense of \$787,611. At June 30, 2018, the COE reported deferred outflows of resources for the amount paid by the COE for OPEB as the benefits come due subsequent to measurement date of \$485,139.

SOLANO COUNTY OFFICE OF EDUCATION

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 10 - FUND BALANCES

Fund balances are composed of the following elements:

	General Fund	Non-Major Governmental Funds	Total
Nonspendable			
Revolving cash	\$ 15,000	\$ -	\$ 15,000
Prepaid expenditures	602,127	-	602,127
Total Nonspendable	<u>617,127</u>	<u>-</u>	<u>617,127</u>
Restricted			
Education	8,245,065	-	8,245,065
Capital projects	-	2,136,550	2,136,550
	<u>8,245,065</u>	<u>2,136,550</u>	<u>10,381,615</u>
Assigned			
Deferred maintenance	662,209	-	662,209
Solano County technology consortium	17,803	-	17,803
Retiree benefits	2,600,000	-	2,600,000
One-time mandate repayment funds	772,722	-	772,722
Miscellaneous local program funds	250,008	-	250,008
Professional development	39,556	-	39,556
Facility projects	105,000	-	105,000
Lottery	392,787	-	392,787
Child development	-	4,079	4,079
Total Assigned	<u>4,840,085</u>	<u>4,079</u>	<u>4,844,164</u>
Unassigned			
Reserve for economic uncertainties	1,520,051	-	1,520,051
Remaining unassigned	14,415,371	-	14,415,371
Total Unassigned	<u>15,935,422</u>	<u>-</u>	<u>15,935,422</u>
 Total	 <u>\$ 29,637,699</u>	 <u>\$ 2,140,629</u>	 <u>\$ 31,778,328</u>

NOTE 11 - RISK MANAGEMENT

Property and Liability

The SCOE is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year ending June 30, 2018, the SCOE was a member in and procured coverage through the North Bay Schools Insurance Authority for property and liability insurance coverage. Settled claims have not exceeded this commercial coverage in any of the past three years.

SOLANO COUNTY OFFICE OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

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Workers' Compensation

For fiscal year 2018, the SCOE was a member in and procured coverage through the North Bay Schools Insurance Authority, a workers' compensation insurance purchasing pool. The intent of the North Bay Schools Insurance Authority is to achieve the benefit of a reduced premium for the SCOE by virtue of its grouping and representation with other participants in the North Bay Schools Insurance Authority. The workers' compensation experience of the participating local educational agencies is calculated as one experience and a common premium rate is applied to all local educational agencies in the North Bay Schools Insurance Authority. Each participant pays its workers' compensation premium based on its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings. A participant will then either receive money from or be required to contribute to the "equity-pooling fund." This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the North Bay Schools Insurance Authority.

NOTE 12 - 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 SCOE 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 Deferred</u>		<u>Collective Pension Expense</u>
		<u>Outflows of Resources</u>	<u>Collective Deferred Inflow of Resources</u>	
CalSTRS	\$ 16,155,999	\$ 4,373,303	\$ 3,101,497	\$ 1,157,925
CalPERS	25,899,571	7,761,744	1,364,052	3,915,320
Total	<u>\$ 42,055,570</u>	<u>\$ 12,135,047</u>	<u>\$ 4,465,549</u>	<u>\$ 5,073,245</u>

The details of each plan are as follows:

California State Teachers' Retirement System (CalSTRS)

Plan Description

The SCOE 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, 2016, 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>.

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NOTES TO FINANCIAL STATEMENTS

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Benefits Provided

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

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

The SCOE 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:

	<u>STRP Defined Benefit Program</u>	
	On or before December 31, 2012	On or after January 1, 2013
Hire date		
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 member, COE 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 SCOE's total contributions were \$1,320,470.

SOLANO COUNTY OFFICE OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

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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 SCOE reported a liability for its proportionate share of the net pension liability that reflected a reduction for State pension support provided to the SCOE. The amount recognized by the SCOE 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 SCOE were as follows:

COE's proportionate share of net pension liability	\$ 16,155,199
State's proportionate share of the net pension liability associated with the COE	<u>9,557,752</u>
Total	<u><u>\$ 25,712,951</u></u>

The net pension liability was measured as of June 30, 2017. The SCOE's proportion of the net pension liability was based on a projection of the SCOE'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 SCOE's proportionate share for the measurement period June 30, 2017 and June 30, 2016, respectively was 0.0175 percent and 0.0197 percent, resulting in a net decrease in the proportionate share of 0.0022 percent.

For the year ended June 30, 2018, SCOE recognized pension expense of \$1,157,925. In addition, the SCOE recognized pension expense and revenue of \$777,259 for support provided by the State. At June 30, 2018, the SCOE 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	\$ 1,320,470	\$ -
Net change in proportionate share of net pension liability	-	2,389,430
Difference between projected and actual earnings on pension plan investments	-	430,280
Differences between expected and actual experience in the measurement of the total pension liability	59,746	281,787
Changes in assumptions	<u>2,993,087</u>	-
Total	<u><u>\$ 4,373,303</u></u>	<u><u>\$ 3,101,497</u></u>

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The deferred outflows (inflows) of resources related to pensions resulting from SCOE contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the subsequent fiscal year. The deferred inflows of resources 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	\$ (357,707)
2020	270,678
2021	39,031
2022	(382,282)
Total	<u>\$ (430,280)</u>

The deferred outflows/(inflows) of resources related to the net change in proportionate share of net pension liability, differences between expected and actual experience in the measurement of the total pension liability, and changes of assumptions 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 7 years and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2019	\$ (18,490)
2020	(18,490)
2021	(18,490)
2022	(18,487)
2023	189,273
Thereafter	266,300
Total	<u>\$ 381,616</u>

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NOTES TO FINANCIAL STATEMENTS

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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, 2016, and rolling forward the total pension liability to June 30, 2017. The financial reporting actuarial valuation as of June 30, 2016, 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, 2010 through June 30, 2015
Actuarial cost method	Entry age normal
Discount rate	7.10%
Investment rate of return	7.10%
Consumer price inflation	2.75%
Wage growth	3.50%

CalSTRS 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 (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:

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

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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 SCOE'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%)	\$ 23,722,135
Current discount rate (7.10%)	\$ 16,155,999
1% increase (8.10%)	\$ 10,015,566

California Public Employees Retirement System (CalPERS)

Plan Description

Qualified employees are eligible to participate in the School Employer Pool (SEP) 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 plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2016 annual actuarial valuation report, Schools Pool Actuarial Valuation. This report and CalPERS audited financial information are publically available reports that can be found on the CalPERS website under Forms and Publications at:

<https://www.calpers.ca.gov/page/forms-publications>.

SOLANO COUNTY OFFICE OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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:

	<u>School Employer Pool (CalPERS)</u>	
	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 SCOE 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 SCOE contributions were \$2,154,881.

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

As of June 30, 2018, the SCOE reported net pension liabilities for its proportionate share of the CalPERS net pension liability totaling \$25,899,571. The net pension liability was measured as of June 30, 2017. The SCOE's proportion of the net pension liability was based on a projection of the SCOE's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts, actuarially determined. The SCOE's proportionate share for the measurement period June 30, 2017 and June 30, 2016, respectively was 0.1085 percent and 0.1113 percent, resulting in a net decrease in the proportionate share of 0.1113 percent.

SOLANO COUNTY OFFICE OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

For the year ended June 30, 2018, the SCOE recognized pension expense of \$3,915,320. At June 30, 2018, the SCOE 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	\$ 2,154,881	\$ -
Net change in proportionate share of net pension liability	-	1,059,117
Difference between projected and actual earnings on pension plan investments	895,948	-
Differences between expected and actual experience in the measurement of the total pension liability	927,875	-
Changes of assumptions	3,783,040	304,935
Total	<u>\$ 7,761,744</u>	<u>\$ 1,364,052</u>

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

<u>Year Ended June 30,</u>	<u>Deferred Outflows/(Inflows) of Resources</u>
2019	\$ (24,277)
2020	1,033,729
2021	377,117
2022	(490,621)
Total	<u>\$ 895,948</u>

SOLANO COUNTY OFFICE OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

The deferred outflows/(inflows) of resources related to the net change in proportionate share of net pension liability, differences between expected and actual experience in the measurement of the total pension liability, and changes of assumptions 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	\$ 819,827
2020	1,326,186
2021	1,200,850
Total	<u>\$ 3,346,863</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, 2016, and rolling forward the total pension liability to June 30, 2017. The financial reporting actuarial valuation as of June 30, 2016, 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.

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:

SOLANO COUNTY OFFICE OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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 SCOE'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%)	\$ 38,106,568
Current discount rate (7.15%)	\$ 25,899,571
1% increase (8.15%)	\$ 15,772,844

Social Security

As established by Federal law, all public sector employees who are not members of their employer's existing retirement system (CalSTRS or CalPERS) must be covered by Social Security or an alternative plan. Contributions made by the SCOE and an employee vest immediately. The SCOE contributes 6.2 percent of an employee's gross earnings. An employee is required to contribute 6.2 percent of his or her gross earnings to the pension plan.

On Behalf Payments

The State of California makes contributions to CalSTRS on behalf of the SCOE. These payments consist of State General Fund contributions to CalSTRS in the amount of \$777,259 (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.

SOLANO COUNTY OFFICE OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

NOTE 13 - COMMITMENTS AND CONTINGENCIES

Grants

The SCOE 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 SCOE at June 30, 2018.

Litigation

The SCOE is involved in various litigation arising from the normal course of business. In the opinion of management and legal counsel, the disposition of all litigation pending is not expected to have a material adverse effect on the overall financial position of the SCOE at June 30, 2018.

Construction Commitments

As of June 30, 2018, SCOE had no significant construction commitments.

NOTE 14 - PARTICIPATION IN PUBLIC ENTITY RISK POOLS AND JOINT POWER AUTHORITIES

The SCOE is a member of the North Bay Schools Insurance Authorities (JPA). The SCOE pays an annual premium to the applicable entity for its workers' compensation and property liability coverage. The relationships between the SCOE and the JPA, is such that it is not a component unit of the SCOE for financial reporting purposes.

This entity has 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 entity and the SCOE are included in these statements. Audited financial statements are generally available from the entity.

During the year ended June 30, 2018, the SCOE made payments of \$702,382 to North Bay Schools Insurance Authority for workers' compensation and property liability coverage.

NOTE 15 – RESTATEMENT OF PRIOR YEAR NET POSITION

The SCOE adopted GASB Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, in the current year. As a result, the effect on the current fiscal year is as follows:

Government-Wide Financial Statements

Net Position - Beginning	\$ 11,903,528
Inclusion of OPEB liability from the adoption of GASB Statement No. 75	<u>(7,231,883)</u>
Net Position - Beginning as Restated	<u>\$ 4,671,645</u>

REQUIRED SUPPLEMENTARY INFORMATION

SOLANO COUNTY OFFICE OF EDUCATION

**GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2018**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variances -</u>
	<u>Original</u>	<u>Final</u>		<u>Positive</u>
				<u>(Negative)</u>
				<u>Final</u>
				<u>to Actual</u>
REVENUES				
Local Control Funding Formula	\$ 13,848,638	\$ 17,168,150	\$ 17,168,150	\$ -
Federal sources	4,805,453	4,798,099	3,900,089	(898,010)
Other State sources	18,937,401	12,261,167	11,966,786	(294,381)
Other local sources	12,099,650	13,903,276	13,373,994	(529,282)
Total Revenues	<u>49,691,142</u>	<u>48,130,692</u>	<u>46,409,019</u>	<u>(1,721,673)</u>
EXPENDITURES				
Current				
Certificated salaries	10,311,257	10,348,138	10,151,880	196,258
Classified salaries	15,077,992	14,755,174	14,023,196	731,978
Employee benefits	9,804,918	9,874,760	9,217,855	656,905
Books and supplies	1,542,093	2,521,541	1,885,504	636,037
Services and operating expenditures	13,716,136	14,819,932	11,779,527	3,040,405
Other outgo	(14,525)	(63,551)	(39,656)	(23,895)
Capital outlay	153,284	547,723	516,827	30,896
Debt service - principal	57,283	57,283	56,187	1,096
Debt service - interest	7,364	7,364	5,637	1,727
Total Expenditures	<u>50,655,802</u>	<u>52,868,364</u>	<u>47,596,957</u>	<u>5,271,407</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(964,660)</u>	<u>(4,737,672)</u>	<u>(1,187,938)</u>	<u>3,549,734</u>
Other Financing Sources (Uses)				
Transfers in	-	76,461	76,461	-
Other sources	-	74,626	74,626	-
Net Financing Sources (Uses)	<u>-</u>	<u>151,087</u>	<u>151,087</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	<u>(964,660)</u>	<u>(4,586,585)</u>	<u>(1,036,851)</u>	<u>3,549,734</u>
Fund Balance - Beginning	<u>30,674,550</u>	<u>30,674,550</u>	<u>30,674,550</u>	<u>-</u>
Fund Balance - Ending	<u>\$ 29,709,890</u>	<u>\$ 26,087,965</u>	<u>\$ 29,637,699</u>	<u>\$ 3,549,734</u>

See accompanying note to required supplementary information.

SOLANO COUNTY OFFICE OF EDUCATION

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

	Budgeted Amounts			Variances -
	Original	Final	Actual	Positive
				(Negative)
				Final
				to Actual
REVENUES				
Federal sources	\$ 7,874,823	\$ 8,234,339	\$ 8,234,339	\$ -
Other state sources	2,440,973	12,215,886	12,215,886	-
Other local sources	-	-	-	-
Total Revenues	10,315,796	20,450,225	20,450,225	-
EXPENDITURES				
Other outgo	10,315,796	20,450,225	20,450,225	-
Total Expenditures	10,315,796	20,450,225	20,450,225	-
Excess (Deficiency) of Revenues Over Expenditures	-	-	-	-
NET CHANGE IN FUND BALANCES	-	-	-	-
Fund Balance - Beginning	-	-	-	-
Fund Balance - Ending	\$ -	\$ -	\$ -	\$ -

See accompanying note to required supplementary information.

SOLANO COUNTY OFFICE OF EDUCATION

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

	2018
Total OPEB Liability	
Service Cost	\$ 504,693
Interest	282,918
Benefit payments	<u>(346,731)</u>
Net change in total OPEB liability	440,880
Total OPEB Liability - beginning	<u>8,011,319</u>
Total OPEB Liability - ending	<u>\$ 8,452,199</u>
Covered payroll	<u>N/A¹</u>
COE's total OPEB liability as a percentage of covered payroll	<u>N/A¹</u>

¹ The COE'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 become available, ten years of information will be presented.

SOLANO COUNTY OFFICE OF EDUCATION

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

Measurement Date	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
CalSTRS				
SCOE's proportion of the net pension liability	0.0175%	0.0197%	0.0201%	0.0226%
SCOE's proportionate share of the net pension liability	\$16,155,199	\$15,926,217	\$13,555,526	\$13,199,010
State's proportionate share of the net pension liability associated with the SCOE	<u>9,557,752</u>	<u>9,066,511</u>	<u>7,169,379</u>	<u>7,970,132</u>
Total	<u>\$25,712,951</u>	<u>\$24,992,728</u>	<u>\$20,724,905</u>	<u>\$21,169,142</u>
SCOE's covered - employee payroll	<u>\$ 9,257,494</u>	<u>\$ 9,705,992</u>	<u>\$ 9,538,071</u>	<u>\$ 9,922,265</u>
SCOE's proportionate share of the net pension liability as a percentage of its covered - employee payroll	<u>174.51%</u>	<u>164.09%</u>	<u>142.12%</u>	<u>133.02%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>69%</u>	<u>70%</u>	<u>74%</u>	<u>77%</u>
 CalPERS				
SCOE's proportion of the net pension liability	<u>0.1085%</u>	<u>0.1113%</u>	<u>0.1144%</u>	<u>0.1229%</u>
SCOE's proportionate share of the net pension liability	<u>\$25,899,571</u>	<u>\$21,986,958</u>	<u>\$16,861,303</u>	<u>\$13,951,951</u>
SCOE's covered - employee payroll	<u>\$13,853,043</u>	<u>\$13,347,228</u>	<u>\$12,694,317</u>	<u>\$12,534,689</u>
SCOE's proportionate share of the net pension liability as a percentage of its covered - employee payroll	<u>186.96%</u>	<u>164.73%</u>	<u>132.83%</u>	<u>111.31%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>72%</u>	<u>74%</u>	<u>79%</u>	<u>83%</u>

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

See accompanying note to required supplementary information.

SOLANO COUNTY OFFICE OF EDUCATION

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

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
CalSTRS				
Contractually required contribution	\$ 1,320,470	\$ 1,158,156	\$ 1,034,947	\$ 845,489
Contributions in relation to the contractually required contribution	<u>(1,320,470)</u>	<u>(1,158,156)</u>	<u>(1,034,947)</u>	<u>(845,489)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
SCOE's covered - employee payroll	<u>\$ 9,630,584</u>	<u>\$ 9,257,494</u>	<u>\$ 9,705,992</u>	<u>\$ 9,538,071</u>
Contributions as a percentage of covered - employee payroll	<u>13.71%</u>	<u>12.51%</u>	<u>10.66%</u>	<u>8.86%</u>
CalPERS				
Contractually required contribution	\$ 2,154,881	\$ 1,919,752	\$ 1,570,342	\$ 1,494,208
Contributions in relation to the contractually required contribution	<u>(2,154,881)</u>	<u>(1,919,752)</u>	<u>(1,570,342)</u>	<u>(1,494,208)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
SCOE's covered - employee payroll	<u>\$ 14,367,703</u>	<u>\$ 13,853,043</u>	<u>\$ 13,347,228</u>	<u>\$ 12,694,317</u>
Contributions as a percentage of covered - employee payroll	<u>15.00%</u>	<u>13.86%</u>	<u>11.77%</u>	<u>11.77%</u>

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

See accompanying note to required supplementary information.

SOLANO COUNTY OFFICE OF EDUCATION

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION FOR THE YEAR ENDED JUNE 30, 2018

NOTE 1 - PURPOSE OF SCHEDULES

Budgetary Comparison Schedules

The SCOE 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 present 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 SCOE's Total OPEB Liability and Related Ratios

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

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

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

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

This schedule presents information on the SCOE'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 SCOE. 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 – The CalSTRS plan rate of investment return assumption was changed from 7.60 percent to 7.10 percent since the previous valuation. The CalPERS plan rate of investment return assumption was changed from 7.65 percent to 7.15 percent since the previous valuation.

Schedule of SCOE Contributions

This schedule presents information on the SCOE'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

SOLANO COUNTY OFFICE OF EDUCATION

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

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures	Pass-Through to Subrecipients
U.S. DEPARTMENT OF EDUCATION				
Passed through California Department of Education (CDE):				
Elementary and Secondary Education Act				
Title I, Part A, Basic, Low Income and Neglected	84.010	14329	\$ 291,873	\$ -
Title I, Part D, Subpart 2, Local Delinquent Programs	84.010	14357	165,736	-
Title I, Part A, Program Improvement LEA Corrective Action	84.010	14955	-	-
Technology Secondary II C Section 131	84.048	14894	108,588	-
Title II, Part A, Improving Teacher Quality	84.367	14341	3,853	-
Title II, Part B, CA Mathematics & Science Partner	84.366	14512	5,559	-
Title III, Limited English Proficient	84.365	10084	-	-
Title IV -E	84.369	[1]	55,872	-
Title VIII, Federal Impact Aid, PL 81-874	84.041	10015	212,596	-
Title X, McKinney-Vento Homeless Children	84.196	14332	-	-
Promoting the Readiness of Minors in Supplemental Security Education for Homeless Children and Youth	84.418P 84.196A	29128 14332	278,992 37,638	- -
Special Education Cluster				
IDEA, Basic Local Assistance	84.027	13379	978,287	7,076,758
IDEA, Mental Health	84.027	14468	530,188	-
IDEA, Alternative Dispute Resolution, Part B	84.027	13007	15,822	-
IDEA, Preschool Grants	84.173	13430	63,316	277,716
IDEA, Preschool Local Entitlement	84.027A	13682	-	879,865
IDEA, Preschool Staff Development	84.173A	13431	2,606	-
IDEA, Improvement Grant	84.027A	01110	-	-
Subtotal Special Education Cluster			<u>1,590,219</u>	<u>8,234,339</u>
IDEA, Early Intervention, Part C	84.181	23761	47,966	-
IDEA, Behavioral Intervention	84.181	[1]	-	-
Passed through California Department of Rehabilitation (DOR):				
Workability II, Transitions Partnership	84.126A	10006	970,194	-
Total U.S. Department of Education			<u>3,769,086</u>	<u>8,234,339</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES				
Passed through California Department of Health and Human Services:				
Medicaid Cluster				
Medical Billing Option	93.778	10013	131,003	-
Medical Administrative Activities (MAA)	93.778	10013	56,711	-
Subtotal Medicaid Cluster			<u>187,714</u>	<u>-</u>
Passed through CDE:				
CCDF Cluster				
Child Care and Development Block Grant	93.575	[1]	159,143	-
Subtotal CCDF Cluster			<u>159,143</u>	<u>-</u>
Total U.S. Department of Health and Human Services			<u>346,857</u>	<u>-</u>
Total Federal Expenditures			<u>\$ 4,115,943</u>	<u>\$ 8,234,339</u>

[1] Pass-

Through Entity Identifying Number not available

See accompanying note to supplementary information.

SOLANO COUNTY OFFICE OF EDUCATION

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE FOR THE YEAR ENDED JUNE 30, 2018

Solano County Office of Education provides support services to six unified school districts and one community college district within Solano County. There were no changes in the County boundaries during the current year. In addition, the County Office operates Special Education, Career Technical Education (formerly Regional Occupational Programs), and Court School programs countywide.

COUNTY BOARD OF EDUCATION

<u>Name</u>	<u>Office</u>	<u>Term Expires</u>
Elease Cheek	President	2020
Peggy A. Choen-Thompson	Vice President	2020
Mayrene Bates	Member	2018
Dana Dean	Member	2018
Douglas Ford	Member	2018
Amy Sharp	Member	2020
Michelle Coleman	Member	2020

ADMINISTRATION

Lisette Estrella-Henderson
County Superintendent of Schools

Tommy Welch
Associate Superintendent,
Administrative Services and Operations

Victor Romauldi
Associate Superintendent,
Student Programs and Educational Services

Andrew Ownby
Assistant Superintendent,
Special Education Local Plan Area (SELPA)

Andrea Lemos
Assistant Superintendent
Educational Services and Special Education

Kim Kopp
Assistant Superintendent
Human Resources and Educator Effectiveness

See accompanying note to supplementary information.

SOLANO COUNTY OFFICE OF EDUCATION

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

	Final Report	
	Second Period Report	Annual Report
ELEMENTARY		
County school tuition fund	-	-
Juvenile halls, homes, and camps	0.97	1.20
County group homes and institution	-	-
Probation referred, on probation or parole, expelled	5.61	7.45
Opportunity schools and opportunity classes	-	-
Home and hospital	-	-
Special education	113.44	119
Total Elementary	120.02	127.37
SECONDARY		
Regular classes	-	-
Juvenile halls, homes, and camps	40.47	41.37
County group homes and institution	-	-
Probation referred, on probation or parole, expelled	36.92	37.16
Special education	162.27	166.93
Total Secondary	239.66	245.46
Total ADA	359.68	372.83

See accompanying note to supplementary information.

SOLANO COUNTY OFFICE OF EDUCATION

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

There were no reconciliations between the Unaudited Actual Financial Report, and the audited financial statements.

See accompanying note to supplementary information.

SOLANO COUNTY OFFICE OF EDUCATION

**SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2018**

	(Budget) 2019 ¹	2018	2017	2016
GENERAL FUND				
Revenues	\$ 49,270,004	\$ 46,409,018	\$ 49,571,829	\$ 48,909,938
Other sources	-	151,087	81,000	-
Total Revenues and Other Sources	<u>49,270,004</u>	<u>46,560,105</u>	<u>49,652,829</u>	<u>48,909,938</u>
Expenditures	50,668,347	47,596,956	45,832,981	48,743,778
Other uses and transfers out	-	-	-	-
Total Expenditures and Other Uses	<u>50,668,347</u>	<u>47,596,956</u>	<u>45,832,981</u>	<u>48,743,778</u>
INCREASE (DECREASE) IN FUND BALANCE	<u>\$ (1,398,343)</u>	<u>\$ (1,036,851)</u>	<u>\$ 3,819,848</u>	<u>\$ 166,160</u>
ENDING FUND BALANCE	<u>\$ 28,239,356</u>	<u>\$ 29,637,699</u>	<u>\$ 30,674,550</u>	<u>\$ 26,854,702</u>
AVAILABLE RESERVES ²	<u>\$ 16,372,593</u>	<u>\$ 15,935,422</u>	<u>\$ 14,419,560</u>	<u>\$ 11,697,737</u>
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO	<u>32.31%</u>	<u>33.48%</u>	<u>31.46%</u>	<u>24.00%</u>
LONG-TERM OBLIGATIONS ³	<u>\$ 50,940,090</u>	<u>\$ 51,000,723</u>	<u>\$ 46,478,601</u>	<u>\$ 31,555,632</u>
K-12 AVERAGE DAILY ATTENDANCE AT P-2	<u>356</u>	<u>360</u>	<u>409</u>	<u>457</u>

The General Fund balance has increased by \$2,782,997 over the past two years mainly due to increased property taxes from redevelopment agency liquidation. The fiscal year 2018-2019 budget projects a decrease of \$1,398,343. For a COE this size, the State recommends available reserves of at least three percent of total General Fund expenditures, transfers out, and other uses (total outgo).

The SCOE has incurred operating surpluses and a deficit in the past three years and anticipates incurring an operating deficit during the 2018-2019 fiscal year. Total long-term obligations have increased by \$19,445,091 over the past two years.

Average daily attendance has decreased by 97 over the past two years. SCOE anticipates an increase of 4 ADA during fiscal year 2018-2019.

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

² Available reserves consist of unassigned fund balances including amount reserved for economic uncertainties contained within the General Fund.

³ Long-term obligations have been restated due to the implementation of GASB Statement No. 75.

See accompanying note to supplementary information.

SOLANO COUNTY OFFICE OF EDUCATION

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

	Child Development Fund	County School Facilities Fund	Total Non-Major Governmental Funds
ASSETS			
Deposits and investments	\$ 251,627	\$ 2,139,012	\$ 2,390,639
Receivables	984	106,592	107,576
Total Assets	\$ 252,611	\$ 2,245,604	\$ 2,498,215
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 11,386	\$ 2,331	\$ 13,717
Due to other funds	41,267	106,723	147,990
Unearned revenue	195,879	-	195,879
Total Liabilities	248,532	109,054	357,586
Fund Balances:			
Restricted	-	2,136,550	2,136,550
Assigned	4,079	-	4,079
Total Fund Balance	4,079	2,136,550	2,140,629
Total Liabilities and Fund Balances	\$ 252,611	\$ 2,245,604	\$ 2,498,215

See accompanying note to supplementary information.

**SOLANO COUNTY OFFICE OF EDUCATION
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2018**

	Child Development Fund	County School Facilities Fund	Total Non-Major Governmental Funds
REVENUES			
Federal sources	\$ 159,143	\$ -	\$ 159,143
Other state sources	273,931	106,592	380,523
Other local sources	1,331	27,009	28,340
Total Revenues	434,405	133,601	568,006
EXPENDITURES			
Current			
Instruction-related activities:			
Supervision of instruction	393,417	-	393,417
Administration:			
All other administration	39,656	-	39,656
Facility acquisition and construction	-	59,096	59,096
Total Expenditures	433,073	59,096	492,169
Excess (Deficiency) of			
Revenues Over Expenditures	1,332	74,505	75,837
Other Financing Sources (Uses)			
Transfers out	-	(76,461)	(76,461)
Net Financing Sources (Uses)	-	(76,461)	(76,461)
NET CHANGE IN FUND BALANCES			
Fund Balance - Beginning	2,747	2,138,506	2,141,253
Fund Balance - Ending	\$ 4,079	\$ 2,136,550	\$ 2,140,629

See accompanying note to supplementary information.

SOLANO 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 SCOE 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 SCOE has not elected to use the ten percent de minimis cost rate as covered in Section 200.414 Indirect (F&A) costs of the Uniform Guidance.

The following schedule provides reconciliation between revenues reported on the Statement of Revenues, Expenditures, and Changes in Fund Balance, and the related expenditures reported on the Schedule of Expenditures of Federal Awards. The reconciling item consists of federal revenue received and required to be reported on the Schedule of Expenditures of Federal Awards but not reported in federal revenue on the Statement of Revenues, Expenditures, and Changes in Fund Balance.

Description	CFDA Number	Amount
Total Federal Revenues from the Statement of Revenues, Expenditures and Changes in Fund Balance:		\$ 12,293,571
Medi-Cal Administrative Activities program carry over revenue was spent in current year	93.778	<u>56,711</u>
Total Schedule of Expenditures of Federal Awards		<u>\$ 12,350,282</u>

Local Education Agency Organization Structure

This schedule provides information about SCOE's boundaries and schools operated, members of the 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 SCOE. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionments of State funds are made to local educational agencies. 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.

SOLANO COUNTY OFFICE OF EDUCATION

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2018

Schedule of Financial Trends and Analysis

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

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

The Non-Major Governmental Funds Combining Balance Sheet and Combining Statement of Revenues, Expenditures, and Changes in Fund Balance is 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 Balance.

INDEPENDENT AUDITOR'S REPORTS



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

County Board of Education
Solano County Office of Education
Fairfield, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Solano County Office of Education (the COE) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Solano County Office of Education's basic financial statements, and have issued our report thereon dated December 17, 2018.

Emphasis of Matter - Change in Accounting Principles

As discussed in Note 1 and Note 15 to the financial statements, in 2018, the COE adopted new accounting guidance, GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Solano 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 COE's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the COE's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Vavrinek, Time, Day & Co., LLP

Pleasanton, California
December 17, 2018



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

County Board of Education
Solano County Office of Education
Fairfield, California

Report on Compliance for Each Major Federal Program

We have audited Solano County Office of Education's (the COE) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Solano County Office of Education's major Federal programs for the year ended June 30, 2018. Solano 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 Solano 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 Solano 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 Solano County Office of Education's compliance.

Opinion on Each Major Federal Program

In our opinion, Solano 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 Solano 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 Solano 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 Solano 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.

Vavinek, Time, Day & Co., LLP

Pleasanton, California
December 17, 2018



INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

County Board of Education
Solano County Office of Education
Fairfield, California

Report on State Compliance

We have audited Solano County Office of Education's (the COE) 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 Solano 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 Solano 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 Solano 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 Solano County Office of Education's compliance with those requirements.

Unmodified Opinion

In our opinion, Solano 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.

In connection with the audit referred to above, we selected and tested transactions and records to determine the Solano 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	No, see below
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	Yes
Apprenticeship: Related and Supplemental Instruction	No, see below
SCHOOL DISTRICTS, COUNTY OFFICES OF EDUCATION, AND CHARTER SCHOOLS	
Educator Effectiveness	Yes
California Clean Energy Jobs Act	No, see below
After/Before School Education and Safety Program:	
General Requirements	No, see below
After School	No, see below
Before School	No, see below
Proper Expenditure of Education Protection Account Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control Accountability Plan	Yes
Independent Study - Course Based	No, see below
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 SCOE's kindergarten students are retained using an Individualized Education Program based on the identified special needs; therefore, we did not perform procedures related to Kindergarten Continuance.

The Independent Study ADA was below the audit threshold required by the State audit guide; therefore, we did not perform procedures related to the program.

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

The SCOE was not required to meet the Instructional Time requirements; therefore, we did not perform procedures related to Instructional Time.

The SCOE was not required to meet the Ratio of Administrative Employees to Teachers and the Classroom Teacher Salaries requirement; therefore, we did not perform procedures related to these programs.

The SCOE 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 SCOE does not have a Middle or Early College High School Program; therefore, we did not perform procedures related to the Middle or Early College High School Program.

The SCOE was not required to meet the K-3 Grade Span Adjustment requirements; therefore, we did not perform procedures related to the K-3 Grade Span Adjustment.

The SCOE does not offer an Apprenticeship Program; therefore, we did not perform any procedures for the Apprenticeship Program.

The SCOE did not incur expenditures related to California Clean Energy Jobs Act; therefore, we did not perform those procedures.

The SCOE 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 SCOE does not offer an Independent Study-Course Based Program; therefore, we did not perform any procedures related to the Independent Study-Course Based Program.

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

Vavinek, Time, Day & Co., LLP

Pleasanton, California
December 17, 2018

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

SOLANO 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 weaknesses identified?	<u>No</u>
Significant deficiencies identified?	<u>None reported</u>
Noncompliance material to financial statements noted?	<u>No</u>

FEDERAL AWARDS

Internal control over major Federal programs:	
Material weaknesses identified?	<u>No</u>
Significant deficiencies 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>84.027, 84.027A, 84.173, and 84.173A</u>	<u>Special Education Cluster (IDEA)</u>

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

STATE AWARDS

Type of auditor's report issued on compliance for state programs:	<u>Unmodified</u>
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SOLANO COUNTY OFFICE OF EDUCATION

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

None reported.

SOLANO COUNTY OFFICE OF EDUCATION

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

None reported.

SOLANO COUNTY OFFICE OF EDUCATION

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

None reported.

SOLANO COUNTY OFFICE OF EDUCATION

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

There were no audit findings reported in the prior year's schedule of financial statement findings.