

SACRAMENTO COUNTY OFFICE OF EDUCATION

SACRAMENTO, CALIFORNIA

**FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITOR'S REPORT**

FOR THE FISCAL YEAR ENDED JUNE 30, 2018

SACRAMENTO COUNTY OFFICE OF EDUCATION

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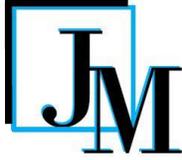
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James Marta & Company LLP
Certified Public Accountants

Accounting, Auditing, Consulting, and Tax

INDEPENDENT AUDITOR'S REPORT

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 opinion.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Sacramento 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.

Other Matters

Change in Accounting Principle

As described in Note 1Z to the financial statements, the County Office adopted GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions which required a restatement of net position as of July 1, 2017. Our opinion is not modified with respect to this matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, the Statement of Revenues, Expenditures and Changes in Fund Balance-Budget (Non-GAAP) and Actual – County School Service Fund, Statement of Revenues, Expenditures and Changes in Fund Balance-Budget (Non-GAAP) and Actual – Special Education Pass-through Fund, Statement of Revenues, Expenditures and Changes in Fund Balance-Budget (Non-GAAP) and Actual – Child Development Fund, Schedule of Changes in the Net OPEB Liability and Related Ratios, Schedule of OPEB Contributions, Schedule of Proportionate Share of the Net Pension Liability, and Schedule of Pension Contributions 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.

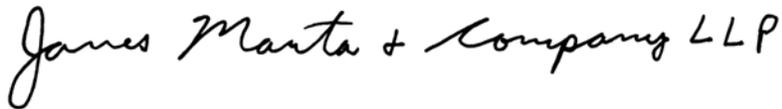
Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County Office's basic financial statements. The accompanying supplementary information as listed in the table of contents, including the schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements of Federal Awards (Uniform Guidance), Audits of States, Local Governments, and Non-Profit Organizations, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary information as listed in the table of contents 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 supplementary information as listed in the table of contents is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2018 on our consideration of the County Office's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County Office's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "James Marta & Company LLP". The signature is written in a cursive, flowing style.

James Marta & Company LLP
Certified Public Accountants
Sacramento, California
December 12, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

SACRAMENTO COUNTY OFFICE OF EDUCATION

MANAGEMENT’S DISCUSSION AND ANALYSIS

JUNE 30, 2018

The Management’s Discussion and Analysis section of the audit report is management’s view of the Sacramento County Office of Education’s (“County Office”) financial condition and provides an opportunity to present important fiscal information to the County Board of Education and the public. This document is designed to enhance the understandability and usefulness of the audited financial statements for all users.

FINANCIAL REPORTS

At specific reporting periods during the year, the County Office prepares and presents budget revisions and interim financial reports for County Board of Education and public review. These documents represent changes to the County Office’s budgeted receipts and expenditures since the July 1st adoption of the County School Services Fund budget and presents the most accurate information available at the time.

Alternatively, the Management’s Discussion and Analysis and annual audit report includes several financial reports that present actual receipts and expenditures and year-end balances at the close of the fiscal year using the accrual basis of accounting. In addition to the basic fund financial statements that are included in the Unaudited Actuals report, two government-wide financial statements are included in the audit report; the Government-Wide Statement of Net Position, which reports financial condition at the end of the year and the Government-Wide Statement of Activities, which reports activity during the year. These two statements present a longer-term view of the County Office’s finances as described below.

Government-Wide Statement of Net Position

The County Office’s Government-Wide Statement of Net Position includes the following information that the Governmental Funds Balance Sheet does not present: capital assets, net of accumulated depreciation; long-term liabilities, including Net Pension Liability; and Deferred Outflows and Inflows related to pensions. Further, amounts due to or from another County Office governmental fund are eliminated. Detail is provided in the supporting footnotes, as required.

The following table summarizes Governmental activity for the past two years:

	Balance at June 30, 2018	Balance at June 30, 2017
Total Assets	\$119,180,491	\$121,313,260
Deferred Outflows	\$43,041,960	\$17,055,674
Total Liabilities	\$144,042,039	\$103,506,649
Deferred Inflows	\$9,642,018	\$5,800,921
Total Net Position	\$8,538,394	\$29,061,364

As required by GASB 68, the County Office uses annual STRS and CalPERS actuarial valuation reports to calculate its proportionate share of Net Pension Liability, Deferred Outflow/Deferred Inflow of resources, and Pension Expense related to our defined benefit pension plan. Among other factors, the actuarial calculations are affected by an increased number of employees added to STRS and CalPERS benefits as well as employees working and living longer. This results in an increase to the County Office’s contribution and proportionate share of the Net Pension Liability of \$10,097,187. Additionally, during 2017/2018 the County Office implemented GASB 75 – Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. GASB 75 requires that SCOE use actuarial valuation reports to calculate and report the full value of Other Postemployment (Health) Benefit (OPEB) Liability and Deferred Outflow/Deferred Inflow of resources in our financial statements. This resulted in a net increase to OPEB Liability of \$26,651,219. Both increases are reflected in Total Liabilities above.

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JUNE 30, 2018

Deferred Outflows and Deferred Inflows of resources pertaining to both the Net Pension and OPEB Liabilities represent expenses to be recognized in future years. Most of the increases to Deferred Outflows and Deferred Inflows is due to the implementation of GASB 75. Both are separately stated above.

Outside of the effects of GASB 68 and GASB 75, while there were timing differences in the receipts of revenues and the payment of expenditures that affect assets and liabilities, net position continues to steadily increase.

Government-Wide Statement of Activities

The County Office's Government-Wide Statement of Activities differs from the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance because the Statement of Activities reports all expenses by their function rather than by their expense category. The function represents the general operational area within the County Office and groups related activities together. In addition, the Statement of Activities is adjusted for debt repayment, payments of post-employment benefits to retirees, difference between actuarially determined pension costs and actual employer contributions, change in compensated absences and net capital outlay expenditures.

The following table summarizes Governmental activity during the past two years:

	For the Year Ended June 30, 2018	For the Year Ended June 30, 2017
Program Revenues	\$98,234,021	\$101,189,565
General Revenues	\$62,002,040	\$60,626,921
Expenses	(\$152,385,382)	(\$156,651,573)
Change in Net Position	\$7,850,679	\$5,164,913
Net Position - beginning, as originally stated	\$29,061,364	\$23,896,451
Prior Period Adjustment	(\$28,373,649)	\$0
Net Position - beginning, as restated	\$687,715	\$23,896,451
Net Position, Ending	\$8,538,394	\$29,061,364

Due to the implementation of GASB 75, we are reporting a prior-period adjustment of \$28,373,649 that is included in the Government Wide Statement of Activities. Outside of this prior-period adjustment, County Office operations during 2017/2018 remain relatively consistent compared to the previous year in both revenue and expense categories.

Governmental Funds

County Office fund financial statements report operations about the most significant funds using the modified accrual basis of accounting. As of 6/30/18, the County Office reported combined fund balances of \$67,458,048 in all governmental funds, which represents a net decrease of \$6,598,271 from the prior year. This is the net effect of an increase in general County Office operations of \$4,901,729 and a decrease for the one-time \$11,500,000 contribution the County Office made to the PERS Trust in order to pre-fund the OPEB Liability.

SACRAMENTO COUNTY OFFICE OF EDUCATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

PROGRAM HIGHLIGHTS

The County Office provides direct instruction to students in the community through a variety of programs. These programs comprise approximately 17% of the County Office budget. The following represents the highlights of these programs:

- The Special Education department provides direct instructional programs and services to over 500 students, ages 3-22, who have physical, communicative, learning, emotional, and/or severe disabilities. Programs are located on over 30 campuses throughout Sacramento County (including Juvenile Court and Community School) and within local school districts. Specialized services (RSP, speech, vision, nurse, mobility) are also provided to students within the County Office's programs and specific district programs. The County Office's Special Education programs focus on providing quality services including academics, daily living skills, mobility, transition skills, and career preparation.
- The Infant Development program provides early intervention services to approximately 250 infants and toddlers, birth to age 3, and their families each year. Services are provided within the context of the families' daily living and include service coordination, nursing, occupational therapy, physical therapy, child development, social emotional development, self-help, speech, language, hearing, and vision services.
- The Juvenile Court School program provides academic and career technical educational services, including academic intervention services, to almost 1,000 unduplicated students who are detained for various lengths of enrollment at the Youth Detention Facility operated by the Sacramento County Probation Department. The Juvenile Court School program enrolls students to prepare them for transition back to their school of residence, employment, or post-secondary education.
- The Community School program provides direct educational alternatives for approximately 350 students who have been expelled or who are not currently enrolled in local school districts. Programs are located at three campuses throughout Sacramento County. Students are enrolled in programming which provides them with academic and career technical education and behavior modification services to prepare them for return to their school of residency, graduation, HiSET (High School Equivalency Test) completion and/or postsecondary transition.
- The County Office operates a Senior Extension program within the Community School program that has grown extensively during the past year. The goal of the Senior Extension program is to re-engage students who are at risk of dropping out of high school, or those who have already dropped out of school and wish to return to complete their graduation requirements. Students, most of whom are age 18 or over, receive personalized education plans through the community schools, allowing them to earn the credits required for graduation, HiSET and/or postsecondary transition. The students receive a combination of independent study and classroom work, allowing them to earn credits while still meeting work and family obligations that would have otherwise prevented them from completing their education. Students age 18 or older may refer themselves or be referred to the program by their school district. Over 300 students were served during the year.
- The Community Action for Responsive Education (CARE) intervention program is a partnership between the County Office and seven local secondary schools that provide support tailored to the students' educational and behavioral needs. CARE students receive their core instruction from one teacher in a small classroom environment focusing on English, Mathematics, Science, Social Studies and study skills. CARE students are eligible to participate in elective courses, physical education, and extracurricular activities according to each school's participation guidelines. The County Office also provides enrichment opportunities, parenting support, mentors, tutors, and other services for CARE students on an as-needed basis. Through participation in the CARE intervention program, students

SACRAMENTO COUNTY OFFICE OF EDUCATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

will gain the academic, behavioral and/or social skills necessary to be successful in a traditional school setting. Approximately 160 students were served during the year.

- Sly Park Center is a residential outdoor science program that provides educational experiences in environmental education to elementary students from Sacramento and surrounding counties. Students may attend 5-day, 4-day or 3-day programs during the school year. The Sly Park Center also accommodates various student and adult conference groups during the summer. Over 7,400 students were served during the year.

In addition to the above-mentioned services and programs, the County Office administers over 200 special programs, services and grants that serve the adults and students in Sacramento County, neighboring counties and in some cases throughout the state of California. Adults and students are served in many capacities such as through technology support, training and evaluation services, pupil services and instructional support. Many of these programs are administered in conjunction with the state and federal governments and are subject to the fiscal requirements of these agencies. These special programs, services and grants comprise approximately 83% of the County Office's budget. The following represents the highlights of these programs:

- The K-12 Curriculum and Instruction Department provides a wide variety of instructional support services to districts and schools in Sacramento County, the Capital Service Region, and across California. Workshops and a National Speaker series are provided to administrators and teachers that focus on the Common Core State Standards in English Language Arts & Literacy and Mathematics, the adopted English Language Development Standards, Next Generation Science Standards, High-Quality First Instruction, research-based instructional practice, social and emotional learning, and use of instructional materials. Instructional support is provided through customized, onsite services to meet individual needs of districts and schools, such as assistance with analyzing achievement data to improve instruction, helping district administrators plan programs to support their English learner students, building district capacity to deliver high quality initial instruction and working with principals to supervise and improve the quality of the curriculum and instruction at their sites. Finally, the K-12 Curriculum and Instruction Department facilitates several professional networks for teachers and administrators that enable them to meet periodically to share their successes and challenges in an on-going effort to improve student achievement.
- The Early Learning Department provides services and develops resources for early learning program directors and leaders from county offices of education, school districts, preschools, and private early care and education programs in Sacramento County, the broader ten-county Capital Service Region, and throughout California. The Department's scope of work focuses on preparing young children (prenatal to age 5) for success in elementary school and beyond through direct support to families and research-based professional learning, on-site support, technical assistance, and resources to early childhood/school readiness administrators and staff. The Department also facilitates communication and collaboration among early learning educators and providers to ensure access to high-quality programs and services for Sacramento County's youngest learners.
- The Foster Youth Services Coordinating Program Department provides services throughout Sacramento County for elementary, middle and high school foster youth through educational case managers and provides transition support and credit recovery for foster youth in Juvenile Hall and Sacramento Office of Education community day schools. Additionally, the department created and maintains the Foster Focus database that is utilized by over 300 partners (school districts, county offices of education, child protective services, probation) with data imported from approximately 3,400 schools in 42 different counties and the School Connect database that is used by Sacramento Child Protective Services (CPS) and one other county to assist in keeping students in their school of origin.

SACRAMENTO COUNTY OFFICE OF EDUCATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

- The Advancement via Individual Determination (AVID) Department provides professional development, technical assistance, curricular resources, and program certification oversight to school districts throughout the greater 10-county region. AVID is a kindergarten through postsecondary college readiness system designed to increase the number of students who enroll and succeed in higher education and in their lives beyond high school. AVID elementary is a foundational component for elementary schools, designed as an embedded, sequential academic skills resource. AVID secondary impacts an entire school system by transforming the instruction, systems, leadership and culture. The core of AVID at the high school and middle school is the AVID Elective class, where students are enrolled in a school's most rigorous classes and receive support. The goal of AVID at the secondary level is to ensure college readiness for all AVID elective students and improved academic performance for all students based on increased opportunities.
- The Prevention & Early Intervention Department provides programs, services, and professional development opportunities that address a variety of youth development and prevention education topics. Positive youth development, school safety, bicycle and pedestrian safety, violence prevention, suicide prevention, substance abuse prevention, tobacco use prevention, bullying prevention and mental health promotion are some of the focus areas. The Friday Night Live/Club Live/Friday Night Live Mentoring programs provide weekly services to youth in 56 middle schools and high schools throughout Sacramento County and are designed to build leadership skills, provide opportunities for community engagement, and prevent alcohol and drug use among teenagers. Project SAVE (Safe Alternatives and Violence Education) serves over 100 youth and their parents from throughout the County and is an early intervention program designed to break the cycle of violence for youth ages 11 to 17. Prevention & Early Intervention project partners include the following: all thirteen Sacramento County school districts; Sacramento County Department of Behavioral Health Services; Sacramento County Department of Alcohol and Drug Services; Sacramento County Department of Mental Health; California Office of Traffic Safety; California Department of Education; local law enforcement agencies; and various community based organizations. The department also facilitates several networks and collaborative groups, including the Sacramento County Coalition for Youth, the County Prevention Coordinators Council and the Sacramento County Student Mental Health & Wellness Collaborative.
- The Sacramento Cal-SOAP Consortium is part of the California Student Opportunity Access Program, administered statewide by the California Student Aid Commission. Sacramento Cal-SOAP directly serves students in 74 elementary, middle, and high schools throughout Sacramento County as well as in Colusa and Sutter counties. The project provides tutoring services to students in more than 100 AVID classes and delivers college and financial aid advising programs to more than 8,000 students in 13 high schools.
- The SCOE School of Education provides new teachers an alternative path to the classroom and existing administrators with on-going support. The SCOE School of Education is comprised of two divisions: Teaching and Leading.
The Teaching division operates the Intern and Teacher Induction (formerly BTSA) programs. The two-year Intern program is an alternative pathway to obtain either a single subject math/science credential or a multiple subject credential. Interns are placed in contracted positions within schools and provided support as they complete their teaching credentials. The Teacher Induction program assists participating teachers in creating successful early teaching experiences and earning a clear credential with the ultimate goal of increasing teacher retention. New teachers work with an experienced colleague to hone their skills, knowledge, and abilities related to their teaching practice. The participating teachers and support providers meet regularly to discuss classroom practice. Currently over 600 credential candidates and over 300 support providers from area school districts, charter, and private schools participate in the Teacher Induction Program.

SACRAMENTO COUNTY OFFICE OF EDUCATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

The Leading division consists of the Preliminary Administrative Services Credential and Clear Administrative Services Credential programs. The one-year Preliminary program supports aspiring education leaders by offering a practical approach to leadership and allowing participants to engage in high-quality professional development. The two-year Clear Administrative Services Credential Program provides current administrators the opportunity to clear their credential through assessment, one-on-one coaching, and professional development. Both the Preliminary and Clear Programs are district supported and adhere to California Professional Standards for Educational Leaders.

- The SCOE Adult Re-Entry programs are designed to assist men and women who are re-entering the community from incarceration. With both in-custody and out of custody sites, programs are designed to address the causes of offending behavior and assist clients in developing a successful re-entry plan while in a safe and inclusive environment. Addressing the risks/needs through evidence-based programming, the programs provide a heavy dose of cognitive behavioral programming, academic support, job readiness, vocational training, and substance abuse and mental health treatment. Additionally, we provide supportive services based on the client's specific needs in areas such as transitional housing, benefit screening, child support workshops, transportation, etc. All services are provided on-site and have proven to be effective and in fact replicated at several sites in multiple counties. Our knowledgeable case management staff are committed to improving outcomes for clients and their families during the often overwhelming transition from custody to community. Clients are referred to the program by their supervising agency, and we work collaboratively with the client, their family, and their supervising agent to ensure long-term success as this will have the most impact on the stability of the client, the family, and ultimately the community. The impact on public safety is demonstrated by the reduction in overall recidivism. Sites currently served are the Sacramento Community Based Coalition (SCBC), Woodland Day Reporting Center, West Sacramento Day Reporting Center and the Placer Re-Entry program, located in Auburn, Roseville and King's Beach.

The Support Services and Administration departments provide internal support to the County Office programs mentioned above and to the districts throughout the county.

CAPITAL ASSETS

The County Office accounts for the purchase value of capital assets and includes these values as part of the financial statements. In addition to purchasing equipment during the year, the County Office incurred the following construction-related costs: installation of video security equipment at Leo A. Palmiter Jr./Sr. High School and Missile Way sites; flooring and lighting upgrades at North Area Community School, E. L. Hickey Community School, Leo A. Palmiter Jr./Sr. High School and the David P. Meaney Education Center; safety upgrades at the Support Services buildings; and continuing costs for a new Gerber site. The County Office is reporting net capital assets of \$23,864,516 as of 6/30/18. This is comprised of \$42,520,735 in Land and Building assets, \$6,581,247 in equipment assets net of \$25,237,466 in accumulated depreciation for all assets. Detailed balances by asset category and depreciation expense are provided in the supporting footnotes.

LONG-TERM DEBT

The County Office is reporting \$116,145,320 of Long-Term Debt as of 6/30/18. \$84,466,028 of this represents the balance of Net Pension Liability pertaining to our defined benefit plans with CalPERS and STRS. \$3,325,000 represents the balance of the 2013 Refunding Lease-Purchase and \$1,184,393 represents the balance in Compensated Absences. Finally as mentioned above, during 2017/2018 the County Office implemented GASB 75 – Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB). This resulted in a restatement of beginning balance of OPEB Liability and with current year activity, the County Office is reporting a balance of \$27,169,899 as of June 30, 2018.

SACRAMENTO COUNTY OFFICE OF EDUCATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

COUNTY SCHOOL SERVICE FUND BUDGETARY HIGHLIGHTS

The County Office's budget is prepared in accordance with California law and is based on the modified accrual basis of accounting. As indicated earlier in this document, under "Financial Reports", the original budget is adopted by July 1 and the County Office revises its budget at First and Second Interim and one more time in the Spring in order to establish beginning balances for the following year.

ECONOMIC FACTORS BEARING ON THE COUNTY OFFICE'S FUTURE

- The County Office has always taken an entrepreneurial approach in pursuing grants and contracts for our agency. We work with various entities in our region and throughout the State of California to secure funding for programs that benefit our particular population.
- At the same time, we follow a conservative budgeting approach. We will only budget for and spend under a grant or contract after we receive confirmation of funding. Once funding is secured, we are prudent in our hiring and spending.
- Each funding source is self-supporting and most departments maintain adequate reserves for the future. In our general programs, we maintain a fund balance well in excess of the required minimum.
- All of these sound budgeting practices keep the County Office financially healthy at all times and allow us to be prepared for the next economic downturn.

CONTACTING THE COUNTY OFFICE'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, parents, and creditors with a general overview of the County Office finances and to show the County Office's accountability for the money it receives. If you have questions about this report or need additional financial information, please contact Tamara J. Sanchez, Assistant Superintendent Business Services, Sacramento County Office of Education.

BASIC FINANCIAL STATEMENTS

SACRAMENTO COUNTY OFFICE OF EDUCATION

STATEMENT OF NET POSITION

JUNE 30, 2018

ASSETS	Governmental Activities
Cash and cash equivalents (note 2)	\$ 64,635,394
Receivables	30,076,612
Prepaid expenses	603,969
Capital assets, net of accumulated depreciation (note 4)	<u>23,864,516</u>
Total Assets	<u>119,180,491</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows of resources relating to OPEB (note 8)	15,002,835
Deferred outflows of resources relating to pensions (note 6)	<u>28,039,125</u>
Total Outflows of Resources	<u>43,041,960</u>
LIABILITIES	
Accounts payable and other current liabilities	25,826,769
Unearned revenue	2,069,950
Long-term liabilities (note 5):	
Due within one year	1,914,393
Due in more than one year	<u>114,230,927</u>
Total Liabilities	<u>144,042,039</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows of resources relating to OPEB (note 8)	774,394
Deferred inflows of resources relating to pensions (note 6)	<u>8,867,624</u>
Total Inflows of Resources	<u>9,642,018</u>
NET POSITION	
Net investment in capital assets	20,539,516
Restricted	9,025,106
Unrestricted	<u>(21,026,228)</u>
Total Net Position	<u>\$ 8,538,394</u>

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

SACRAMENTO COUNTY OFFICE OF EDUCATION

STATEMENT OF ACTIVITIES

FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	Program Revenues				Net (Expense) Revenues and Changes in Net Position
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental Activities					
Instruction	\$ 26,004,257	\$ 1,974,630	\$ 13,129,651	\$ 330,163	\$ (10,569,813)
Instruction - related services:					
Instructional supervision and administration	30,996,135	2,712,602	19,445,613	-	(8,837,920)
School site administration	1,354,988	21,180	137,982	-	(1,195,826)
Pupil Services:					
Home-to-school transportation	21,547	16	56	-	(21,475)
Food services	574,004	2,110	89,997	-	(481,897)
All other pupil services	13,446,593	2,101,948	8,484,397	-	(2,860,248)
General administration:					
Centralized data processing	1,497,116	-	-	-	(1,497,116)
All other general administration	11,816,246	553,321	2,955,627	-	(8,307,298)
Plant services	4,787,655	45,328	338,013	-	(4,404,314)
Ancillary services	87,612	-	35,169	-	(52,443)
Community services	751,097	284,169	468,237	-	1,309
Enterprise activities	2,651,256	2,627	353,804	-	(2,294,825)
Interest on long-term debt	132,826	-	-	-	(132,826)
Other outgo	58,264,050	4,156,672	40,610,709	-	(13,496,669)
Total governmental activities	<u>\$ 152,385,382</u>	<u>\$ 11,854,603</u>	<u>\$ 86,049,255</u>	<u>\$ 330,163</u>	<u>(54,151,361)</u>
General Revenues					
Taxes and subventions:					
Taxes levied for general purposes					23,842,907
Taxes levied for other specific purposes					169,768
Federal and state aid not restricted to specific purposes					23,872,575
Interest and investment earnings					780,944
Interagency revenues					5,563,676
Miscellaneous					7,772,170
					<u>62,002,040</u>
					Change in Net Position
					<u>7,850,679</u>
					Net Position - beginning, as originally reported
					29,061,364
					Prior period adjustment (note 1Z)
					<u>(28,373,649)</u>
					Net Position - beginning, as restated
					687,715
					<u>\$ 8,538,394</u>

SACRAMENTO COUNTY OFFICE OF EDUCATION

BALANCE SHEET

GOVERNMENTAL FUNDS

JUNE 30, 2018

	County School Service Fund	Special Education Pass-Through Fund	Child Development Fund	Non-Major Governmental Funds	Totals
ASSETS					
Cash and investments (note 2)					
Cash in County Treasury	\$ 59,808,839	\$ 1,925,420	\$ 1,855,262	\$ 999,009	\$ 64,588,530
Cash awaiting deposit	16,864	-	-	-	16,864
Cash in revolving fund	30,000	-	-	-	30,000
Receivables	15,234,319	11,739,895	1,759,919	1,342,479	30,076,612
Prepaid expenditures	601,177	-	-	2,792	603,969
Due from other funds (note 3)	3,625,074	1,438,345	71,808	20,090	5,155,317
Total Assets	<u>\$ 79,316,273</u>	<u>\$ 15,103,660</u>	<u>\$ 3,686,989</u>	<u>\$ 2,364,370</u>	<u>\$ 100,471,292</u>
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable	\$ 11,414,073	\$ 13,134,816	\$ 211,059	\$ 1,028,029	\$ 25,787,977
Unearned revenue	1,513,947	-	556,003	-	2,069,950
Due to other funds (note 3)	1,530,243	-	2,919,927	705,147	5,155,317
Total Liabilities	<u>14,458,263</u>	<u>13,134,816</u>	<u>3,686,989</u>	<u>1,733,176</u>	<u>33,013,244</u>
Fund balances (note 7)					
Nonspendable	631,177	-	-	2,791	633,968
Restricted	6,551,890	1,968,844	-	504,372	9,025,106
Assigned	24,835,160	-	-	124,031	24,959,191
Unassigned	32,839,783	-	-	-	32,839,783
Total Fund Balances	<u>64,858,010</u>	<u>1,968,844</u>	<u>-</u>	<u>631,194</u>	<u>67,458,048</u>
Total liabilities and fund balances	<u>\$ 79,316,273</u>	<u>\$ 15,103,660</u>	<u>\$ 3,686,989</u>	<u>\$ 2,364,370</u>	<u>\$ 100,471,292</u>

SACRAMENTO COUNTY OFFICE OF EDUCATION
RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITON

GOVERNMENTAL FUNDS

JUNE 30, 2018

Total fund balances - governmental funds	\$ 67,458,048
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Amounts reported for assets and liabilities for governmental activities in the statement of net position are different from amounts reported in governmental

Capital assets: In governmental funds, only current assets are reported. In the statement of net position, all assets are reported, including capital assets and accumulated depreciation.

Capital assets at historical cost:	\$ 49,101,982	
Accumulated depreciation:	<u>(25,237,466)</u>	
Net:		23,864,516

Unmatured interest on long-term debt: In governmental funds, interest on long-term debt is not recognized until the period in which it matures and is paid. In the government-wide statement of activities, it is recognized in the period that it is incurred. (38,792)

Long-term liabilities: In governmental funds, only current liabilities are reported. In the statement of net position, all liabilities, including long-term liabilities, are reported. Long-term liabilities relating to governmental activities

Net pension liability	84,466,028	
Net OPEB obligation	27,169,899	
Compensated absences payable	1,184,393	
Refunding lease-purchase payable	<u>3,325,000</u>	
		<u>(116,145,320)</u>

Deferred outflows and inflows of resources relating to OPEB: In governmental funds, deferred outflows and inflows of resources relating to OPEB are not reported because they are applicable to future periods. In the statement of net position, deferred outflows and inflows of resources relating

Deferred outflows of resources relating to OPEB		15,002,835
Deferred inflows of resources relating to OPEB		<u>(774,394)</u>

Deferred outflows and inflows of resources relating to pensions: In governmental funds, deferred outflows and inflows of resources relating to pensions are not reported because they are applicable to future periods. In the statement of net position, deferred outflows and inflows of resources relating to pensions are reported

Deferred outflows of resources relating to pensions		28,039,125
Deferred inflows of resources relating to pensions		<u>(8,867,624)</u>

Total net position, governmental activities:	<u>\$ 8,538,394</u>
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The accompanying notes are an integral part of these financial statements.

SACRAMENTO COUNTY OFFICE OF EDUCATION

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES**

GOVERNMENTAL FUNDS

JUNE 30, 2018

	County School Service Fund	Special Education Pass-Through Fund	Child Development Fund	All Non-Major Funds	Totals
REVENUES					
LCFF Sources	\$ 27,945,190	\$ 17,968,466	\$ -	\$ -	\$ 45,913,656
Federal revenue	8,872,056	12,588,874	1,192,355	2,254,741	24,908,026
Other state revenues	23,099,032	13,787,417	3,648,074	11,675,254	52,209,777
Other local revenues	35,598,534	-	1,365,069	241,006	37,204,609
Total revenues	<u>95,514,812</u>	<u>44,344,757</u>	<u>6,205,498</u>	<u>14,171,001</u>	<u>160,236,068</u>
EXPENDITURES					
Certificated salaries	20,514,888	-	424,389	1,068,458	22,007,735
Classified salaries	25,844,261	-	1,872,804	1,280,291	28,997,356
Employee benefits	29,120,221	-	817,082	768,417	30,705,720
Books and supplies	2,382,629	-	139,768	54,317	2,576,714
Services and other operating expenditures	17,542,619	-	2,702,638	1,575,046	21,820,303
Capital outlay	1,286,252	-	-	330,163	1,616,415
Other outgo	2,151,825	44,591,032	323,769	11,197,420	58,264,046
Debt service:					
Principal retirement	705,000	-	-	-	705,000
Interest	-	-	-	141,050	141,050
Total expenditures	<u>99,547,695</u>	<u>44,591,032</u>	<u>6,280,450</u>	<u>16,415,162</u>	<u>166,834,339</u>
Excess (deficiency) of revenues over expenditures	(4,032,883)	(246,275)	(74,952)	(2,244,161)	(6,598,271)
OTHER FINANCING SOURCES (USES)					
Operating transfers in	-	-	69,569	20,078	89,647
Operating transfers out	<u>(89,647)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(89,647)</u>
Total other financing sources (uses)	<u>(89,647)</u>	<u>-</u>	<u>69,569</u>	<u>20,078</u>	<u>-</u>
Net change in fund balances	(4,122,530)	(246,275)	(5,383)	(2,224,083)	(6,598,271)
Fund balances, July 1, 2017	<u>68,980,540</u>	<u>2,215,119</u>	<u>5,383</u>	<u>2,855,277</u>	<u>74,056,319</u>
Fund balances, June 30, 2018	<u>\$ 64,858,010</u>	<u>\$ 1,968,844</u>	<u>\$ -</u>	<u>\$ 631,194</u>	<u>\$ 67,458,048</u>

SACRAMENTO COUNTY OFFICE OF EDUCATION

**RECONCILIATION OF GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES**

GOVERNMENTAL FUNDS

JUNE 30, 2018

Total net change in fund balances - governmental funds \$ (6,598,271)

Amounts reported for governmental activities in the statement of activities are different from amounts reported in governmental funds because:

Capital outlay: In governmental funds, the costs of capital assets are reported as expenditures in the period when the assets are acquired. In the statement of activities, costs of capital assets are allocated over their estimated useful lives as depreciation expense. The difference between capital outlay expenditures and depreciation expense for the period is:

Expenditures for capital outlay:	\$ 1,616,416	
Depreciation expense:	<u>(1,601,020)</u>	
Net:		15,396

Debt service: In governmental funds, repayments of long-term debt are reported as expenditures. In the government-wide statements, repayments of long-term debt are reported as reductions of liabilities. Expenditures for repayment of the principal portion of long-term debt were: 705,000

Gain or loss from disposal of capital assets: In governmental funds, the entire proceeds from disposal of capital assets are reported as revenue. In the statement of activities, only the resulting gain or loss is reported. The difference between the proceeds from disposal of capital assets and the resulting gain or loss is: (15,876)

Unmatured interest on long-term debt: In governmental funds, interest on long-term debt is recognized in the period that it becomes due. In the government-wide statement of activities, it is recognized in the period that it is incurred. Unmatured interest owing at the end of the period, less matured interest paid during the period but owing from the prior period was: 8,225

Pensions: In government funds, pension costs are recognized when employer contributions are made, in the statement of activities pension costs are recognized on the accrual basis. This year, the difference between accrual-basis pension costs and actual employer contributions was: (2,180,439)

Postemployment benefits other than pensions (OPEB): In governmental funds, OPEB costs are recognized when employer contributions are made. In the statement of activities, OPEB costs are recognized on the accrual basis. This year, the difference between OPEB costs and actual employer contributions was: 15,950,871

Compensated absences in governmental funds are measured by the amounts paid during the period. In the statement of activities, compensated absences are measured by the amounts earned. The difference between compensated absences paid and compensated absences earned was: (34,227)

Total change in net position - governmental activities \$ 7,850,679

SACRAMENTO COUNTY OFFICE OF EDUCATION

STATEMENT OF FIDUCIARY NET POSITION

JUNE 30, 2018

	<u>Agency Funds</u>
	Student Body Funds
	<u> </u>
ASSETS	
Cash and cash equivalents (note 2)	
Cash on hand and in banks	\$ 9,033
Total assets	<u> 9,033</u>
LIABILITIES	
Due to Other Student Groups	<u> 9,033</u>
Total liabilities	<u> 9,033</u>
NET POSITION	
Restricted	-
Total net position	<u><u> \$ -</u></u>

SACRAMENTO COUNTY OFFICE OF EDUCATION

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. HISTORY OF THE ORGANIZATION

The Sacramento County Office of Education (the "County Office") is a public educational agency operating under the applicable laws and regulations of the State of California. It is governed by a seven-member Governing Board elected by registered voters of the County Office. Each Board member represents an "area", which comprises several local communities within Sacramento County. The County Office is situated in one of the areas and serves students in kindergarten through grade twelve and adults, as well as infants in some Special Education programs.

B. REPORTING ENTITY

The County Superintendent of Schools and County Board of Education have governance responsibilities over the activities related to public school education conducted by the County Office. The Board is not included in any other governmental "reporting entity" as defined by the Governmental Accounting Standards Board since Board members have decision-making authority, the power to designate management, the responsibility to significantly influence operations and primary accountability for fiscal matters.

The County's Board of Education formed a non-profit public benefit corporation known as the Schools Projects Financing Corporation of Sacramento County ("Corporation"). The County Office and the Corporation have a financial and operational relationship which meet the reporting entity definition criteria of Codification of Governmental Accounting and Financial Reporting Standards, Section 2100, for inclusion of the Corporation as a blended component unit of the County Office. Therefore, the financial activities of the Corporation have been included in the financial statements of the County Office as a blended component unit.

The following are those aspects of the relationship between the County Office and the Corporation which satisfy Codification of Governmental Accounting and Financial Reporting Standards, Section 2100, as amended by criteria:

Manifestations of Oversight

The Corporation's Board of Directors is the County's Board of Education.

The Corporation has no employees. The County Office's Superintendent and Assistant Superintendent, Business Services function as agents of the Corporation. The individuals did not receive additional compensation for work performed in this capacity.

The County Office exercises significant influence over operations of the Corporation as it is anticipated that the County Office will be the sole lessee of all facilities owned by the Corporation.

Accounting for Fiscal Matters

All major financing arrangements, contracts, and other transactions of the Corporation must have the consent of the County Office.

SACRAMENTO COUNTY OFFICE OF EDUCATION

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2018

B. REPORTING ENTITY (CONTINUED)

Accounting for Fiscal Matters (Continued)

Any deficits incurred by the Corporation will be reflected in the lease payments of the County Office. Any surpluses of the Corporation revert to the County Office at the end of the lease period.

It is anticipated that the County Office's lease payments will be the sole revenue source of the Corporation.

The County Office has assumed a "moral obligation," and potentially a legal obligation, for any debt incurred by the Corporation.

Scope of Public Service and Financial Presentation

The Corporation was created for the sole purpose of financially assisting the County Office.

The Corporation is a nonprofit, public benefit corporation incorporated under the laws of the State of California and recorded by the Secretary of State. The Corporation was formed to provide financing assistance to the County Office for construction and acquisition of major capital facilities. Upon completion, the County Office intends to occupy all Corporation facilities. When the Corporation's Refunding lease-purchase agreements have been paid, title to all Corporation property will pass to the County Office for no additional consideration.

The Corporation's financial activity is presented in the financial statements in the County School Service Fund. Refunding lease purchase agreements issued by the Corporation are included in the long-term liabilities.

C. ACCOUNTING POLICIES

The County Office accounts for its financial transactions in accordance with the policies and procedures of the California Department of Education's California School Accounting Manual. The accounting policies of the County Office conform to accounting principles generally accepted in the United States of America, as prescribed by the Governmental Accounting Standards Board. The following is a summary of the more significant policies:

D. BASIS OF PRESENTATION

Financial Statements

The basic financial statements include financial statements prepared using full accrual accounting for all of the County Office's activities, including infrastructure, and a focus on the major funds.

Government-Wide Financial Statements

The Statement of Net Position and the Statement of Activities displays information about the reporting government as a whole. Fiduciary funds are not included in the government-wide financial statements. Fiduciary funds are reported only in the Statement of Fiduciary Net Position at the fund financial statement level.

SACRAMENTO COUNTY OFFICE OF EDUCATION

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2018

D. BASIS OF PRESENTATION (CONTINUED)

The Statement of Net Position and the Statement of Activities are prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets and liabilities resulting from non-exchange transactions are recognized in accordance with the requirements of Governmental Accounting Standards Board Codification Section (GASB Cod. Sec.) N50.118-.121.

Program revenues: Program revenues included in the Statement of Activities derive directly from the program itself or from parties outside the County Office's taxpayers or citizenry, as a whole; program revenues reduce the cost of the function to be financed from the County Office's general revenues.

Allocation of indirect expenses: The County Office reports all direct expenses by function in the Statement of Activities. Direct expenses are those that are clearly identifiable with a function. Depreciation expense is specifically identified by function and is included the direct expense of each function. Interest on long-term liabilities is considered an indirect expense and is reported separately on the Statement of Activities.

The government-wide statement of activities presents a comparison between expenses, both direct and indirect, of the County Office and for each governmental function, and excludes 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 County Office does not allocate indirect expenses to functions in the Statement of Activities. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program or business segment is self-financing or draws from the general revenues of the County Office. Eliminations have been made to minimize the double counting of internal activities.

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

Fund Financial Statements

Fund financial statements report detailed information about the County Office. The focus of governmental and proprietary 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.

SACRAMENTO COUNTY OFFICE OF EDUCATION

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2018

D. BASIS OF PRESENTATION (CONTINUED)

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.

E. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements.

Accrual

Government-wide financial statements are prepared using the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

Modified Accrual

The governmental fund financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible when the current period or within 60 days after year-end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general obligation long-term liabilities, if any, is recognized when due.

SACRAMENTO COUNTY OFFICE OF EDUCATION

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2018

E. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING (CONTINUED)

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 to 60 days. However, to achieve comparability of reporting among California districts 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 districts as collectible within one year. The following revenue sources are considered to be both measurable and available at fiscal year-end: Local Control Funding Formula, interest, certain grants, and other local sources.

Non-exchange transactions, in which the County Office 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.

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. Principal and interest on long-term obligations, which has not matured, are recognized when paid in the governmental funds. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds.

F. FUND ACCOUNTING

The accounts of the County Office are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. The County Office resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled.

SACRAMENTO COUNTY OFFICE OF EDUCATION

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2018

F. FUND ACCOUNTING (CONTINUED)

Major Governmental Funds

County School Service Fund:

The **County School Service Fund** is the general operating fund of the County Office and accounts for all revenues and expenditures of the County Office not encompassed within other funds. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures and the capital improvement expenditures that are not paid through other funds are paid from the County School Service Fund. For financial reporting purposes, the current year activity and year-end balances of the Special Reserve Fund for Other Than Capital Outlay Projects and the Special Reserve Fund for Postemployment Benefits Fund are combined with the County School Service Fund.

Special Education Pass-Through Fund

The **Special Education Pass-Through Fund** is used to account for pass-through of revenues to member Local Educational Agencies of the Special Education Local Plan Area.

Child Development Fund

The **Child Development Fund** is used to account for the proceeds of revenue sources that are legally restricted to expenditures related to early learning.

Non-major Governmental Funds

The **Adult Education Fund** is used to account for revenues received and expenditures made to operate the County Office's adult education program.

Capital Project Funds are used to account for resources used for the acquisition or construction of major capital facilities and equipment. This includes the Capital Facilities and County School Facilities Funds.

The **Capital Facilities Fund** is used to account for proceeds from various redevelopment projects that fund facility-related projects serving the needs of the community.

The **County School Facilities Fund** is used to account for the proceeds of revenue sources that are legally restricted to expenditures related to school site modernization.

Fiduciary Fund

Fiduciary funds are used to account for the assets for which the County Office acts as an agent. The County Office maintains one agency fund

The **Student Body Funds** account for the receipt and disbursement of monies from the student body clubs and activities of schools within the County Office.

SACRAMENTO COUNTY OFFICE OF EDUCATION

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2018

G. BUDGETS AND BUDGETARY ACCOUNTING

By state law, the County Office must adopt a final budget by July 1. A public hearing is conducted to receive comments prior to adoption. The County Office's governing board satisfied these requirements.

H. CASH AND CASH EQUIVALENTS

The County Office'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. Cash equivalents also include cash with county treasury balances for purposes of the statement of cash flows.

I. RECEIVABLES

Receivables are made up principally of amounts due from the State of California for Local Control Funding Formula and Categorical programs. The County Office has determined that no allowance for doubtful accounts was needed as of June 30, 2018.

J. PREPAID EXPENDITURES

The County Office has the option of reporting expenditures for prepaid items in governmental funds either when paid or during the benefiting period. The County Office has chosen to report the expenditures during the benefiting period.

K. CAPITAL ASSETS AND DEPRECIATION

Capital assets purchased or acquired, with an original cost of \$5,000 or more, are recorded at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements, and other capital outlay that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Capital assets are depreciated using the straight-line method over 5 - 30 years depending on asset types.

L. DEFERRED OUTFLOWS/INFLOWS OF RESOURCES

In addition to assets, the statement of net position includes a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s), and as such will not be recognized as an outflow of resources (expense/expenditures) until then.

In addition to liabilities, the statement of net position includes a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and as such, will not be recognized as an inflow of resources (revenue) until that time.

SACRAMENTO COUNTY OFFICE OF EDUCATION

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2018

M. INTERFUND BALANCES

Interfund activity is reported as either loans, services provided, reimbursements or transfers. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements are when one fund incurs at cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers.

N. COMPENSATED ABSENCES

Compensated absences benefits totaling \$1,184,393 are recorded as a liability of the County Office. The liability is for earned but unused benefits.

O. ACCUMULATED SICK LEAVE

Sick leave benefits are accumulated for each employee. The employees do not gain a vested right to accumulated sick leave. Accumulated employee sick leave benefits are not recognized as liabilities of the County Office since cash payment of such benefits is not probable. Therefore, sick leave benefits are recorded as expenditures in the period that sick leave is taken.

P. ACCRUED LIABILITIES AND LONG-TERM OBLIGATIONS

All payables, accrued liabilities, and long-term obligations are reported in the government-wide and/or governmental fund financial statements. Governmental fund payables and accrued liabilities that will be paid from current financial resources are reported as liabilities in the governmental funds balance sheet. In addition to these payables and accrued liabilities, the debt associated with compensated absences, lease-purchase agreements and other long-term obligations are reported as liabilities on the government-wide statement of net position.

Q. UNEARNED REVENUE

Revenue from federal, state and local special projects and programs is recognized when qualified expenditures have been incurred. Funds received but not earned are recorded as unearned revenue until earned.

R. FUND BALANCE – GOVERNMENTAL FUNDS

Governmental Accounting Standards Board Codification Sections 1300 and 1800, Fund Balance Reporting and Governmental Fund Type Definitions (GASB Cod. Sec. 1300 and 1800) implements a five-tier fund balance classification hierarchy that depicts the extent to which a government is bound by spending constraints imposed on the use of its resources. The five classifications, discussed in more detail below, are nonspendable, restricted, committed, assigned and unassigned.

Nonspendable Fund Balance reflects amounts that are not in spendable form, such as revolving fund cash and prepaid expenditures.

SACRAMENTO COUNTY OFFICE OF EDUCATION

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2018

R. FUND BALANCE – GOVERNMENTAL FUNDS (CONTINUED)

Restricted Fund Balance reflects amounts subject to externally imposed and legally enforceable constraints. Such constraints may be imposed by creditors, grantors, contributors, or laws or regulations of other governments, or may be imposed by law through constitutional provisions or enabling legislation. These are the same restrictions used to determine restricted net position as reported in the government-wide and fiduciary trust fund statements.

Committed Fund Balance classification reflects amounts subject to internal constraints self-imposed by formal action of the County Office. The constraints giving rise to committed fund balance must be imposed no later than the end of the reporting period. The actual amounts may be determined subsequent to that date but prior to the issuance of the financial statements. Formal action by the County Office is required to remove any commitment from any fund balance. At June 30, 2018, the County Office had no committed fund balances.

Assigned Fund Balance reflects amounts that the County Office has approved to be used for specific purposes, based on the County Office's intent related to those specific purposes. The County Office can designate personnel with the authority to assign fund balances. The Assistant Superintendent Business Services has the authority to assign fund balances as of June 30, 2018.

Unassigned Fund Balance represents the residual classification for the government's general fund and includes all spendable amounts not contained in the other classifications.

In the County School Service Fund only, the unassigned fund balance classification reflects the residual balance that has not been assigned to other funds and that is not restricted, committed, or assigned to specific purposes.

In any fund other than the County School Service Fund, a positive unassigned fund balance is never reported because amounts in any other fund are assumed to have been assigned, at least, to the purpose of that fund. However, deficits in any fund, including the County School Service Fund that cannot be eliminated by reducing or eliminating amounts assigned to other purposes are reported as negative unassigned fund balance.

Fund Balance Policy

The County Office has an expenditure policy relating to fund balances. For purposes of fund balance classifications, expenditures are to be spent from restricted fund balances first, followed in order by committed fund balances (if any), assigned fund balances and lastly unassigned fund balances.

While GASB Cod. Sec. 1300 and 1800 do not require county offices of education to establish a minimum fund balance policy or a stabilization arrangement, GASB Cod. Sec. 1300 and 1800 do require the disclosure of a minimum fund balance policy and stabilization arrangements, if they have been adopted by the County Office. At June 30, 2018, the County Office has not established a minimum fund balance policy nor has it established a stabilization arrangement.

SACRAMENTO COUNTY OFFICE OF EDUCATION

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2018

S. NET POSITION

Net position represents the difference between assets and liabilities. Net position is reported as restricted when there are limitations imposed on their use either through enabling legislation adopted by the County Office or through external restrictions imposed by creditors, grantors, or laws and regulations of other governments. The County Office first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

Restricted Net Position

Restrictions of the ending net position indicate the portions of net position not appropriate for expenditure or amounts legally segregated for a specific future use. The restriction for legally restricted program activities is restricted for expenditures only in those particular programs. These amounts are not available for appropriation and expenditure at the balance sheet date. The restrictions for capital projects represent the portions of net position the County Office plans to expend in the future on capital projects. The restriction for retiree benefits represents the portion of net position the County Office has set aside for future payment of retiree benefits. It is the County Office's policy to use restricted net position first when allowable expenditures are incurred.

T. PROPERTY TAX

Secured property taxes are attached as an enforceable lien on property as of March 1. Taxes are due in two installments on or before December 10 and April 10. Unsecured property taxes are due in one installment on or before August 31. The County of Sacramento bills and collects taxes for the County Office. Tax revenues are recognized by the County Office when received.

U. ELIMINATIONS AND RECLASSIFICATIONS

In the process of aggregating data for the Statement of Net Position and the Statement of Activities, some amounts reported as interfund activity and balances in the funds were eliminated or reclassified. Interfund receivables and payables were eliminated to minimize the "grossing up" effect on assets and liabilities within the governmental activities column.

V. ENCUMBRANCES

Encumbrance accounting is used in all budgeted funds to reserve portions of applicable appropriations for which commitments have been made. Encumbrances are recorded for purchase orders, contracts, and other commitments when they are written. Encumbrances are liquidated when the commitments are paid. All encumbrances are liquidated at June 30.

W. USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities and the date of the financial statements and the reported amounts

SACRAMENTO COUNTY OFFICE OF EDUCATION

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2018

W. USE OF ESTIMATES (CONTINUED)

of revenues and expenditures during the reporting period. Accordingly, actual results may differ from those estimates.

X. 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 County Office's California Public Employees' Retirement System (CalPERS) and California State Teachers Retirement System (STRS) plans (Plans) and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by CalPERS and STRS, respectively. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Y. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

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

Z. CHANGE IN ACCOUNTING PRINCIPLE

Effective July 1, 2017, the County Office adopted GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB), which supersedes GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions. GASB 75 addresses accounting and financial reporting for other postemployment benefits offered by the County Office and requires various note disclosures (Note 8) and required supplementary information. As a result, beginning of year net position has been restated as follows:

Net position previously reported, June 30, 2017	\$ 29,061,364
Net OPEB obligation previously reported	518,680
Net OPEB liability <i>restated</i>	<u>(28,892,329)</u>
Prior-period adjustment	(28,373,649)
Net position as restated	<u>\$ 687,715</u>

Information on beginning of year deferred outflows and deferred inflows of OPEB resources, and all information for the prior years is not available and therefore such amounts have not been restated.

SACRAMENTO COUNTY OFFICE OF EDUCATION

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2018

2. CASH AND CASH EQUIVALENTS

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

	<u>Governmental Activities</u>	<u>Fiduciary Activities</u>
Pooled Funds:		
Cash in County Treasury	\$ 64,588,530	\$ -
Deposits:		
Revolving cash fund	30,000	-
Cash on hand and in banks	-	9,033
Cash awaiting deposit	16,864	-
	<u>\$ 64,635,394</u>	<u>\$ 9,033</u>

Cash in County Treasury

In accordance with Education Code Section 41001, the County Office maintains substantially all of its cash in the Sacramento County Treasury. The Sacramento County Treasury pools these funds with those of other districts and agencies within the County in the interest-bearing Sacramento County Treasurer's Pooled Surplus Investment Fund. These pooled funds are recorded at cost which approximates fair value. Interest earned is deposited quarterly into participating funds. Any investment losses are proportionately shared by all funds in the pool.

Because the County Office's deposits are maintained in a recognized pooled investment fund under the care of a third party and the County Office's share of the pool does not consist of specific, identifiable investment securities owned by the County Office, no disclosure of the individual deposits and investments or related custodial credit risk classification is required.

In accordance with applicable state laws, the Sacramento County Treasurer may invest in derivative securities. However, at June 30, 2018, the Sacramento County Treasurer has indicated that the Treasurer's Pooled Surplus Investment Fund contained no derivatives or other investments with similar risk profiles.

Custodial Credit Risk. The County Office limits custodial credit risk by ensuring uninsured balances are collateralized by the respective financial institution. Cash balances held in banks are insured up to \$250,000 by the Federal Deposit Insurance Corporation (FDIC) and are collateralized by the respective financial institution. June 30, 2018, the carrying amount and the bank balance of the County Office's accounts were \$46,864, all of which was insured.

Interest Rate Risk. It is the County Office's policy to limit cash and investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. At June 30, 2018, the County Office had no significant interest rate risk related to cash and investments held.

SACRAMENTO COUNTY OFFICE OF EDUCATION

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2018

2. CASH AND CASH EQUIVALENTS (CONTINUED)

Credit Risk. It is the County Office’s policy to limit its investment choices in addition to the limitations of state law.

Concentration of Credit Risk. The County Office does not place limits on the amount it may invest in any one issuer. At June 30, 2018, the County Office had no concentration of credit risk.

3. INTERFUND ACTIVITIES

Transactions between funds of the County Office are recorded as interfund transfers. The unpaid balances at year-end, as a result of such transactions, are shown as due to and due from other funds.

Due from/Due to Other Funds

Amounts Due from/Due to other funds, at June 30, 2018, were as follows:

Fund	Interfund Receivables	Interfund Payables
<u>Governmental Activities</u>		
<u>Major Funds:</u>		
County School Service	\$ 3,625,074	\$ 1,530,243
Special Education Pass-Through	1,438,345	-
Child Development	71,808	2,919,927
<u>Non-Major Fund:</u>		
Adult Education Fund	20,090	325,147
County School Facilities Fund	-	380,000
Total	\$ 5,155,317	\$ 5,155,317

Interfund Transfers

Amounts transferred, for the fiscal year ended June 30, 2018, were as follows:

Transfer from the County School Service Fund to the Adult Education Fund to cover expenditures due to salary and benefit increases not covered by grants.	\$ 20,078
Transfer from the County School Service Fund to the Child Development Fund to cover expenditures due to salary and benefit increases not covered by grants.	69,569
Total Transfers	\$ 89,647

SACRAMENTO COUNTY OFFICE OF EDUCATION

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2018

4. CAPITAL ASSETS

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

	Balance July 1, 2017	Additions and Transfers	Deductions and Transfers	Balance June 30, 2018
Non-depreciable assets:				
Land	\$ 2,725,573	\$ -	\$ -	\$ 2,725,573
Work in-process	48,717	776,782	-	825,499
	<u>2,774,290</u>	<u>776,782</u>	<u>-</u>	<u>3,551,072</u>
Depreciable assets:				
Improvements on sites	1,044,228	-	-	1,044,228
Building	37,323,161	602,274	-	37,925,435
Equipment	6,668,592	237,360	324,705	6,581,247
	<u>45,035,981</u>	<u>839,634</u>	<u>324,705</u>	<u>45,550,910</u>
Totals, at cost	<u>47,810,271</u>	<u>1,616,416</u>	<u>324,705</u>	<u>49,101,982</u>
Less accumulated depreciation:				
Improvement of sites	(399,602)	(50,566)	-	(450,168)
Building	(18,077,028)	(1,230,239)	-	(19,307,267)
Equipment	(5,468,645)	(320,215)	(308,829)	(5,480,031)
Total accumulated depreciation	<u>(23,945,275)</u>	<u>(1,601,020)</u>	<u>(308,829)</u>	<u>(25,237,466)</u>
Capital assets, net	<u>\$ 23,864,996</u>	<u>\$ 15,396</u>	<u>\$ 15,876</u>	<u>\$ 23,864,516</u>

For the fiscal year ended June 30, 2018, depreciation expense was charged to governmental activities as follows:

Instruction	\$ 428,953
Instructional supervision and administration	29,901
School administration	157,886
Other pupil services	2,796
Enterprise activities	69,450
Centralized data processing	89,296
Plant maintenance and operations	256,183
Other general administration	566,555
Total depreciation expense	<u>\$ 1,601,020</u>

SACRAMENTO COUNTY OFFICE OF EDUCATION

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2018

5. LONG-TERM LIABILITIES

Refunding Lease-Purchase

On March 1, 2013, the County Office entered into a lease purchase agreement with School Projects Financing Corporation of Sacramento County for current refunding of the 1999 Refunding Certificates of Participation and 2002 Certificates of Participation, Series A. The 2013 Refunding Lease-Purchase matures through 2027 with an effective interest rate of 3.50% as follows:

Year Ended June 30,	Principal	Interest	Total
2019	\$ 730,000	\$ 116,375	\$ 846,375
2020	285,000	90,825	375,825
2021	295,000	80,850	375,850
2022	305,000	70,525	375,525
2023	320,000	59,850	379,850
2024-2028	1,390,000	123,725	1,513,725
Totals	\$ 3,325,000	\$ 542,150	\$ 3,867,150

Schedule of Changes in Long-Term Liabilities

A schedule of changes in long-term liabilities for the fiscal year ended June 30, 2018 is shown below:

	Balance July 1, 2017	Additions	Deductions	Balance June 30, 2018	Due Within One Year
Refunding lease-purchase	\$ 4,030,000	\$ -	\$ 705,000	\$ 3,325,000	\$ 730,000
Net pension liability	74,368,841	10,097,187	-	84,466,028	-
Net OPEB liability	28,892,329	-	1,722,430	27,169,899	-
Compensated absences	1,150,166	34,227	-	1,184,393	1,184,393
	\$ 108,441,336	\$ 10,131,414	\$ 2,427,430	\$ 116,145,320	\$ 1,914,393

Payments on the refunding lease-purchase agreements are made from the County School Service Fund and Capital Facilities Fund. Payments on the compensated absences and other postemployment benefits are made from the fund for which the related employee worked. The beginning balance of Net OPEB liability was restated as a result of implementing GASB 75 – Accounting and Financial Reporting for Postemployment Benefits other than Pensions.

SACRAMENTO COUNTY OFFICE OF EDUCATION

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2018

6. EMPLOYEE RETIREMENT SYSTEMS

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

California Public Employees' Retirement System (CalPERS)

Plan Description

The County Office contributes to the School Employer Pool under the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by state statutes, as legislatively amended, within the Public Employees' Retirement Law. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS annual financial report may be obtained from the CalPERS Headquarters, 400 Q Street, Sacramento, California 95811.

State Teachers' Retirement System (STRS)

Plan Description

The County Office contributes to the State Teachers' Retirement System (STRS), a cost-sharing, multiple-employer, public employee retirement system defined benefit pension plan administered by STRS. The plan provides retirement and disability benefits and survivor benefits to beneficiaries. Benefit provisions are established by state statutes, as legislatively amended, within the State Teachers' Retirement Law. STRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the STRS annual financial report may be obtained from the STRS Headquarters, 100 Waterfront Place, West Sacramento, California 95605.

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

	CalPERS		CalSTRS	
	Prior to January 1, 2013	On or after January 1, 2013	Prior to January 1, 2013	On or after January 1, 2013
Hire date				
Benefit formula	2% @ 55	2% @ 62	2% @ 60	2% @ 62
Benefit vesting schedule	5 years service	5 years service	5 years service	5 years service
Benefit payments	monthly for life	monthly for life	monthly for life	monthly for life
Retirement age	55	62	60	62
Monthly benefits, as a % of eligible compensation	2.0%	2.0%	2.0%	2.0%
Required employee contribution rates	7%	6%	10.25%	9.205%
Required employer contribution rates	15.531%	15.531%	14.43%	14.43%

SACRAMENTO COUNTY OFFICE OF EDUCATION

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2018

6. EMPLOYEE RETIREMENT SYSTEMS (CONTINUED)

Deferred Outflows/Inflows of Resources

CalPERS

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. Funding contributions for the Plans are determined annually on an actuarial basis as of June 30 by CalPERS. 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. Sacramento County Office of Education is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

STRS

Required member, employer and state contribution rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. Contribution rates are expressed as a level percentage of payroll using the entry age normal actuarial cost method.

For the year ended June 30, 2018, the contributions reported as deferred outflows of resources related to pensions recognized as part of pension expense for the Plan were:

	CalPERS	STRS	Total
Contributions - employer	\$ 4,187,132	\$ 3,045,402	\$ 7,232,534
On behalf contributions - state	-	1,793,665	1,793,665
Total	\$ 4,187,132	\$ 4,839,067	\$ 9,026,199

The amounts reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2018.

Other amounts reported as deferred inflows and outflows of resources related to pensions will be recognized as pension expense as follows:

Year Ended	Total Deferred		
June 30	CalPERS	STRS	Outflows/ (Inflows) of Resources
2019	\$ 1,409,529	\$ (1,325,819)	\$ 83,710
2020	3,219,409	(27,781)	3,191,628
2021	3,265,419	438,678	3,704,097
2022	326,442	840,583	1,167,025
2023	-	907,529	907,529
Thereafter	-	1,091,313	1,091,313
Total	\$ 8,220,799	\$ 1,924,503	\$ 10,145,302

SACRAMENTO COUNTY OFFICE OF EDUCATION

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2018

6. EMPLOYEE RETIREMENT SYSTEMS (CONTINUED)

At June 30, 2018, the County Office reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	CalPERS		STRS		Total	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 4,187,132	\$ -	\$ 4,839,067	\$ -	\$ 9,026,199	\$ -
Difference between proportionate share of aggregate employer contributions and actual contributions for 2016-17.	-	838,275	-	986,737	-	1,825,012
Changes of Assumptions	5,124,685	1,442,002	5,920,388	-	11,045,073	1,442,002
Differences between Expected and Actual Experience	2,508,461	-	118,180	1,427,279	2,626,641	1,427,279
Change in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions	-	-	2,473,282	2,781,509	2,473,282	2,781,509
Net differences between projected and actual investment earnings on pension plan investments	2,867,930	-	-	1,391,822	2,867,930	1,391,822
Total	<u>\$ 14,688,208</u>	<u>\$ 2,280,277</u>	<u>\$ 13,350,917</u>	<u>\$ 6,587,347</u>	<u>\$ 28,039,125</u>	<u>\$ 8,867,624</u>

Pension Liabilities

As of June 30, 2018, Sacramento County Office of Education reported net pension liabilities for its proportionate share of the net pension liability of the Plans' of:

	Proportionate Share of Net Pension Liability
CalPERS	\$ 47,182,986
STRS	37,283,042
Total Net Pension Liability	<u>\$ 84,466,028</u>

SACRAMENTO COUNTY OFFICE OF EDUCATION

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2018

6. EMPLOYEE RETIREMENT SYSTEMS (CONTINUED)

Sacramento County Office of Education’s net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plan is measured as of June 30, 2017, and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016 rolled forward to June 30, 2017 using standard update procedures. Sacramento County Office of Education’s proportion of the net pension liability was based on a projection of the County Office’s long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. The County Office’s proportionate share of the net pension liability for the Plan as of June 30, 2016 and 2017 was as follows:

	CalPERS	STRS
Proportion - June 30, 2016	0.20316%	0.04234%
Proportion - June 30, 2017	0.19764%	0.04031%
Change - Increase (Decrease)	-0.00552%	-0.00203%

Pension Expenses

For the year ended June 30, 2018, the County Office recognized pension expense of \$947,715 and \$1,232,723 for CalPERS and STRS, respectively.

Actuarial Assumptions

The total pension liabilities in the June 30, 2017 actuarial valuations were determined using the following actuarial assumptions:

	CalPERS	STRS
Valuation Date	June 30, 2016	June 30, 2016
Measurement Date	June 30, 2017	June 30, 2017
Actuarial Cost Method	Entry-Age Normal Cost	Entry-Age Normal Cost
Actuarial Assumptions		
Discount Rate	7.15%	7.10%
Inflation	2.75%	2.75%
Payroll Growth Rate	3.00%	3.50%
Projected Salary Increase	Varies by Entry Age and Service	Varies by Entry Age and Service
Investment Rate of Return (1)	7.15%	7.10%
Mortality	Derived using CalPERS' Membership Data for all Funds	Derived using STRS' Membership Data for all Funds

(1) Net of pension plan investment expenses, including inflation

SACRAMENTO COUNTY OFFICE OF EDUCATION

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2018

6. EMPLOYEE RETIREMENT SYSTEMS (CONTINUED)

Discount Rate

CalPERS

The discount rate used to measure the total pension liability for the Plan was 7.15 percent and reflects the long-term expected rate of return for the Plan net of investment expenses and without reduction for administrative expenses. To determine whether the municipal bond rate should be used in the calculation of a discount rate, the amortization and smoothing periods adopted by the Board in 2013 were used. For the Plan, projections of expected benefit payments and contributions at the statutorily required member and employer rates were performed to determine if the assets would run out. The tests revealed the assets would not run out for the Plan. Therefore, the long-term expected rates of return on pension plan investments were applied to all periods of projected benefit payments to determine the total pension liability for the Plan. The crossover test results can be found on CalPERS' website at <https://www.calpers.ca.gov/page/employers/actuarial-services/gasb>.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

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 of the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 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 table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These rates of return are net of administrative expenses.

<u>Asset Class</u>	CalPERS		
	New Strategic Allocation	Real Return Years 1-10 (a)	Real Return Years 11+ (b)
	Global Equity	47.0%	4.90%
Fixed Income	19.0%	0.80%	2.27%
Inflation Assets	6.0%	0.60%	1.39%
Private Equity	12.0%	6.60%	6.63%
Real Estate	11.0%	2.80%	5.21%
Infrastructure and Forestland	3.0%	3.90%	5.36%
Liquidity	2.0%	-0.40%	-0.90%
	<u>100.0%</u>		

(a) An expected inflation of 2.5% used for this period

(b) An expected inflation of 3.0% used for this period

SACRAMENTO COUNTY OFFICE OF EDUCATION

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2018

6. EMPLOYEE RETIREMENT SYSTEMS (CONTINUED)

Discount Rate

STRS

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 that contributions from plan members and employers will be made at statutory contribution rates in accordance with the rate increase per AB 1469. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.10 percent) and assuming that contributions and benefit payments occur midyear. Based on those assumptions, the Plan’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 the total pension liability.

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

Asset Class	STRS	
	Assumed Asset Allocation	Long-Term Expected Real Rate of Return
Global Equity	47.0%	6.30%
Private Equity	13.0%	9.30%
Real Estate	13.0%	5.20%
Fixed Income	12.0%	0.30%
Absolute Return/Risk Mitigating Strategies	9.0%	2.90%
Inflation Sensitive	4.0%	3.80%
Cash/Liquidity	2.0%	-1.00%
Total	100%	

SACRAMENTO COUNTY OFFICE OF EDUCATION

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2018

6. EMPLOYEE RETIREMENT SYSTEMS (CONTINUED)

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the County Office’s proportionate share of the net pension liability for each Plan, calculated using the discount rate for each Plan, as well as what the County Office’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	CalPERS		
	Discount Rate - 1% (6.15%)	Current Discount Rate (7.15%)	Discount Rate + 1% (8.15%)
Plan's Net Pension Liability	\$ 69,421,291	\$ 47,182,986	\$ 28,734,448

	STRS		
	Discount Rate - 1% (6.10%)	Current Discount Rate (7.10%)	Discount Rate + 1% (8.10%)
Plan's Net Pension Liability	\$ 54,743,342	\$ 37,283,042	\$ 23,112,825

Pension Plan Fiduciary Net Position

Detailed information about each pension plan’s fiduciary net position is available in the separately issued CalPERS and STRS financial reports.

Payable to the Pension Plan

As of June 30, 2018, the County Office had no outstanding required contributions to the pension plans.

SACRAMENTO COUNTY OFFICE OF EDUCATION

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2018

7. FUND BALANCES

The County Office reports fund balances in accordance with Governmental Accounting Standards Board Statement No. 54. All fund balance categories are reported in the aggregate on the face of the balance sheet. All components of those fund balances and specific purposes are identified as follows:

Fund Balances, by category, consisted of the following at June 30, 2018:

	County School Service Fund	Special Education Pass-Through	Non-Major Funds	Total
Nonspendable				
Revolving Cash	\$ 30,000	\$ -	\$ -	\$ 30,000
Prepaid Items	601,177	-	2,791	603,968
Subtotal Nonspendable	<u>631,177</u>	<u>-</u>	<u>2,791</u>	<u>633,968</u>
Restricted				
Medi-Cal Billing Option	1,960	-	-	1,960
California Clean Energy Jobs Act	132,118	-	-	132,118
Lottery: Instructional Materials	23,382	-	-	23,382
CalWORKs	23,642	-	-	23,642
Special Education	4,539,042	-	-	4,539,042
Special Ed: Early Ed Individuals with Exceptional Needs	802,413	-	-	802,413
Special Ed: Mental Health Services	227,088	1,968,844	-	2,195,932
Quality Education Investment Act	147,266	-	-	147,266
Ongoing & Major Maintenance Account	153,511	-	-	153,511
Adult Ed Block Grant Program	-	-	101,835	101,835
Adult Ed Block Grant Data and Accountability	-	-	50,866	50,866
Other Restricted Local	501,468	-	351,671	853,139
Subtotal Restricted	<u>6,551,890</u>	<u>1,968,844</u>	<u>504,372</u>	<u>9,025,106</u>
Assigned				
Other Assignments	24,835,160	-	124,031	24,959,191
Subtotal Assigned	<u>24,835,160</u>	<u>-</u>	<u>124,031</u>	<u>24,959,191</u>
Unassigned				
Reserve for Economic Uncertainties	1,980,000	-	-	1,980,000
Unassigned/Unappropriated Amount	30,859,783	-	-	30,859,783
Subtotal Unassigned	<u>32,839,783</u>	<u>-</u>	<u>-</u>	<u>32,839,783</u>
Total	<u>\$ 64,858,010</u>	<u>\$ 1,968,844</u>	<u>\$ 631,194</u>	<u>\$ 67,458,048</u>

SACRAMENTO COUNTY OFFICE OF EDUCATION

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2018

8. OTHER POSTEMPLOYMENT BENEFITS

General Information about the OPEB Plan

Plan description. The County Office participates in California Employers' Retiree Benefit Trust (CERBT), an agent multi-employer defined benefit other postemployment benefits plan administered by the California Public Employees' Retirement System (CalPERS). Currently the plan provides for monthly health benefits to eligible retirees. Benefit provisions are established by labor agreements and may be amended by such for current active employees. Benefit provisions are approved by the Sacramento County Superintendent of Schools. Separate financial statements are prepared for the Plan and may be obtained by contacting CalPERS.

The CERBT was established by Chapter 331 of the 1988 California Statutes, and employers elect to participate in the CERBT to pre-fund health, dental, and other non-pension postemployment benefits for their retirees and survivors. The CERBT has pooled administrative and investment functions, while separate employer accounts are maintained to pre-fund and pay for health care or other postemployment benefits in accordance with the terms of the participating employers' plans. There are three Board approved investment strategies for employers to choose from depending on their expected levels of return and volatility. Benefit provisions are established by participating employers.

Employees covered by benefit terms. At June 30, 2018, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefit payments	407
Inactive employees entitles to but not yet receiving benefit payments	-
Active employees	649
	<u>1,056</u>

Contributions. For the year ended June 30, 2018, the County Office's average contribution rate was 31.95 percent of covered-employee payroll. Employees are not required to contribute to the plan.

Net OPEB Liability

The County Office's net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of July 1, 2017.

Actuarial assumptions. The total OPEB liability in the July 1, 2017 actuarial valuation was determined using the actuarial assumptions shown on the following page, applied to all periods included in the measurement, unless otherwise specified:

SACRAMENTO COUNTY OFFICE OF EDUCATION

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2018

8. OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Discount Rate	7.28%
Inflation	2.75% per year
Salary Increases	3.25% per annum, in aggregate
Investment rate of return	7.28% per year net of expenses
Healthcare cost trend rates	7.5% and grades down to 5% for years 2024 and thereafter
Mortality Improvement	MacLeod Watts Scale 2017 applied generationally

Demographic actuarial assumptions were based on the 2014 experience study of the California Public Employees Retirement System using data from 1997 to 2011, except for a different basis used to project future mortality improvements. Mortality rates used were those published by CalPERS, adjusted to back out 20 years of Scale BB to central year 2008, then projected.

The long-term expected rate of return on OPEB 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 OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global Equity	57%	11.00%
Global Debt Securities	27%	2.90%
Inflation Assets	5%	0.30%
REITs	8%	7.00%
Commodities	3%	-13.70%
Total	<u>100%</u>	

Discount rate. The discount rate used to measure the total OPEB liability was 7.28 percent. The projection of cash flows used to determine the discount rate assumed that contributions from school districts and county offices will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

SACRAMENTO COUNTY OFFICE OF EDUCATION

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2018

8. OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Changes in the Net OPEB Liability

	Increase (Decrease)		
	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
	(a)	(b)	(a) - (b)
Balances at June 30, 2017	\$ 58,796,223	\$ 29,903,894	\$ 28,892,329
Changes for the year:			
Service cost	1,354,679	-	1,354,679
Interest	4,270,665	-	4,270,665
Differences between expected and actual experience	-	-	-
Contributions - employer	-	4,175,856	(4,175,856)
Net investment income	-	3,188,088	(3,188,088)
Benefit payments	(2,975,856)	(2,975,856)	-
Administrative expense	-	(16,170)	16,170
Net changes	<u>2,649,488</u>	<u>4,371,918</u>	<u>(1,722,430)</u>
Balances at June 30, 2018	<u>\$ 61,445,711</u>	<u>\$ 34,275,812</u>	<u>\$ 27,169,899</u>

Sensitivity of the net OPEB liability to changes in the discount rate and healthcare cost trend rates. The following presents the net OPEB liability of the County Office, as well as what the County Office's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.28 percent) or 1-percentage-point higher (8.28 percent) than the current discount rate:

	1% Decrease (6.28%)	Discount Rate (7.28%)	1% Increase (8.28%)
Net OPEB liability (asset)	\$ 35,019,338	\$ 27,169,899	\$ 20,645,388

Sensitivity of the net OPEB liability to changes in the healthcare cost trend rates. The following presents the net OPEB liability of the County Office, as well as what the County Office's net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	Healthcare Cost		
	1% Decrease	Trend Rates	1% Increase
Net OPEB liability (asset)	\$ 20,117,894	\$ 27,169,899	\$ 36,741,938

OPEB plan fiduciary net position. Detailed information about the OPEB plan's fiduciary net position is available in the separately issued CalPERS Comprehensive Annual Financial Report.

SACRAMENTO COUNTY OFFICE OF EDUCATION

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2018

8. OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

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

For the year ended June 30, 2018, the County Office recognized OPEB expense of \$3,227,820. At June 30, 2018, the County Office reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ -
Changes of assumptions	-	-
Net difference between projected and actual earnings on OPEB plan investments	-	774,394
Deferred contributions	15,002,835	-
Total	\$ 15,002,835	\$ 774,394

The County Office will recognize the contributions made subsequent to the measurement date in the next fiscal year. In addition, future recognition of these deferred resources is shown below:

Year Ended June 30	Total Deferred Outflows/(Inflows) of Resources
2019	\$ (193,599)
2020	(193,599)
2021	(193,599)
2022	(193,597)
2023	-
Thereafter	-
Total	\$ (774,394)

Payable to the OPEB Plan

At June 30, 2018, the County Office had no outstanding amount of contributions to the Plan required for the year ended June 30, 2018.

SACRAMENTO COUNTY OFFICE OF EDUCATION

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2018

9. JOINT VENTURES

Schools Insurance Authority

The County Office is a member of a Joint Powers Authority, Schools Insurance Authority for the operation of a common risk management and insurance program for property, liability and workers' compensation coverage. The following is a summary of financial information for Schools Insurance Authority for the year ended June 30, 2018:

Total assets	\$	156,099,265
Deferred outflow of resources	\$	2,183,259
Total liabilities	\$	78,395,474
Deferred inflow of resources	\$	438,183
Total net position	\$	79,448,867
Total revenues	\$	65,282,138
Total expenses	\$	59,716,101

The relationship between the County Office and the Joint Powers Authority is such that the joint powers authority is not a component unit of the County Office for financial reporting purposes. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

10. COMMITMENTS AND CONTINGENCIES

The County Office is subject to legal proceedings and claims which arise in the ordinary course of business. In the opinion of management, the amount of ultimate liability with respect to these actions will not materially affect the financial position or results of operations of the County Office.

Also, the County Office has received federal and state funds for specific purposes that are subject to review or audit by the grantor agencies. Although such audits could generate expenditure disallowances under terms of the grants, it is believed that any required reimbursements will not be material.

11. SUBSEQUENT EVENTS

The County Office's management evaluated its June 30, 2018 financial statements for subsequent events through December 12, 2018, the date the financial statements were available to be issued. Management is not aware of any subsequent events that would require recognition or disclosure in the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

SACRAMENTO COUNTY OFFICE OF EDUCATION
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE – BUDGET (NON-GAAP) AND ACTUAL
COUNTY SCHOOL SERVICE FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	<u>Budget</u>		<u>Actual</u>	Variance with Final Budget Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>		
REVENUES				
LCFF sources	\$ 28,104,288	\$ 27,945,193	\$ 27,945,190	\$ (3)
Federal revenue	7,046,302	8,872,069	8,872,056	(13)
Other state revenues	21,748,146	23,099,045	23,099,032	(13)
Other local revenues	32,785,906	35,598,580	35,598,534	(46)
Total revenues	<u>89,684,642</u>	<u>95,514,887</u>	<u>95,514,812</u>	<u>(75)</u>
EXPENDITURES				
Certificated salaries	19,974,337	20,514,926	20,514,888	38
Classified salaries	24,783,649	25,844,350	25,844,261	89
Employee benefits	17,964,258	29,120,739	29,120,221	518
Books and supplies	2,108,673	2,382,689	2,382,629	60
Services and other operating expenditures	15,668,509	17,542,856	17,542,619	237
Capital outlay	139,865	1,286,256	1,286,252	4
Other outgo	2,044,640	2,151,830	2,151,825	5
Debt service:				
Principal retirement	705,000	705,000	705,000	-
Total expenditures	<u>83,388,931</u>	<u>99,548,646</u>	<u>99,547,695</u>	<u>951</u>
Excess (deficiency) of revenues over expenditures	6,295,711	(4,033,759)	(4,032,883)	876
OTHER FINANCING SOURCES (USES)				
Operating transfers in	14,000	-	-	-
Operating transfers out	(110,483)	(89,649)	(89,647)	2
Total other financing sources (uses)	<u>(96,483)</u>	<u>(89,649)</u>	<u>(89,647)</u>	<u>2</u>
Net change in fund balances	6,199,228	(4,123,408)	(4,122,530)	878
Fund balances, July 1, 2017	<u>68,980,540</u>	<u>68,980,540</u>	<u>68,980,540</u>	-
Fund balances, June 30, 2018	<u>\$ 75,179,768</u>	<u>\$ 64,857,132</u>	<u>\$ 64,858,010</u>	<u>\$ 878</u>

SACRAMENTO COUNTY OFFICE OF EDUCATION
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE – BUDGET (NON-GAAP) AND ACTUAL
SPECIAL EDUCATION PASS-THROUGH FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	<u>Budget</u>		<u>Actual</u>	Variance with Final Budget Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>		
REVENUES				
LCFF sources	\$ 15,416,240	\$ 17,968,467	\$ 17,968,466	\$ (1)
Federal revenue	679,510	12,588,874	12,588,874	-
Other state revenues	16,583,255	13,787,417	13,787,417	-
Total revenues	32,679,005	44,344,758	44,344,757	(1)
EXPENDITURES				
Other outgo	32,679,005	44,591,032	44,591,032	-
Net change in fund balances	-	(246,274)	(246,275)	(1)
Fund balances, July 1, 2017	2,215,119	2,215,119	2,215,119	-
Fund balances, June 30, 2018	<u>\$ 2,215,119</u>	<u>\$ 1,968,845</u>	<u>\$ 1,968,844</u>	<u>\$ (1)</u>

SACRAMENTO COUNTY OFFICE OF EDUCATION

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE – BUDGET (NON-GAAP) AND ACTUAL**

CHILD DEVELOPMENT FUND

FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	<u>Budget</u>		<u>Actual</u>	Variance with Final Budget Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>		
REVENUES				
Federal revenue	\$ 1,026,797	\$ 1,192,358	\$ 1,192,355	\$ (3)
Other state revenues	2,319,506	3,648,076	3,648,074	(2)
Other local revenues	1,649,639	1,365,071	1,365,069	(2)
Total revenues	<u>4,995,942</u>	<u>6,205,505</u>	<u>6,205,498</u>	<u>(7)</u>
EXPENDITURES				
Certificated salaries	443,861	424,389	424,389	-
Classified salaries	1,992,214	1,872,808	1,872,804	4
Employee benefits	928,975	817,088	817,082	6
Books and supplies	88,035	139,768	139,768	-
Services and other operating expenditures	1,280,585	2,702,638	2,702,638	-
Other outgo	339,235	323,770	323,769	1
Total expenditures	<u>5,072,905</u>	<u>6,280,461</u>	<u>6,280,450</u>	<u>11</u>
Excess (deficiency) of revenues over expenditures	(76,963)	(74,956)	(74,952)	4.00
OTHER FINANCING SOURCES (USES)				
Operating transfers in	76,963	69,571	69,569	(2)
Total other financing sources (uses)	<u>76,963</u>	<u>69,571</u>	<u>69,569</u>	<u>(2)</u>
Net change in fund balances	-	(5,385)	(5,383)	2
Fund balances, July 1, 2017	<u>5,383</u>	<u>5,383</u>	<u>5,383</u>	<u>-</u>
Fund balances, June 30, 2018	<u>\$ 5,383</u>	<u>\$ (2)</u>	<u>\$ -</u>	<u>\$ 2</u>

SACRAMENTO COUNTY OFFICE OF EDUCATION
SCHEDULE OF CHANGES IN THE NET OPEB LIABILITY
AND RELATED RATIOS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	2018
Total OPEB liability	
Service cost	\$ 1,354,679
Interest	4,270,665
Changes of benefit terms	-
Differences between expected and actual experience	-
Changes of assumptions	-
Benefit payments, including refunds of member contributions	(2,975,856)
Net change in total OPEB liability	2,649,488
Total OPEB liability - beginning	58,796,223
Total OPEB liability - ending (a)	\$ 61,445,711
 Plan fiduciary net position	
Contributions - employer	\$ 4,175,856
Net investment income	3,188,088
Benefit payments, including refunds of member contributions	(2,975,856)
Administrative expense	(16,170)
Net change in plan fiduciary net position	4,371,918
Plan fiduciary net position - beginning	29,903,894
Plan fiduciary net position - ending (b)	\$ 34,275,812
County Office's net OPEB liability - ending (a) - (b)	\$ 27,169,899
 Plan fiduciary net position as a percentage of the total OPEB liability	55.8%
Covered-employee payroll	\$ 46,957,851
County Office's net OPEB liability as a percentage of covered-employee payroll	57.9%

SACRAMENTO COUNTY OFFICE OF EDUCATION

SCHEDULE OF OPEB CONTRIBUTIONS

FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	<u>2018</u>
Actuarially determined contribution	\$ 2,699,773
Contributions in relation to the actuarially required contribution	<u>(15,002,835)</u>
Contribution deficiency (excess)	<u><u>\$ (12,303,062)</u></u>
Covered-employee payroll	\$ 46,957,851
Contributions as a percentage of covered-employee payroll	31.95%

SACRAMENTO COUNTY OFFICE OF EDUCATION

SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

FOR THE FISCAL YEAR ENDED JUNE 30, 2018

CalPERS	June 30, 2014 ⁽¹⁾	June 30, 2015 ⁽¹⁾	June 30, 2016 ⁽¹⁾	June 30, 2017 ⁽¹⁾
Proportion of the net pension liability	0.22390%	0.21131%	0.20316%	0.19764%
Proportionate share of the net pension liability	\$ 25,417,637	\$ 31,147,323	\$ 40,123,477	\$ 47,182,986
Covered-employee payroll ⁽²⁾	\$ 22,846,564	\$ 23,243,969	\$ 20,790,870	\$ 22,537,338
Proportionate Share of the net pension liability as percentage of covered-employee payroll	111.25%	134.00%	192.99%	209.35%
Plans fiduciary net position as a percentage of the total pension liability	83.38%	79.43%	73.90%	71.87%
Proportionate share of aggregate employer contributions ⁽³⁾	\$ 2,689,269	\$ 2,753,713	\$ 2,887,436	\$ 3,500,274
STRS	June 30, 2014 ⁽¹⁾	June 30, 2015 ⁽¹⁾	June 30, 2016 ⁽¹⁾	June 30, 2017 ⁽¹⁾
Proportion of the net pension liability	0.04510%	0.04250%	0.04234%	0.04031%
Proportionate share of the net pension liability	\$ 26,356,289	\$ 28,611,409	\$ 34,245,364	\$ 37,283,042
Covered-employee payroll ⁽²⁾	\$ 18,663,378	\$ 16,324,427	\$ 17,998,148	\$ 18,627,235
Proportionate Share of the net pension liability as percentage of covered-employee payroll	141.22%	175.27%	190.27%	200.15%
Plans fiduciary net position as a percentage of the total pension liability	76.52%	74.02%	70.04%	69.46%
Proportionate share of aggregate employer contributions ⁽³⁾	\$ 1,657,308	\$ 1,751,611	\$ 2,264,167	\$ 2,687,910

⁽¹⁾ Historical information is required only for measurement periods for which GASB 68 is applicable.

⁽²⁾ Covered-Employee Payroll represented above is based on pensionable earnings provided by the employer.

⁽³⁾ The Plan's proportionate share of aggregate contributions may not match the actual contributions made by the employer during the measurement period. The Plan's proportionate share of aggregate contributions is based on the Plan's proportion of fiduciary net position shown on line 5 of the table above as well as any additional side fund (or unfunded liability) contributions made by the employer during the measurement period.

SACRAMENTO COUNTY OFFICE OF EDUCATION

SCHEDULE OF PENSION CONTRIBUTIONS

FOR THE FISCAL YEAR ENDED JUNE 30, 2018

CalPERS	Fiscal Year 2013-14 ⁽¹⁾	Fiscal Year 2014-15 ⁽¹⁾	Fiscal Year 2015-16 ⁽¹⁾	Fiscal Year 2016-17 ⁽¹⁾
Actuarially Determined Contribution ⁽²⁾	\$ 2,689,269	\$ 2,753,713	\$ 2,887,436	\$ 3,500,274
Contributions in relation to the actuarially determined contributions ⁽²⁾	(2,754,193)	(2,883,518)	(3,498,257)	(4,187,132)
Contribution deficiency (excess)	<u>\$ (64,924)</u>	<u>\$ (129,805)</u>	<u>\$ (610,821)</u>	<u>\$ (686,858)</u>
Covered-employee payroll ⁽³⁾	\$ 22,846,564	\$ 23,243,969	\$ 20,790,870	\$ 22,537,338
Contributions as a percentage of covered-employee payroll ⁽³⁾	11.771%	11.847%	13.888%	15.531%
STRS	Fiscal Year 2013-14 ⁽¹⁾	Fiscal Year 2014-15 ⁽¹⁾	Fiscal Year 2015-16 ⁽¹⁾	Fiscal Year 2016-17 ⁽¹⁾
Actuarially Determined Contribution ⁽²⁾	\$ 1,657,308	\$ 1,751,611	\$ 2,264,167	\$ 2,687,910
Contributions in relation to the actuarially determined contributions ⁽²⁾	(1,791,944)	(2,277,301)	(2,715,275)	(3,045,402)
Contribution deficiency (excess)	<u>\$ (134,636)</u>	<u>\$ (525,690)</u>	<u>\$ (451,108)</u>	<u>\$ (357,492)</u>
Covered-employee payroll ⁽³⁾	\$ 18,663,378	\$ 16,324,427	\$ 17,998,148	\$ 18,627,235
Contributions as a percentage of covered-employee payroll ⁽³⁾	8.880%	10.730%	12.580%	14.430%

⁽¹⁾ Historical information is required only for measurement periods for which GASB 68 is applicable.

⁽²⁾ Employers are assumed to make contributions equal to the actuarially determined contributions (which is the actuarially determined contribution). However, some employers may choose to make additional contributions towards their side fund or their unfunded liability. Employer contributions for such plans exceed the actuarially determined contributions. CalPERS has determined that employer obligations referred to as "side funds" do not conform to the circumstances described in paragraph 120 of GASB 68, therefore are not considered separately financed specific liabilities.

⁽³⁾ Covered-Employee Payroll represented above is based on pensionable earnings provided by the employer.

SACRAMENTO COUNTY OFFICE OF EDUCATION
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

1. PURPOSE OF SCHEDULES

A - Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual

The County Office 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 States of America as prescribed by the Governmental Accounting Standards Board. The budgets are revised during the year by the Board of Education to provide for revised priorities. Expenditures cannot legally exceed appropriations by major object code. The originally adopted and final revised budgets for the County School Service, Special Education Pass-Through, and Child Development Funds are presented as Required Supplementary Information. The basis of budgeting is the same as GAAP.

B - Schedule of Changes in the Net OPEB Liability and Related Ratios

GASB 75 requires presentation of the 10-year history of changes in the Net OPEB Liability. However, since this is the initial year of implementation, only one year is currently available.

C - Schedule of OPEB Contributions

Actuarial methods and assumptions used to set the actuarially determined contributions for fiscal year ended June 30, 2018 were from the July 1, 2017 valuation.

Actuarial cost method	Entry Age Normal Cost
Amortization method	Level percent of pay
Amortization period	5 years for the difference between projected and actual trust earnings, 6.54 years (EARSL) for the remaining deferred resources
Asset valuation method	Market value of assets
Inflation	2.75% per year
Healthcare cost trend rates	7.5% initial, grades down to 5% for years 2024 and thereafter
Salary increases	3.25% per year; since benefits do not depend on salary, this is used only to allocate the cost of benefits between service years
Investment rate of return	7.28% as of July 1, 2016 and July 1, 2017 net of plan investment expenses and including inflation
Retirement age	Minimum retirement age of 50
Mortality	MacLeod Watts Scale 2017 applied generationally

SACRAMENTO COUNTY OFFICE OF EDUCATION
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

1. PURPOSE OF SCHEDULES (CONTINUED)

D - Schedule of Proportionate Share of the Net Pension Liability

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

Changes in Assumptions

The CalPERS plan discount rate was changed from 7.65 percent to 7.15 percent since the previous valuation. The CalSTRS plan discount rate was changed from 7.60 percent to 7.10 percent since the previous valuation.

Changes in Benefit Terms

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

E - Schedule of Pension Contributions

If an employer's contributions to the plan are actuarially determined or based on statutory or contractual requirements, the employer's actuarially determined contribution to the pension plan (or, if applicable, its statutorily or contractually required contribution), the employer's actual contributions, the difference between the actual and actuarially determined contributions (or statutorily or contractually required), and a ratio of the actual contributions divided by covered-employee payroll.

	<u>CalPERS</u>	<u>STRS</u>
Valuation Date	June 30, 2016	June 30, 2016
Measurement Date	June 30, 2017	June 30, 2017
Actuarial Cost Method	Entry-Age Normal Cost	Entry-Age Normal Cost
Actuarial Assumptions		
Discount Rate	7.15%	7.10%
Inflation	2.75%	2.75%
Payroll Growth Rate	3.00%	3.50%
Projected Salary Increase	Varies by Entry Age and Service	Varies by Entry Age and Service
Investment Rate of Return (1)	7.15%	7.10%
Mortality	Derived using CalPERS' Membership Data for all Funds	Derived using STRS' Membership Data for all Funds

(1) Net of pension plan investment expenses, including inflation

SUPPLEMENTARY INFORMATION

SACRAMENTO COUNTY OFFICE OF EDUCATION

COMBINING BALANCE SHEET

NON-MAJOR FUNDS

JUNE 30, 2018

	Adult Education Fund	Capital Facilities Fund	County School Facilities Fund	Total
ASSETS				
Cash and cash equivalents	\$ 579,491	\$ 349,629	\$ 69,889	\$ 999,009
Accounts receivable	959,551	2,042	380,886	1,342,479
Prepaid expenses	2,792	-	-	2,792
Due from other funds	20,090	-	-	20,090
Total Assets	<u>\$ 1,561,924</u>	<u>\$ 351,671</u>	<u>\$ 450,775</u>	<u>\$ 2,364,370</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 957,254	\$ -	\$ 70,775	\$ 1,028,029
Due to other funds	325,147	-	380,000	705,147
Total Liabilities	<u>1,282,401</u>	<u>-</u>	<u>450,775</u>	<u>1,733,176</u>
Fund balances				
Nonspendable	2,791	-	-	2,791
Restricted	152,701	351,671	-	504,372
Assigned	124,031	-	-	124,031
Total Fund Balances	<u>279,523</u>	<u>351,671</u>	<u>-</u>	<u>631,194</u>
Total Liabilities and Fund Balances	<u>\$ 1,561,924</u>	<u>\$ 351,671</u>	<u>\$ 450,775</u>	<u>\$ 2,364,370</u>

SACRAMENTO COUNTY OFFICE OF EDUCATION

**COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES**

NON-MAJOR FUNDS

JUNE 30, 2018

	Adult Education Fund	Capital Facilities Fund	County School Facilities Fund	Totals
REVENUES				
Federal revenue	\$ 2,254,741	\$ -	\$ -	\$ 2,254,741
Other state revenues	11,343,102	-	332,152	11,675,254
Other local revenues	69,324	173,671	(1,989)	241,006
Total revenues	<u>13,667,167</u>	<u>173,671</u>	<u>330,163</u>	<u>14,171,001</u>
EXPENDITURES				
Certificated salaries	1,068,458	-	-	1,068,458
Classified salaries	1,280,291	-	-	1,280,291
Employee benefits	768,417	-	-	768,417
Books and supplies	54,317	-	-	54,317
Services and other operating expenditures	1,575,046	-	-	1,575,046
Capital outlay	-	-	330,163	330,163
Other outgo	11,197,420	-	-	11,197,420
Debt service expenditures	-	141,050	-	141,050
Total expenditures	<u>15,943,949</u>	<u>141,050</u>	<u>330,163</u>	<u>16,415,162</u>
Excess (deficiency) of revenues over expenditures	(2,276,782)	32,621	-	(2,244,161)
OTHER FINANCING SOURCES (USES)				
Operating transfers in	20,078	-	-	20,078
Total other financing sources (uses)	<u>20,078</u>	<u>-</u>	<u>-</u>	<u>20,078</u>
Net change in fund balances	(2,256,704)	32,621	-	(2,224,083)
Fund balances, July 1, 2017	2,536,227	319,050	-	2,855,277
Fund balances, June 30, 2018	<u>\$ 279,523</u>	<u>\$ 351,671</u>	<u>\$ -</u>	<u>\$ 631,194</u>

SACRAMENTO COUNTY OFFICE OF EDUCATION

ORGANIZATION

JUNE 30, 2018

The Sacramento County Office of Education operates a variety of programs for children, youth, and families and also supports schools throughout Sacramento County with academic, business, consulting and vocational services. The County Office educates children with special needs, children who have been referred by other public agencies, and youth who are wards of the Juvenile Court. Through specific programs and grants, the County Office provides educational services to preschool children, youth and adults. As the intermediary between the California Department of Education and local school districts, the County Office represents the districts on matters before the State government, and carries out responsibilities mandated by statutes and regulations.

GOVERNING BOARD

<u>Name</u>	<u>Office</u>	<u>Term Expires June</u>
Brian Rivas	President	2018
O. Alfred Brown, Sr.	Vice President	2020
Joanne Ahola	Member	2020
Heather Davis	Member	2020
Harold Fong	Member	2020
Bina Lefkowitz	Member	2018
Jacqueline Levy	Member	2018

ADMINISTRATION

David W. Gordon
County Superintendent

Al Rogers, Ed. D.
Deputy Superintendent

Teresa Stinson
General Counsel

Tamara J. Sanchez
Assistant Superintendent, Business Services

Effie Crush
Chief Administrator, Human Resources

Matt Perry, Ed. D., Assistant Superintendent
Juvenile Court/Community Schools and Career Technical Education

Nancy Herota, Ed. D.
Assistant Superintendent, Educational Services

SACRAMENTO COUNTY OFFICE OF EDUCATION
SCHEDULE OF AVERAGE DAILY ATTENDANCE
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	Second Period Report	Annual Report
Elementary:		
Juvenile Halls, Homes and Camps	6.38	8.36
Community Schools Pupils	102.61	101.14
Special Education	141.50	144.06
Total Elementary	250.49	253.56
Secondary:		
Juvenile Halls, Homes and Camps	145.02	145.99
Community Schools Pupils	236.22	249.08
Special Education	166.13	163.76
Total Secondary	547.37	558.83
Total Average Daily Attendance	797.86	812.39

SACRAMENTO COUNTY OFFICE OF EDUCATION

SCHEDULE OF CHARTER SCHOOLS

FOR THE FISCAL YEAR ENDED JUNE 30, 2018

<u>Charter School ID Number</u>	<u>Charter Schools Chartered by the County Office</u>	<u>Included in the County Office's Financial Statements, or Separate Report</u>
1313	Fortune Charter School	Separate Report

SACRAMENTO COUNTY OFFICE OF EDUCATION
RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT
WITH AUDITED FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

There were no adjustments made to any funds of the County Office.

SACRAMENTO COUNTY OFFICE OF EDUCATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

Federal Catalog Number	Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Pass-Through Entity Identifying Number	Federal Expenditures
<u>U.S. Department of Education</u>			
<i>Passed through California Department of Education</i>			
Special Education Cluster			
84.027A	Special Education: IDEA Basic Local Assistance Entitlement, Part B, Section 611	13379	* \$ 11,047,852
84.173	Special Ed: IDEA Preschool Grants, Part B, Section 619 (Age 3-4-5)	13430	* 368,541
84.027A	Special Ed: IDEA Preschool Local Entitlement, Part B, Section 611 (AGE 3-4-5) (17-18)	13682	* 1,088,263
84.027A	Special Ed: IDEA Mental Health Allocation, Part B, Sec 611	15197	* 925,720
84.173A	Special Ed: IDEA Preschool Accountability Grants, Part B, Sec 619	14688	* 4,915
84.173A	Special Ed: IDEA Preschool Staff Development, Part B, Sec 619	13431	* 2,066
84.027A	Special Ed: Alternative Dispute Resolution, Part B, Sec 611	13007	* 15,823
N/A	Seeds of Partnership	13839	* 424,909
	Subtotal Special Education Cluster		<u>13,878,089</u>
NCLB: Title I Program Cluster			
84.010	ESEA (ESSA): Title I, Part A, Basic Grants Low-Income and Neglected	14329	1,379,303
84.010A	NCLB: Title I, Basic School Support, Statewide System of School Support (S4)	14416	687,230
84.010	ESEA (ESSA): Title I, Part D, Subpart 2, Local Delinquent Programs	14357	441,267
	Subtotal NCLB: Title I Program Cluster		<u>2,507,800</u>
Other			
84.011	NCLB: Title I, Migrant Ed Statewide PASS Project	14853	4,022
84.287C	ESEA (ESSA): Title IV, 21st Century Community Learning Centers (CCLC) Technical Assistance	14350	312,894
84.002	Adult Education: State Leadership Projects (Section 223)	13970	2,254,741
84.181	Special Ed: IDEA Early Intervention Grants, Part C	23761/24314	547,773
84.196A	ESEA (ESSA): Education for Homeless Children and Youth	14332	225,341
84.365A	ESEA (ESSA): Title III, Technical Assistance	14967	162,652
84.366B	NCLB: Title II, Part B, CA Mathematics and Science Partnerships (CaMSP)	14512	9,457
84.367	ESEA (ESSA): Title II, Part A, Supporting Effective Instruction Local Grants	14341/15244/01785	480,447
84.369	NCLB, Title VI, Flexibility and Accountability	14501	600,000
N/A	California Mathematics Readiness Challenge Initiative	5367B160005	32,091
	Subtotal Other		<u>4,629,418</u>
	Total U.S. Department of Education		<u>21,015,307</u>

* Tested as major programs

(Continued)

SACRAMENTO COUNTY OFFICE OF EDUCATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

Federal Catalog Number	Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Pass-Through Entity Identifying Number	Federal Expenditures
<u>U.S. Department of Rehabilitation</u>			
<i>Passed through California Department of Education</i>			
84.126A	Department of Rehabilitation: Workability II, Transitions Partnership Program	10006	56,949
N/A	Department of Rehabilitation: Workability II, Transitions Partnership Program	N/A	3,167
	Total U.S. Department of Rehabilitation		<u>60,116</u>
<u>U.S. Department of Agriculture</u>			
<i>Passed through California Department of Education</i>			
	Child Nutrition Cluster		
N/A	Preschools Shaping Healthy Impressions through Nutrition and Exercise (SHINE)	N/A	206,708
10.555	Child Nutrition: School Programs (NSL Sec 4)	13391	80,991
	Total Cash Assistance Subtotal		<u>287,699</u>
10.555	School Lunch Program - Nonmonetary Assistance	13391	19,092
	Total U.S. Department of Agriculture		<u>306,791</u>
<u>U.S. Department of Health and Human Services</u>			
<i>Passed through California Department of Education</i>			
	CCDF Program:		
93.575	Child Development: Quality Improvement Activities	14130/14092	\$ 929,376
93.575	Child Development: Federal Local Planning Councils	13946/24771	56,271
	Subtotal CCDF Program Cluster		<u>985,647</u>
	Medicaid Cluster		
93.778	Unrestricted: Medi-Cal Administrative Activities (MAA)	10060	477,787
	Other		
93.600	SETA - Early Head Start	10016	556,662
93.959	Prevention Coalition	N/A	* 1,149,379
93.959	Friday Night Live - Club Live	N/A	325,035
93.959	Friday Night Live - Mentor	N/A	49,881
N/A	Low Income Subsidy Overpayment	N/A	513
	Subtotal Other		<u>2,081,470</u>
	Total U.S. Department of Health and Human Services		<u>3,544,904</u>
	Total Federal Programs		<u>\$ 24,927,118</u>

* Tested as major programs

SACRAMENTO COUNTY OFFICE OF EDUCATION
SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	Adopted Budget 2018/2019	Actuals 2017/2018	Actuals 2016/2017	Actuals 2015/2016
<u>County School Service Fund</u>				
Revenues and Other Financial Sources	\$ 95,962,756	\$ 95,514,812	\$ 93,078,344	\$ 94,560,791
Expenditures	91,110,389	99,547,695	84,155,197	87,742,461
Other Uses and Transfers Out	97,698	89,647	159,165	10,869
Total Outgo	91,208,087	99,637,342	84,314,362	87,753,330
Change in Fund Balance	4,754,669	(4,122,530)	8,763,982	6,807,461
Ending Fund Balance	<u>\$ 69,612,679</u>	<u>\$ 64,858,010</u>	<u>\$ 68,980,540</u>	<u>\$ 60,216,558</u>
Available Reserves	<u>\$ 39,419,460</u>	<u>\$ 32,839,783</u>	<u>\$ 37,141,284</u>	<u>\$ 29,377,591</u>
Designated for Economic Uncertainties	<u>\$ 2,011,000</u>	<u>\$ 1,980,000</u>	<u>\$ 1,980,000</u>	<u>\$ 1,980,000</u>
Unassigned Fund Balance	<u>\$ 37,408,460</u>	<u>\$ 30,859,783</u>	<u>\$ 35,161,284</u>	<u>\$ 27,397,591</u>
Available Reserves as a Percentage of Total Outgo	43.2%	33.0%	44.1%	33.5%

All Funds

Total Long-Term Debt	\$ 115,415,320	\$ 116,145,320	\$ 108,441,336	\$ 65,615,721
Actual Daily Attendance at Annual	891	812	811	816

The County School Service Fund above includes the activities and year-end balances of the Special Reserve Fund for Other Than Capital Outlay Projects and Special Reserve Fund for Postemployment Benefits. The County School Service Fund fund balance has increased \$11,448,913 over the past three years. The fiscal year 2018-19 projects an increase of \$4,754,669. For a County Office this size, the state recommends available reserves of at least 4% of total general fund expenditures, transfers out, and other uses. The County Office has met this requirement for the fiscal year ended June 30, 2018.

The County School Service Fund had an operating surplus in two of the past three fiscal years, and anticipates incurring an operating surplus during the 2018-19 fiscal year.

Long-term debt increased over the past two years by \$50,529,599 due to addition to the net pension and OPEB liabilities. The 2016-17 long-term debt balance was restated as a result of implementing GASB 75 in the current year.

Average Daily Attendance decreased by 4 ADA over the past two years. An increase of 79 ADA is anticipated for the 2018-19 fiscal year.

SACRAMENTO COUNTY OFFICE OF EDUCATION

NOTES TO SUPPLEMENTARY INFORMATION

FOR THE FISCAL YEAR ENDED JUNE 30, 2018

1. Purpose of Schedules

A. Schedule of Average Daily Attendance

Average daily attendance (ADA) is a measurement of the number of pupils attending classes of the County Office. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which Local Control Funding Formula fund payments are made to the County Office. This schedule provides information regarding the attendance of students at various grade levels and in different programs.

B. Schedule of Instructional Time

This schedule is not required for County Offices of Education for the year ended June 30, 2018.

C. Schedule of Charter Schools

This schedule provides information for the California Department of Education to monitor financial reporting by Charter Schools.

D. Reconciliation of Annual Financial and Budget Report with Audited Financial Statements

This schedule provides information necessary to reconcile the Annual Financial and Budget Reports to the audited financial statements.

E. Schedule of Expenditures of Federal Awards

The accompanying schedule of expenditures of federal awards includes federal grant activity of the County Office and is presented under the modified accrual basis of accounting. Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements of Federal Awards (Uniform Guidance) requires a disclosure of the financial activities of all federally funded programs. This schedule was prepared to comply with the Uniform Guidance and state requirements. Therefore, some amounts presented in this schedule may differ from amounts used in the preparation of the general purpose financial statements. The County Office has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

The following schedule provides a reconciliation between revenues reported on the Statement of Revenues, Expenditures and Changes in Fund Balances, and the related expenditures reported on the Schedule of Expenditures of Federal Awards. The reconciling amount consists of the fair value of federal food commodities received from the California Department of Education as a pass-through grant from the U.S. Department of Agriculture that are not reflected in the financial statements.

SACRAMENTO COUNTY OFFICE OF EDUCATION

NOTES TO SUPPLEMENTARY INFORMATION

FOR THE FISCAL YEAR ENDED JUNE 30, 2018

F. Schedule of Expenditures of Federal Awards (Continued)

	Federal Catalog Number	Amount
Total Federal Revenues From the Statement of Revenues, Expenditures, and Changes in Fund Balance		\$ 24,908,026
Reconciling items		
Food Distribution - Commodities	10.555	<u>19,092</u>
Total Federal Revenues from the Schedule of Expenditures of Federal Awards		<u>\$ 24,927,118</u>

G. Schedule of Financial Trends and Analysis

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

2. Early Retirement Incentive Program

Education Code Section 14502 requires certain disclosure in the financial statements of the County Offices which adopt Early Retirement Incentive Programs pursuant to Education Code Section 22714 and 44929. For the fiscal year ended June 30, 2018, the County Office did not adopt such a program.

OTHER INDEPENDENT AUDITOR'S REPORTS



James Marta & Company LLP

Certified Public Accountants

Accounting, Auditing, Consulting, and Tax

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
WITH STATE LAWS AND REGULATIONS**

County Superintendent of Schools and
Board of Education
Sacramento County Office of Education
Sacramento, California

Report on Compliance for Each State Program

We have audited the compliance of Sacramento County Office of Education (the "County Office") with the types of compliance requirements described in the State of California's 2017-18 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting (the "Audit Guide") to the state laws and regulations listed below for the year ended June 30, 2018.

Management's Responsibility

Management is responsible for compliance with the requirements of state laws and regulations.

Auditor's Responsibility

Our responsibility is to express an opinion on the County Office's compliance based on our audit.

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 2017-18 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the state laws and regulations listed below occurred. An audit includes examining, on a test basis, evidence about the County Office'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. Our audit does not provide a legal determination of the County Office's compliance with those requirements.

Local Education Agencies Other Than Charter Schools

Description	Procedures Performed
Attendance	Yes
Teacher Certification and Misassignments	Yes
Kindergarten Continuance	No, see below
Independent Study	Yes
Continuation Education	No, see below
Instructional Time for School Districts	No, see below
Instructional Materials	
General Requirements	Yes

Local Education Agencies Other Than Charter Schools

Description	Procedures Performed
Ratio of Administrative Employees to Teachers	No, see below
Classroom Teacher Salaries	No, see below
Early Retirement Incentive Program	No, see below
Gann Limit Calculation	Yes
School Accountability Report Card	Yes
Juvenile Court Schools	Yes
Middle or Early College High Schools	No, see below
K-3 Grade Span Adjustment	No, see below
Transportation Maintenance of Effort	No, see below
Apprenticeship: Related and Supplemental Instruction	Yes

School Districts, County Offices of Education and Charter Schools

Description	Procedures Performed
Educator Effectiveness	Yes
California Clean Energy Jobs Act	Yes
After/Before School Education and Safety Program	
General requirements	No, see below
After School	No, see below
Before School	No, see below
Proper Expenditure of Education Protection Account Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control and Accountability Plan	Yes
Independent Study-Course Based	No, see below

Charter Schools

Description	Procedures Performed
Attendance	No, see below
Mode of Instruction	No, see below
Nonclassroom-Based Instruction/Independent Study	No, see below
Determination of Funding for Nonclassroom-Based Instruction	No, see below
Annual Instructional Minutes - Classroom Based	No, see below
Charter School Facility Grant Program	No, see below

We did not perform any procedures related to Kindergarten Continuation because the County Office does not report ADA for Kindergarten students.

We did not perform any procedures related to Instructional Time, Classroom Teacher Salaries, K-3 Grade Span Adjustment, and Ratio of Teachers to Administrators because these compliance requirements do not

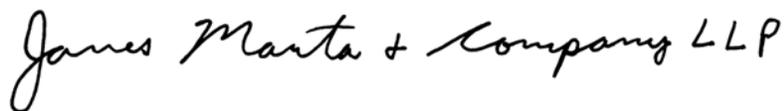
apply to County Offices of Education.

We did not perform any procedures related to Continuation Education, After/Before School Education and Safety Program, Transportation Maintenance of Effort, Early Retirement Incentive Program, Independent Study-Course Based, and Middle or Early College High School because the County Office did not offer these programs.

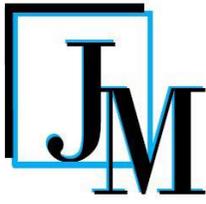
We did not perform any procedures related to Contemporaneous Records of Attendance for Charter Schools, Mode of Instruction for Charter Schools, Nonclassroom-Based Instruction/Independent Study for Charter Schools, Determination of Funding for Nonclassroom-Based Instruction for Charter Schools, Annual Instructional Minutes-Classroom-Based for Charter Schools, and Charter School Facility Grant Program because the County Office did not have any charter schools.

Opinion on Compliance with State Laws and Regulations

In our opinion, Sacramento County Office of Education complied, in all material respects, with the state laws and regulations referred to above for the year ended June 30, 2018.

A handwritten signature in black ink that reads "James Marta & Company LLP". The signature is written in a cursive, flowing style.

James Marta & Company LLP
Certified Public Accountants
Sacramento, California
December 12, 2018



James Marta & Company LLP
Certified Public Accountants

Accounting, Auditing, Consulting and Tax

**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**

INDEPENDENT AUDITOR'S REPORT

County Superintendent of Schools and
Board of Education
Sacramento County Office of Education
Sacramento, California

We have audited, 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, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Sacramento County Office of Education (the "County Office"), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the County Office's basic financial statements, and have issued our report thereon dated December 12, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered County Office'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 County Office's internal control. Accordingly, we do not express an opinion on the effectiveness of the County Office'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 entity'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.

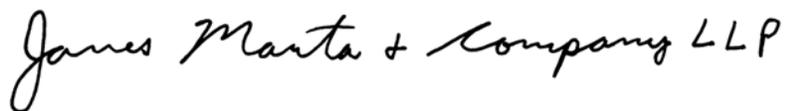
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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

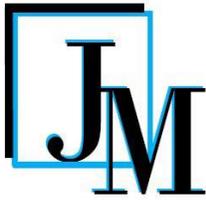
As part of obtaining reasonable assurance about whether the County Office's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material 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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "James Marta & Company LLP". The signature is written in a cursive, flowing style.

James Marta & Company LLP
Certified Public Accountants
Sacramento, California
December 12, 2018



James Marta & Company LLP
Certified Public Accountants

Accounting, Auditing, Consulting and Tax

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM
AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY THE UNIFORM GUIDANCE**

INDEPENDENT AUDITOR'S REPORT

County Superintendent of Schools and
Board of Education
Sacramento County Office of Education
Sacramento, California

Report on Compliance for Each Major Federal Program

We have audited Sacramento County Office of Education's (the "County Office") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the County Office's major federal programs for the year ended June 30, 2018. The County Office'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 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 the County Office'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 of Federal Awards (Uniform Guidance), *Audits of States, Local Governments, and Non-Profit Organizations*. 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 the County Office'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 the County Office's compliance.

Opinion on Each Major Federal Program

In our opinion, the County Office 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.

Internal Control Over Compliance

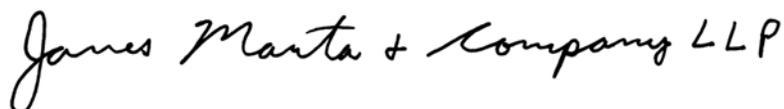
Management of the County Office is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the County Office's internal control over compliance 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 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 the County Office's internal control over compliance.

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

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

Purpose of this Report

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 Uniform Guidance. Accordingly, this report is not suitable for any other.



James Marta & Company LLP
Certified Public Accountants
Sacramento, California
December 12, 2018

FINDINGS AND RECOMMENDATION

SACRAMENTO COUNTY OFFICE OF EDUCATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

Section I – Summary of Audit Results

Financial Statements

Type of auditor’s report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified?	_____ Yes	_____ <u>X</u> No
Significant deficiency(ies) identified?	_____ Yes	_____ <u>X</u> None reported

Noncompliance material to financial statements noted? _____ Yes _____ X No

Federal Awards

Internal control over major programs:

Material weakness(es) identified?	_____ Yes	_____ <u>X</u> No
Significant deficiency(ies) identified?	_____ Yes	_____ <u>X</u> None reported

Type of auditor’s report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance, Section 200.516(a)? _____ Yes _____ X No

Identification of major programs:

CFDA Number(s)	<u>Name of Federal Program or Cluster</u>
84.027, 84.173	Special Education Cluster
93.959	Block Grants for Prevention and Treatment of Substance Abuse

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee? _____ X Yes _____ No

State Awards

Internal control over state programs:

Material weakness(es) identified?	_____ Yes	_____ <u>X</u> No
Significant deficiency(ies) identified?	_____ Yes	_____ <u>X</u> None reported

Type of auditor’s report issued on compliance for state programs: Unmodified

SACRAMENTO COUNTY OFFICE OF EDUCATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

Section II – Financial Statement Findings

No matters were reported.

SACRAMENTO COUNTY OFFICE OF EDUCATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

Section III – Federal Award Findings and Questioned Costs

No matters were reported.

SACRAMENTO COUNTY OFFICE OF EDUCATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

Section IV – State Award Findings and Questioned Costs

No matters were reported.

SACRAMENTO COUNTY OFFICE OF EDUCATION
STATUS OF PRIOR YEAR RECOMMENDATIONS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

No matters were reported.