



Annual Financial Report
June 30, 2019

Santa Barbara County Education Office



SANTA BARBARA COUNTY EDUCATION OFFICE

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JUNE 30, 2019

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FINANCIAL SECTION



INDEPENDENT AUDITOR'S REPORT

Governing Board
Santa Barbara County Education Office
Santa Barbara, 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 Santa Barbara County Education Office (the County) as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the County's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *2018-2019 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Santa Barbara County Education Office, as of June 30, 2019, 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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 14, budgetary comparison schedules on pages 62 through 63, schedule of changes in the County's total OPEB liability and related ratios on page 64, schedule of the County's proportionate share of the net OPEB liability - MPP program on page 65, schedule of the County's proportionate share of the net pension liability on page 66, and the schedule of County contributions on page 67, 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 Santa Barbara County Education Office's basic financial statements. The accompanying supplementary information such as the Schedule of Expenditures of Federal Awards, as required by *Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)* and the other supplementary information as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 4, 2019, on our consideration of the Santa Barbara County Education 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Santa Barbara County Education Office's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Santa Barbara County Education Office's internal control over financial reporting and compliance.

Eide Sallee LLP

Rancho Cucamonga, California
December 4, 2019



Santa Barbara County Education Office

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Susan C. Salcido, Superintendent of Schools

This section of the Santa Barbara County Education Office's (the County) annual financial report presents our discussion and analysis of the County's financial performance during the fiscal year that ended on June 30, 2019, with comparative information for the year ended June 30, 2018. Please read it in conjunction with the County's financial statements, which immediately follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Financial Statements

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

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

Governmental Activities are prepared using the economic resources measurement focus and the accrual basis of accounting.

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

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

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

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

The Primary unit of the government is the Santa Barbara County Education Office.

SANTA BARBARA COUNTY EDUCATION OFFICE

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2019

GENERAL INFORMATION AND FINANCIAL HIGHLIGHTS OF THE PAST YEAR

Who We Are

The Santa Barbara County Education Office is an intermediate agency between the California Department of Education and the 20 school districts and two community college districts that are located within the County's boundaries. The K-12 enrollment County-wide is approximately 69,800 students.

Our Mission

It is our office mission to provide service and leadership in the areas affecting students, teachers, and finance.

Students

Seventy-three percent of our budget provides classroom instruction and support to special populations of students including such areas as special education, juvenile court and community schools, homeless education, arts education, vocational education, and child development programs.

Teachers

We provide staff development and support to teachers County-wide including such programs as teacher support and recognition, instructional media services, technology training and demonstration centers, credential services, and access to worldwide information through the Internet.

Finance

We provide business and data processing services to the 20 school districts, two community college districts, one joint powers agreement (JPA), and internal services. Services include the approval and monitoring of budgets and school agencies accounts, and the processing of payroll and vendor payments.

County School Service Fund Revenues and Expenditures

County School Service Fund revenue increased by approximately 11.9 percent to \$58,014,323, between 2017-2018 and 2018-2019. This increase is a result of changes in accounting procedures.

Expenditures in the County School Service Fund increased by about 8.1 percent to \$51,092,763, during the same period of time, also due primarily to a change in accounting procedures.

Solvency

Our office is required to maintain at least a three percent reserve for economic uncertainties. We keep a reserve sufficient to meet State requirements and to buffer us from delays in receiving State and Federal award funds. Since our funding is primarily cyclical in nature, this business strategy allows us to manage cash flow needs without outside financing.

SANTA BARBARA COUNTY EDUCATION OFFICE

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2019

REPORTING THE COUNTY AS A WHOLE

The Statement of Net Position and the Statement of Activities

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

These two statements report the County's *net position* and changes in them. Net position is the difference between assets and liabilities, one way to measure the County's financial health, or *financial position*. Over time, *increases or decreases* in the County's net position are one indicator of whether its *financial health* is improving or deteriorating. Other factors to consider are changes in the County's property tax base and the condition of the County's facilities.

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

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

Governmental Activities - All of the County's services are reported in this category. This includes services to preschool through grade twelve students, the operation of child development activities, services to school districts, and the ongoing effort to improve and maintain buildings and sites. Property taxes, State income and sales taxes, user fees, interest income, Federal income taxes, as well as Federal, State and local grants, finance these activities.

SANTA BARBARA COUNTY EDUCATION OFFICE

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2019

REPORTING THE COUNTY'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

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

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

THE COUNTY AS TRUSTEE

Reporting the County's Fiduciary Responsibilities

The County is the trustee, or *fiduciary*, for funds held on behalf of others, such as funds for payroll withholding accounts. The County's fiduciary activities are reported in the *Statements of Fiduciary Net Position*. These activities are excluded from the County's other financial statements because the County cannot use these assets to finance its operations. The County is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

SANTA BARBARA COUNTY EDUCATION OFFICE

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2019

THE COUNTY AS A WHOLE

Net Position

The County's net position was \$4,925,501 for the fiscal year ended June 30, 2019. Of this amount, \$(3,686,416) was unrestricted. Restricted net position is reported separately to show legal constraints from debt covenants, grantors, constitutional provisions, and is enabling legislation that limit the governing board's ability to use the net position for day-to-day operations. Our analysis below, in summary form, focuses on the net position (Table 1) and change in net position (Table 2) of the County's governmental activities.

Table 1

	Governmental Activities	
	2019	2018
ASSETS		
Current and other assets	\$ 57,300,864	\$ 51,405,908
Capital assets	4,895,711	5,214,280
Total Assets	62,196,575	56,620,188
Deferred Outflows of Resources	13,240,683	14,636,279
LIABILITIES		
Current liabilities	9,536,780	10,821,358
Long-term obligations	429,670	676,291
Aggregate net pension liability	50,808,176	51,680,740
Total Liabilities	60,774,626	63,178,389
Deferred Inflows of Resources	9,737,131	9,625,071
NET POSITION		
Investment in capital assets	4,895,711	5,214,280
Restricted	3,975,327	3,205,623
Unrestricted (deficit)	(3,945,537)	(9,966,896)
Total Net Position (deficit)	\$ 4,925,501	\$ (1,546,993)

The \$(3,686,416) in unrestricted net position (deficit) of governmental activities represents the *accumulated* results of all past years' operations. This is a negative number due to the inclusion of the County's share of the unfunded liabilities of the California State Teachers' Retirement System and the California Public Employees' Retirement System. It means that if we had to pay off all of our bills *today*, including all of our non-capital liabilities (pension liabilities and compensated absences as an example); we would have \$(3,686,416) left.

SANTA BARBARA COUNTY EDUCATION OFFICE

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2019

Changes in Net Position

The results of this year's operations for the County as a whole are reported in the *Statement of Activities* on page 16. Table 2 takes the information from the Statement, rounds off the numbers, and rearranges them slightly so you can see our total revenues for the year.

Table 2

	<u>Governmental Activities</u>	
	<u>2019</u>	<u>2018</u>
Revenues		
Program revenues:		
Charges for services	\$ 8,288,791	\$ 8,032,696
Operating grants and contributions	41,174,377	37,873,505
General revenues:		
Unrestricted Federal and State aid	4,665,601	3,176,421
Property taxes	18,073,631	13,715,439
Other general revenues	2,711,867	2,781,328
Total Revenues	<u>74,914,267</u>	<u>65,579,389</u>
Expenses		
Instruction-related	31,420,204	31,539,898
Pupil services	7,676,522	7,754,594
Administration	10,816,767	9,843,603
Plant services	1,885,193	1,898,184
All other services	16,643,087	9,653,802
Total Expenses	<u>68,441,773</u>	<u>60,690,081</u>
Change in Net Position	<u>\$ 6,472,494</u>	<u>\$ 4,889,308</u>

SANTA BARBARA COUNTY EDUCATION OFFICE

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2019

Governmental Activities

As reported in the *Statement of Activities* on page 16, the cost of all of our governmental activities this year was \$68,441,773. However, the amount that our taxpayers ultimately financed for these activities through local taxes was only \$18,073,631 because the cost was paid by those who benefited from the programs (\$8,288,791) or by other governments and organizations who subsidized certain programs with grants and contributions (\$41,174,377). We paid for the remaining "public benefit" portion of our governmental activities with \$7,377,468 in unrestricted Federal and State funds and with other revenues, such as interest and general entitlements.

In Table 3, we have presented the cost of each of the County's largest functions which are instruction, instruction-related activities, pupil services, administration, plant services, community services, enterprise services, and other outgo as well as each program's *net* cost (total cost less revenues generated by the activities). As discussed above, net cost shows the financial burden that was placed on the County's taxpayers by each of these functions. Providing this information allows our citizens to consider the cost of each function in comparison to the benefits they believe are provided by that function.

Table 3

	<u>Total Cost of Services</u>		<u>Net Cost of Services</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Instruction	\$ 20,081,911	\$ 21,110,205	\$ 2,467,745	\$ 3,156,388
Instruction-related activities	11,338,293	10,429,693	3,009,207	2,813,984
Pupil services	7,676,522	7,754,594	928,979	1,179,926
Administration	10,816,767	9,843,603	6,249,412	5,818,407
Plant services	1,885,193	1,898,184	1,528,717	1,595,022
Community services	11,729,481	8,967,961	122,689	191,126
Enterprise services	27,181	133,371	(1,414)	(9,979)
Other outgo	4,886,425	552,470	4,673,270	39,006
Total	\$ 68,441,773	\$ 60,690,081	\$ 18,978,605	\$ 14,783,880

SANTA BARBARA COUNTY EDUCATION OFFICE

**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2019**

THE COUNTY'S FUNDS

As the County completed this year, our governmental funds reported a combined fund balance of \$47,764,084, which is an increase of \$7,179,534 from last year (Table 4).

Table 4

	Balances and Activities			
	July 1, 2018	Revenues and other financing sources	Expenditures and other financing uses	June 30, 2019
County School Service Fund	\$ 21,563,224	\$ 58,021,762	\$ 53,585,741	\$ 25,999,245
Child Development Fund	1,901,286	17,568,910	16,683,974	2,786,222
Special Reserve Fund for Capital Outlay Projects	17,120,014	2,282,418	423,815	18,978,617
Forest Reserve Fund	26	49,750	49,776	-
Total	\$ 40,584,550	\$ 77,922,840	\$ 70,743,306	\$ 47,764,084

County School Service Fund Budgetary Highlights

Over the course of the year, the County revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. The final amendment to the budget was adopted in June 2019. (Schedules showing the County's original and final budget amounts compared with amounts actually paid and received are provided in our annual report beginning on page 62).

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2019, the County had \$4,895,711 in a broad range of capital assets, including land, buildings, and furniture and equipment, net of depreciation, a decrease of \$318,569, or 6.1 percent.

Table 5

	Governmental Activities	
	2019	2018
Land and construction in process	\$ 559,851	\$ 1,232,406
Buildings and improvements	2,502,443	1,906,284
Furniture and equipment	1,833,417	2,075,590
Total	\$ 4,895,711	\$ 5,214,280

This year's additions of \$1.3 million included various facilities improvement projects and equipment for use in classrooms and support functions. No debt was issued for these additions. We present more detailed information about our capital assets in Note 5 to the financial statements.

SANTA BARBARA COUNTY EDUCATION OFFICE

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2019

Long-Term Obligations

At the end of this year, the County had \$429,670 in long-term obligations versus \$676,291 last year, a decrease of \$246,621, or 36.5 percent.

	Governmental Activities	
	2019	2018
Compensated absences	\$ 39,889	\$ 36,200
Net other postemployment benefits (OPEB) liability	389,781	640,091
Total	\$ 429,670	\$ 676,291

We present more detailed information about our long-term obligations in Note 9 to the financial statements.

Net Pension Liability (NPL)

At year-end, the County had a net pension liability of \$50,808,176 versus \$51,680,740 last year, a decrease of \$872,564, or 1.7 percent.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

In considering the budget for the 2019- 2020 fiscal year, the criteria used include the following key assumptions:

Revenue Projections

1. Local Control Funding Formula income will receive no funded cost of living increase and will decrease due to increases in property tax revenue transferred to the SELPA.
2. Interest earnings will remain fairly stable.
3. Lottery income will decrease due to a decrease in attendance which generates these funds.
4. Federal income in the County School Service Fund will increase due to increases in various Federal programs.
5. Other State income will decrease due to a reduction in various State programs.

Expenditure Projections

6. Salaries and benefits will have a 2.00 percent cost of living applied.
7. Salaries and benefits will increase by approximately 0.75 percent due to step and column changes for existing staffing.
8. Health and welfare costs will increase by 13.0 percent partially due to an increase in health insurance premiums.
9. Utility costs will increase by 5.0 percent.
10. Expenditures for supplies and services will decrease significantly due to decreases in former categorical and unrestricted revenues and expenditures.

SANTA BARBARA COUNTY EDUCATION OFFICE

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2019

CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, students, and teachers with a general overview of the County's finances and to show the County's accountability for the money it receives. If you have questions about this report or need any additional financial information, contact the Administrator, Internal Services, at the Santa Barbara County Education Office, 4400 Cathedral Oaks Road, Santa Barbara, California, 93160-6307.

SANTA BARBARA COUNTY EDUCATION OFFICE

**STATEMENT OF NET POSITION
JUNE 30, 2019**

	Governmental Activities
ASSETS	
Deposits and investments	\$ 51,957,163
Receivables	5,294,255
Prepaid expenses	49,446
Capital assets	
Land and construction in process	559,851
Other capital assets	9,220,982
Less: accumulated depreciation	(4,885,122)
Total Capital Assets	<u>4,895,711</u>
Total Assets	<u>62,196,575</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows of resources related to net other postemployment benefits (OPEB) liability	10,028
Deferred outflows of resources related to pensions	13,230,655
Total Deferred Outflows of Resources	<u>13,240,683</u>
LIABILITIES	
Accounts payable	7,025,481
Unearned revenue	2,511,299
Long-term obligations	429,670
Aggregate net pension liability	50,808,176
Total Liabilities	<u>60,774,626</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows of resources related to net other postemployment benefits (OPEB) liability	123,340
Deferred inflows of resources related to pensions	9,613,791
Total Deferred Inflows of Resources	<u>9,737,131</u>
NET POSITION	
Investment in capital assets	4,895,711
Restricted for:	
Capital projects	259,121
Educational programs	2,432,583
Other activities	1,283,623
Unrestricted (deficit)	(3,945,537)
Total Net Position (deficit)	<u><u>\$ 4,925,501</u></u>

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

SANTA BARBARA COUNTY EDUCATION OFFICE

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2019**

Functions/Programs	Expenses	Program Revenues		Net (Expenses)
		Charges for Services	Operating Grants and Contributions	Revenues and Changes in Net Position
				Governmental Activities
Governmental Activities:				
Instruction	\$ 20,081,911	\$ 1,720,457	\$ 15,893,709	\$ (2,467,745)
Instruction-related activities:				
Supervision of instruction	8,446,296	2,281,880	3,590,746	(2,573,670)
Instructional library, media, and technology	884,428	183,426	246,042	(454,960)
School site administration	2,007,569	1,261,873	765,119	19,423
Pupil services:				
Home-to-school transportation	40,440	-	595	(39,845)
Food services	645,553	84	621,195	(24,274)
All other pupil services	6,990,529	791,415	5,334,254	(864,860)
Administration:				
Data processing	2,214,503	683,866	71,735	(1,458,902)
All other administration	8,602,264	471,830	3,339,924	(4,790,510)
Plant services	1,885,193	27,213	329,263	(1,528,717)
Community services	11,729,481	818,762	10,788,030	(122,689)
Enterprise services	27,181	28,267	328	1,414
Other outgo	4,886,425	19,718	193,437	(4,673,270)
Total Governmental Activities	\$ 68,441,773	\$ 8,288,791	\$ 41,174,377	(18,978,605)
General revenues and subventions:				
				17,907,642
				165,989
				4,665,601
				883,962
				1,827,905
			Subtotal, General Revenues	25,451,099
			Change in Net Position	6,472,494
			Net Position - Beginning	(1,546,993)
			Net Position - Ending	\$ 4,925,501

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

SANTA BARBARA COUNTY EDUCATION OFFICE

**GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2019**

	County School Service Fund	Child Development Fund	Special Reserve Fund for Capital Outlay Projects	Non-Major Governmental Fund	Total Governmental Funds
ASSETS					
Deposits and investments	\$ 35,925,232	\$ 3,081,295	\$ 12,944,712	\$ 5,924	\$ 51,957,163
Receivables	3,631,614	1,661,346	1,295	-	5,294,255
Due from other funds	1,073,568	377,219	6,115,713	-	7,566,500
Prepaid expenditures	44,654	4,792	-	-	49,446
Total Assets	\$ 40,675,068	\$ 5,124,652	\$ 19,061,720	\$ 5,924	\$ 64,867,364
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 5,744,629	\$ 1,192,714	\$ 83,103	\$ 5,035	\$ 7,025,481
Due to other funds	6,492,932	1,072,679	-	889	7,566,500
Unearned revenue	2,438,262	73,037	-	-	2,511,299
Total Liabilities	14,675,823	2,338,430	83,103	5,924	17,103,280
Fund Balances:					
Nonspendable	49,654	4,792	-	-	54,446
Restricted	2,432,583	1,283,623	259,121	-	3,975,327
Assigned	10,157,597	1,497,807	18,719,496	-	30,374,900
Unassigned	13,359,411	-	-	-	13,359,411
Total Fund Balances	25,999,245	2,786,222	18,978,617	-	47,764,084
Total Liabilities and Fund Balances	\$ 40,675,068	\$ 5,124,652	\$ 19,061,720	\$ 5,924	\$ 64,867,364

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

SANTA BARBARA COUNTY EDUCATION OFFICE

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JUNE 30, 2019**

Total Fund Balance - Governmental Funds **\$ 47,764,084**

**Amounts Reported for Governmental Activities in the Statement of
Net Position are Different Because:**

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

The cost of capital assets is	\$ 9,780,833	
Accumulated depreciation is	(4,885,122)	
Net Capital Assets		4,895,711

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

Pension contributions subsequent to measurement date	4,730,671	
Differences between projected and actual earnings on pension plan investments	243,213	
Differences between expected and actual experience in the measurement of the total pension liability.	2,009,475	
Changes of assumptions	6,247,296	
Total Deferred Outflows of Resources Related to Pensions		13,230,655

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

Net change in proportionate share of net pension liability	(8,491,834)	
Differences between projected and actual earnings on pension plan investments	(814,650)	
Differences between expected and actual experience in the measurement of the total pension liability	(307,307)	
Total Deferred Outflows of Resources Related to Pensions		(9,613,791)

Deferred outflows of resources related to OPEB represent a consumption of net position in a future period and is not reported in the County's funds. Deferred outflows of resources related to OPEB at year-end consist of differences between expected and actual experience in the measurement of the total OPEB liability.

10,028

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

SANTA BARBARA COUNTY EDUCATION OFFICE

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION, (Continued)
JUNE 30, 2019**

Deferred inflows of resources related to OPEB represent an acquisition of net position in a future period and is not reported in the County's funds. Deferred outflows and inflow of resources related to OPEB at year-end consist of changes of assumptions and differences between expected and actual experience to the measurement date.

Differences between expected and actual experience in the measurement of the total OPEB liability

\$ (118,214)

Changes of assumptions

(5,126)

Total Deferred Inflows of Resources Related to OPEB

\$ (123,340)

Net pension liability is not due and payable in the current period, and is not reported as a liability in the funds.

(50,808,176)

Long-term obligations, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Long-term obligations at year-end consist of:

Compensated absences

(39,889)

Net other postemployment benefits (OPEB) liability

(389,781)

Total Long-Term Obligations

(429,670)

Total Net Position - Governmental Activities

\$ 4,925,501

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

SANTA BARBARA COUNTY EDUCATION OFFICE

**GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2019**

	County School Service Fund	Child Development Fund	Special Reserve Fund for Capital Outlay Projects	Non-Major Governmental Fund	Total Governmental Funds
REVENUES					
Local Control Funding Formula	\$ 21,821,640	\$ -	\$ -	\$ -	\$ 21,821,640
Federal sources	1,631,954	4,997,326	-	49,734	6,679,014
Other State sources	7,103,801	9,673,155	-	-	16,776,956
Other local sources	27,456,929	2,526,406	161,462	16	30,144,813
Total Revenues	58,014,324	17,196,887	161,462	49,750	75,422,423
EXPENDITURES					
Current					
Instruction	18,205,136	1,746,366	-	-	19,951,502
Instruction-related activities:					
Supervision of instruction	8,377,546	108,798	-	-	8,486,344
Instructional library, media, and technology	887,537	-	-	-	887,537
School site administration	134,688	1,881,099	-	-	2,015,787
Pupil services:					
Home-to-school transportation	40,325	-	-	-	40,325
Food services	17,053	626,413	-	-	643,466
All other pupil services	6,875,721	202,979	-	-	7,078,700
Administration:					
Data processing	2,174,445	-	-	-	2,174,445
All other administration	6,942,426	1,112,140	-	-	8,054,566
Plant services	1,843,359	3,035	116,281	-	1,962,675
Community services	718,896	11,003,144	-	-	11,722,040
Other outgo	4,844,087	-	-	42,338	4,886,425
Enterprise services	24,863	-	-	-	24,863
Facility acquisition and construction	6,680	-	307,534	-	314,214
Total Expenditures	51,092,762	16,683,974	423,815	42,338	68,242,889
Excess (Deficiency) of Revenues Over Expenditures	6,921,562	512,913	(262,353)	7,412	7,179,534
Other Financing Sources (Uses)					
Transfers in	7,438	372,023	2,120,956	-	2,500,417
Transfers out	(2,492,979)	-	-	(7,438)	(2,500,417)
Net Financing Sources (Uses)	(2,485,541)	372,023	2,120,956	(7,438)	-
NET CHANGE IN FUND BALANCES	4,436,021	884,936	1,858,603	(26)	7,179,534
Fund Balances - Beginning	21,563,224	1,901,286	17,120,014	26	40,584,550
Fund Balances - Ending	\$ 25,999,245	\$ 2,786,222	\$ 18,978,617	\$ -	\$ 47,764,084

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

SANTA BARBARA COUNTY EDUCATION OFFICE

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2019

Total Net Change in Fund Balances - Governmental Funds **\$ 7,179,534**

Amounts Reported for Governmental Activities in the Statement of Activities are Different Because:

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

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

Depreciation expense	\$ (620,298)	
Capital outlay	614,426	
Net Expense Adjustment		(5,872)

Loss on disposal of capital assets is reported in the government-wide Statement of Net Position, but is not recorded in the governmental funds. (312,697)

In the Statement of Activities, certain operating expenses, compensated absences (vacations), are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). Vacation earned was more than the amounts paid. (3,689)

In the governmental funds, pension costs are based on employer contributions made to pension plans during the year. However, in the Statement of Activities, pension expense is the net effect of all changes in the deferred outflows, deferred inflows and net pension liability during the year. (509,747)

In the governmental funds, OPEB costs are based on employer contributions made to OPEB plans during the year. However, in the Statement of Activities, OPEB expense is the net effect of all changes in the deferred outflows and inflows, and net OPEB liability during the year. 124,965

	<u>124,965</u>	
Change in Net Position of Governmental Activities	<u>\$ 6,472,494</u>	

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

SANTA BARBARA COUNTY EDUCATION OFFICE

**FIDUCIARY FUNDS
STATEMENT OF NET POSITION
JUNE 30, 2019**

	<u>Agency Funds</u>
ASSETS	
Deposits and investments	\$ 23,934,051
LIABILITIES	
Due to other agencies	\$ 23,934,051

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

SANTA BARBARA COUNTY EDUCATION OFFICE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The Santa Barbara County Education Office (the "County") operates under the laws of the State of California. The County operates under a locally elected seven-member board form of government and provides administration and leadership, public information and government liaison to twenty school districts and two community college districts in Santa Barbara County. The County also provides educational services directly to individuals for special purposes.

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

Basis of Presentation - Fund Accounting

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

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

Major Governmental Funds

County School Service Fund The County School Service Fund accounts for all financial resources except those required to be accounted for in another fund. The County School Service Fund balance is available to the County for any purpose provided it is expended or transferred according to the general laws of California.

One fund currently defined as a special revenue fund in the California State Accounting Manual (CSAM) does not meet the GASB Statement No. 54 special revenue fund definition. Specifically, Fund 17, Special Reserve Fund for Other Than Capital Outlay Projects, is not substantially composed of restricted or committed revenue sources. While this fund is authorized by statute and will remain open for internal reporting purposes, this fund functions effectively as an extension of the County School Service Fund, and accordingly has been combined with the County School Service Fund for presentation in these audited financial statements.

As a result, the County School Service Fund reflects an increase of \$9,833,800 in fund balance, and a decrease in expenditures and other uses of \$3,000,000.

SANTA BARBARA COUNTY EDUCATION OFFICE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

Child Development Fund The Child Development Fund is used to account separately for Federal, State, and local revenues to operate child development programs and is to be used only for expenditures for the operation of child development programs.

Special Reserve Fund for Capital Outlay Projects The Special Reserve Fund for Capital Outlay Projects exists primarily to provide for the accumulation of the County School Service Fund monies for capital outlay purposes (*Education Code* Section 42840).

Non-Major Governmental Fund

Special Revenue Funds The Special Revenue funds are used to account for the proceeds from specific revenue sources (other than trusts, major capital projects, or debt service) that are restricted or committed to the financing of particular activities, that compose a substantial portion of the inflows of the fund, and that are reasonably expected to continue. Additional resources that are restricted, committed, or assigned to the purpose of the fund may also be reported in the fund.

Forest Reserve Fund The Forest Reserve Fund exists to account separately for Federal forest reserve funds received by offices of county superintendents for distribution to the Local Educational Entities (*Education Code* Section 2300; *Government Code* Section 29484).

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

Trust funds are used to account for the assets held by the County under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the County's own programs. The County has no trust funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Such funds have no equity accounts since all assets are due to individuals or entities at some future time. The County's agency funds account for the payroll taxes and retirement payments for all public educational agencies in Santa Barbara County.

Basis of Accounting - Measurement Focus

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

The government-wide financial statement of activities presents a comparison between direct expenses and program revenues for each governmental program 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 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. Eliminations have been made to minimize the double counting of internal activities.

SANTA BARBARA COUNTY EDUCATION OFFICE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

Net position should be reported as restricted when constraints placed on net asset 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 use.

Fund Financial Statements Fund financial statements report detailed information about the County. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column.

Governmental Funds All governmental funds are accounted for using a flow of current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures, and changes in fund balances reports on the sources (revenues and other financing sources) and uses (expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include reconciliation with brief explanations to better identify the relationship between the government-wide financial statements and the statements for the governmental funds on a modified accrual basis of accounting and the current financial resources measurement focus. Under this basis, revenues are recognized in the accounting period in which they become measurable and available. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable.

Fiduciary Funds Fiduciary funds are accounted for using the flow of economic resources measurement focus and the accrual basis of accounting. Fiduciary funds are excluded from the government-wide financial statements because they do not represent resources of the County.

Revenues – Exchange and Non-Exchange Transactions Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. Generally, available is defined as collectible within 45 days. However, to achieve comparability of reporting among California county offices of education and so as not to distort normal revenue patterns, with specific respect to reimbursement grants and corrections to State-aid apportionments, the California Department of Education has defined available for county offices of education as collectible within one year.

Non-exchange transactions, in which the County receives value without directly giving equal value in return, include property taxes, certain grants, entitlements, and donations. Revenue from property taxes is recognized in the fiscal year in which the taxes are received. Revenue from certain grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include time and purpose requirements. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year-end: State apportionments, interest, certain grants, and other local sources.

SANTA BARBARA COUNTY EDUCATION OFFICE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

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

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

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

Prepaid Expenditures (Expenses)

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

Investments

Investments held at June 30, 2019, with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost. Fair values of investments in the county investment pool are determined by the program sponsor.

Capital Assets and Depreciation

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

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

Depreciation of capital assets is computed and recorded by the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are as follows: buildings, 20 to 50 years; improvements, 5 to 50 years; equipment, 2 to 15 years.

SANTA BARBARA COUNTY EDUCATION OFFICE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

Interfund Balances

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

Compensated Absences

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

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

Accrued Liabilities and Long-Term Obligations

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

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

Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position also reports deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The County reports deferred outflows of resources for pension related items, and for OPEB related items.

In addition to liabilities, the Statement of Net Position reports a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The County reports deferred inflows of resources for pension related items, and for OPEB related items.

SANTA BARBARA COUNTY EDUCATION OFFICE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

Pensions

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

Postemployment Benefits Other Than Pensions (OPEB)

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

Fund Balances - Governmental Funds

As of June 30, 2019, fund balances of the governmental funds are classified as follows:

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

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

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

Unassigned - all other spendable amounts.

Spending Order Policy

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

SANTA BARBARA COUNTY EDUCATION OFFICE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

Minimum Fund Balance Policy

It has been the practice of the governing board to adopt a budget and also to ensure throughout the year that interim budget reports are built reflecting a minimum fund balance for the County School Service Fund which is sufficient to protect the County against revenue shortfalls, unexpected expenditures, and to meet the cash-flow needs of the office, recognizing the impact of state deferrals and the practice of advancing cash to programs that begin before funding is received. This practice of reserving for economic uncertainties necessitates starting with the State's recommended minimum reserve of three percent and adding to its sufficient unassigned reserves to meet the unique cash needs of the County.

Net Position

Net position represents the difference between assets and liabilities. Net position investment in capital assets, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. The County has no related debt outstanding as of June 30, 2019. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the County or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The County first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available. The government-wide financial statements report \$3,975,327 of restricted net position.

Interfund Activity

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

Estimates

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

Property Tax

Secured property taxes attach as an enforceable lien on property as of January 1. Taxes are payable in two installments on November 1 and February 1 and become delinquent on December 11 and April 10, respectively. Unsecured property taxes are payable in one installment on or before August 31. The County of Santa Barbara bills and collects the taxes on behalf of the County. Local property tax revenues are recorded when received.

SANTA BARBARA COUNTY EDUCATION OFFICE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

Change in Accounting Principles

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

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

The County has implemented the provisions of this Statement as of June 30, 2019.

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

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

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

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

The County has implemented the provisions of this Statement as of June 30, 2019.

SANTA BARBARA COUNTY EDUCATION OFFICE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

New Accounting Pronouncements

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

This Statement establishes criteria for identifying fiduciary activities of all State and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities.

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

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

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

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

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

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

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NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

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

In August 2018, the GASB issued Statement 90, *Majority Equity Interests – An Amendment of GASB Statements No. 14 and No. 60*. The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value.

For all other holdings of a majority equity interest in a legally separate organization, a government should report the legally separate organization as a component unit, and the government or fund that holds the equity interest should report an asset related to the majority equity interest using the equity method. This Statement establishes that ownership of a majority equity interest in a legally separate organization results in the government being financially accountable for the legally separate organization and, therefore, the government should report that organization as a component unit.

This Statement also requires that a component unit in which a government has a 100 percent equity interest account for its assets, deferred outflows of resources, liabilities, and deferred inflows of resources at acquisition value at the date the government acquired a 100 percent equity interest in the component unit. Transactions presented in flows statements of the component unit in that circumstance should include only transactions that occurred subsequent to the acquisition.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged. The requirements of this Statement should be applied prospectively.

In May 2019, the GASB issued Statement No. 91, *Conduit Debt Obligations*. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures.

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NOTES TO FINANCIAL STATEMENTS

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A conduit debt obligation is defined as a debt instrument having all of the following characteristics:

- There are at least three parties involved: (1) an issuer, (2) a third-party obligor, and (3) a debt holder or a debt trustee.
- The issuer and the third-party obligor are not within the same financial reporting entity.
- The debt obligation is not a parity bond of the issuer, nor is it cross-collateralized with other debt of the issuer.
- The third-party obligor or its agent, not the issuer, ultimately receives the proceeds from the debt issuance.
- The third-party obligor, not the issuer, is primarily obligated for the payment of all amounts associated with the debt obligation (debt service payments).

All conduit debt obligations involve the issuer making a limited commitment. Some issuers extend additional commitments or voluntary commitments to support debt service in the event the third party is, or will be, unable to do so.

An issuer should not recognize a conduit debt obligation as a liability. However, an issuer should recognize a liability associated with an additional commitment or a voluntary commitment to support debt service if certain recognition criteria are met. As long as a conduit debt obligation is outstanding, an issuer that has made an additional commitment should evaluate at least annually whether those criteria are met. An issuer that has made only a limited commitment should evaluate whether those criteria are met when an event occurs that causes the issuer to reevaluate its willingness or ability to support the obligor's debt service through a voluntary commitment.

This Statement also addresses arrangements—often characterized as leases—that are associated with conduit debt obligations. In those arrangements, capital assets are constructed or acquired with the proceeds of a conduit debt obligation and used by third-party obligors in the course of their activities. Payments from third-party obligors are intended to cover and coincide with debt service payments. During those arrangements, issuers retain the titles to the capital assets. Those titles may or may not pass to the obligors at the end of the arrangements.

Issuers should not report those arrangements as leases, nor should they recognize a liability for the related conduit debt obligations or a receivable for the payments related to those arrangements. In addition, the following provisions apply:

- If the title passes to the third-party obligor at the end of the arrangement, an issuer should not recognize a capital asset.
- If the title does not pass to the third-party obligor and the third party has exclusive use of the entire capital asset during the arrangement, the issuer should not recognize a capital asset until the arrangement ends.
- If the title does not pass to the third-party obligor and the third party has exclusive use of only portions of the capital asset during the arrangement, the issuer, at the inception of the arrangement, should recognize the entire capital asset and a deferred inflow of resources. The deferred inflow of resources should be reduced, and an inflow recognized, in a systematic and rational manner over the term of the arrangement.

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NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

This Statement requires issuers to disclose general information about their conduit debt obligations, organized by type of commitment, including the aggregate outstanding principal amount of the issuers' conduit debt obligations and a description of each type of commitment. Issuers that recognize liabilities related to supporting the debt service of conduit debt obligations also should disclose information about the amount recognized and how the liabilities changed during the reporting period.

The requirements of this Statement are effective for the reporting periods beginning after December 15, 2020. Early implementation is encouraged.

NOTE 2 - DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2019, are classified in the accompanying financial statements as follows:

Governmental activities	\$ 51,957,163
Fiduciary funds	23,934,051
Total Deposits and Investments	<u>\$ 75,891,214</u>

Deposits and investments as of June 30, 2019, consist of the following:

Cash on hand and in banks	\$ 175
Cash in revolving	5,000
Investments	75,886,039
Total Deposits and Investments	<u>\$ 75,891,214</u>

Policies and Practices

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

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

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**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

General Authorizations

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

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

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The County does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The County manages its exposure to interest rate risk by investing in the Santa Barbara County Treasury Investment Pool. The County maintains an investment of \$75,886,039 with the Santa Barbara County Treasury Investment Pool. This investment has an average weighted maturity of 289 days.

SANTA BARBARA COUNTY EDUCATION OFFICE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The County's investment in the Santa Barbara County Treasury Investment Pool is not required to be rated, nor has it been rated as of June 30, 2019.

Custodial Credit Risk - Deposits

This is the risk that in the event of a bank failure, the County's deposits may not be returned to it. The County does not have a policy for custodial credit risk for deposits. However, the California *Government Code* requires that a financial institution secure deposits made by State or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under State law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agency. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2019, the County's bank balance of \$5,855 was not exposed to custodial credit risk because it was fully insured.

NOTE 3 - FAIR VALUE MEASUREMENTS

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

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

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

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

SANTA BARBARA COUNTY EDUCATION OFFICE

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

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

The County's fair value measurements are as follows at June 30, 2019:

<u>Investment Type</u>	<u>Reported Amount</u>	<u>Uncategorized</u>
Santa Barbara County Treasury Investment Pool	<u>\$ 75,886,039</u>	<u>\$ 75,886,039</u>

NOTE 4 - RECEIVABLES

Receivables at June 30, 2019, consisted of intergovernmental grants, entitlements, interest, and other local sources. All receivables are considered collectible in full.

	<u>County School Service Fund</u>	<u>Child Development Fund</u>	<u>Special Reserve Fund for Capital Outlay Projects</u>	<u>Total Governmental Activities</u>
Federal Government				
Categorical aid	\$ 897,551	\$ 303,526	\$ -	\$ 1,201,077
State Government				
Categorical aid	602,614	1,148,188	-	1,750,802
Special education	122,160	-	-	122,160
Local Government				
Interest	242,651	18,961	1,295	262,907
Special education	433,740	-	-	433,740
Educational agencies	116,538	22,933	-	139,471
Other Local Sources	1,216,360	167,738	-	1,384,098
Total	<u>\$ 3,631,614</u>	<u>\$ 1,661,346</u>	<u>\$ 1,295</u>	<u>\$ 5,294,255</u>

SANTA BARBARA COUNTY EDUCATION OFFICE

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2019, was as follows:

	<u>Balance</u> <u>July 1, 2018</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2019</u>
Governmental Activities				
Capital Assets Not Being Depreciated				
Land	\$ 500,000	\$ -	\$ -	\$ 500,000
Construction in process	732,406	59,851	732,406	59,851
Total Capital Assets Not Being Depreciated	<u>1,232,406</u>	<u>59,851</u>	<u>732,406</u>	<u>559,851</u>
Capital Assets Being Depreciated				
Land improvements	86,978	-	-	86,978
Buildings and improvements	4,977,736	986,770	1,914,600	4,049,906
Furniture and equipment	5,048,591	300,211	264,704	5,084,098
Total Capital Assets Being Depreciated	<u>10,113,305</u>	<u>1,286,981</u>	<u>2,179,304</u>	<u>9,220,982</u>
Less Accumulated Depreciation				
Land improvements	69,265	1,454	-	70,719
Buildings and improvements	3,089,165	100,278	1,625,721	1,563,722
Furniture and equipment	2,973,001	518,566	240,886	3,250,681
Total Accumulated Depreciation Governmental Activities	<u>6,131,431</u>	<u>620,298</u>	<u>1,866,607</u>	<u>4,885,122</u>
Capital Assets, Net	<u>\$ 5,214,280</u>	<u>\$ 726,534</u>	<u>\$ 1,045,103</u>	<u>\$ 4,895,711</u>

Depreciation expense was charged to governmental functions as follows:

Governmental Activities	
Instruction	\$ 310,149
Data processing	43,421
All other general administration	43,421
Plant services	223,307
Total Depreciation Expenses Governmental Activities	<u>\$ 620,298</u>

SANTA BARBARA COUNTY EDUCATION OFFICE

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 6 - INTERFUND TRANSACTIONS

Interfund Receivables/Payables (Due To/Due From)

Interfund receivable and payable balances arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed. Interfund receivable and payable balances at June 30, 2019, between major and non-major governmental funds are as follows:

Due To	Due From			Total
	County School Service Fund	Child Development Fund	Non-Major Governmental Fund	
County School Service Fund	\$ -	\$ 1,072,679	\$ 889	\$ 1,073,568
Child Development Fund	377,219	-	-	377,219
Special Reserve Fund for Capital Outlay Projects	6,115,713	-	-	6,115,713
Total	\$ 6,492,932	\$ 1,072,679	\$ 889	\$ 7,566,500

The balance of \$1,072,679 due to the County School Service Fund from the Child Development Fund resulted from indirect costs charges.

The balance of \$377,219 due to the Child Development Fund from the County School Service Fund resulted from program balance adjustment transfer.

The balance of \$6,115,713 due to the Special Reserve Fund for Capital Outlay Projects from the County School Service Fund is for future capital outlay purposes.

All remaining balances resulted from the time lag between the date that (1) interfund goods are services are provided or reimbursable expenditures occur, (2) transaction are recorded in the accounting system, and (3) payments between funds are made.

SANTA BARBARA COUNTY EDUCATION OFFICE

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

Operating Transfers

Interfund transfers for the year ended June 30, 2019, consisted of the following:

Transfer To	Transfer From		Total
	County School Service Fund	Non-Major Governmental Fund	
General Fund	\$ -	\$ 7,438	\$ 7,438
Child Development Fund	372,023	-	372,023
Special Reserve Fund for Capital Outlay Projects	2,120,956	-	2,120,956
Total	<u>\$ 2,492,979</u>	<u>\$ 7,438</u>	<u>\$ 2,500,417</u>

The County School Service Fund transferred to the Child Development Fund for program contribution.	\$ 372,023
The County School Service Fund transferred to the Special Reserve Fund for Capital Outlay Projects for future capital outlay purposes.	2,120,956
The Forest Reserve Non-Major Governmental Fund transferred to the County School Service Fund for the County Education Office's portion of the grant.	7,438
Total	<u>\$ 2,500,417</u>

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

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**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 7 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2019, consisted of the following:

	County School Service Fund	Child Development Fund	Special Reserve Fund for Capital Outlay Projects	Non-Major Governmental Funds	Total Governmental Activities
Excess property tax	\$ 4,626,294	\$ -	\$ -	-	\$ 4,626,294
Salaries and benefits	119,294	20,930	-	-	140,224
Special education	604,336	-	-	-	604,336
Books and supplies	29,853	2,759	-	-	32,612
Services and other operating expenses	336,358	1,154,059	-	-	1,490,417
Construction	-	-	83,103	-	83,103
Local educational agencies	20,877	14,628	-	5,035	40,540
Other	7,617	338	-	-	7,955
Total	<u>\$ 5,744,629</u>	<u>\$ 1,192,714</u>	<u>\$ 83,103</u>	<u>\$ 5,035</u>	<u>\$ 7,025,481</u>

NOTE 8 - UNEARNED REVENUE

Unearned revenue at June 30, 2019, consists of the following:

	County School Service Fund	Child Development Fund	Total Governmental Activities
Federal financial assistance	\$ 395,127	\$ 73,037	\$ 468,164
State categorical aid	965,262	-	965,262
Other local	1,077,873	-	1,077,873
Total	<u>\$ 2,438,262</u>	<u>\$ 73,037</u>	<u>\$ 2,511,299</u>

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**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 9 - LONG-TERM OBLIGATIONS

Summary

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

	Balance July 1, 2018	Additions	Deductions	Balance June 30, 2019
Compensated absences	\$ 36,200	\$ 3,689	\$ -	\$ 39,889
Net other postemployment benefits (OPEB) liability	640,091	-	250,310	389,781
	<u>\$ 676,291</u>	<u>\$ 3,689</u>	<u>\$ 250,310</u>	<u>\$ 429,670</u>

The net other postemployment benefit (OPEB) liability will generally be paid by the General Fund.

Compensated Absences

Compensated absences (unpaid employee vacation) for the County at June 30, 2019, amounted to \$39,889. The compensated absences will be paid by the fund for which the employee worked.

Net Other Postemployment Benefit (OPEB) Liability

For the fiscal year ended June 30, 2019, the County reported net OPEB liability, deferred outflows, deferred inflows of resources, and OPEB expense for the following plans:

OPEB Plan	Net OPEB Liability	Deferred Outflows of Resources	Deferred Inflows of Resources	OPEB Expense
County Plan	\$ 231,632	\$ 10,028	\$ 123,340	\$ 83,429
Medicare Premium Payment (MPP) Program	158,149	-	-	(41,536)
Total	<u>\$ 389,781</u>	<u>\$ 10,028</u>	<u>\$ 123,340</u>	<u>\$ 41,893</u>

The details of each plan are as follows:

County Plan

Plan Administration

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

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NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019

Plan Membership

At June 30, 2018, the Plan membership consisted of the following:

Inactive employees or beneficiaries currently receiving benefits payments	11
Active employees	5
	<hr/>
	16
	<hr/> <hr/>

Benefits Provided

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

The benefit payment requirements of the Plan members and the County are established and may be amended by the County, the Santa Barbara County Education Association (SBCEA), the local California Service Employees Association (CSEA), and unrepresented groups. The benefit payment is based on projected pay-as-you-go financing requirements. For fiscal year 2018-2019, the County paid \$87,512 in benefits.

Total OPEB Liability of the County

The County's total OPEB liability of \$231,632 was measured as of June 30, 2019, and the total OPEB liability used to calculate the total OPEB liability was determined by an actuarial valuation as of June 30, 2018.

Actuarial Assumptions

The total OPEB liability as of June 30, 2019 was determined by applying update procedures to the financial reporting actuarial valuation as of June 30, 2018 and rolling forward the total liability to June 30, 2019. The following assumptions were applied to all periods included in the measurement, unless otherwise specified:

Inflation	4.00 percent
Salary increases	3.00 percent, average, including inflation
Discount rate	3.50 percent
Healthcare cost trend rates	6.77 percent for 2019

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

Mortality rates were based on the RP-2014 Mortality for Employees.

The actuarial assumptions used in the June 30, 2019 valuation were based on the results of an actual experience study for the period July 1, 2017 to June 30, 2018.

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**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

Changes in the Total OPEB Liability

	Total OPEB Liability
Balance at June 30, 2018	\$ 440,406
Service cost	2,006
Interest	72
Differences between expected and actual experience	(118,214)
Changes of assumptions	(5,126)
Benefit payments	(87,512)
Net change in total OPEB liability	(208,774)
Balance at June 30, 2019	<u>\$ 231,632</u>

Changes of assumptions and other inputs reflect a change in the discount rate from 3.87 percent in 2018 to 3.50 percent in 2019.

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

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

Discount Rate	Total OPEB Liability
1% decrease (2.50%)	\$ 235,391
Current discount rate (3.50%)	231,632
1% increase (4.50%)	227,398

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

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

Healthcare Cost Trend Rates	Total OPEB Liability
1% decrease (5.77%)	\$ 227,613
Current healthcare cost trend rate (6.77%)	231,632
1% increase (7.77%)	235,755

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**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

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

For the year ended June 30, 2019, the County recognized OPEB expense of \$83,429. At June 30, 2019, the County 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	\$ 10,028	\$ 118,214
Changes of assumptions	-	5,126
Total	\$ 10,028	\$ 123,340

Amounts reported as deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ended June 30,	Deferred Inflows of Resources
2019	\$ (27,492)
2020	(27,492)
2021	(27,492)
2022	(30,836)
	\$ (113,312)

Medicare Premium Payment (MPP) Program

Plan Description

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

A full description of the MPP Program regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2017 annual actuarial valuation report, Medicare Premium Payment Program Actuarial Valuation. This report and CalSTRS audited financial information are publicly available reports that can be found on the CalSTRS website under Publications at: <http://www.calstrs.com/member-publications>.

SANTA BARBARA COUNTY EDUCATION OFFICE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

Benefits Provided

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

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

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

Net OPEB Liability and OPEB Expense

At June 30, 2019, the County reported a liability of \$158,149 for its proportionate share of the net OPEB liability for the MPP Program. The net OPEB liability was measured as of June 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2017. The County's proportion of the net OPEB liability was based on a projection of the County's long-term share of contributions to the OPEB Plan relative to the projected contributions of all participating school districts, actuarially determined. The County's proportionate share for the measurement period June 30, 2018 and June 30, 2017, respectively, was 0.0413 percent, and 0.0475 percent, resulting in a net decrease in the proportionate share of 0.0062 percent.

For the year ended June 30, 2019, the County recognized OPEB expense of \$(41,536).

Actuarial Methods and Assumptions

The June 30, 2018 total OPEB liability was determined by applying update procedures to the financial reporting actuarial valuation as of June 30, 2017, and rolling forward the total OPEB liability to June 30, 2018, using the assumptions listed in the following table:

Measurement Date	June 30, 2018	June 30, 2017
Valuation Date	June 30, 2017	June 30, 2016
Experience Study	July 1, 2010 through June 30, 2015	July 1, 2010 through June 30, 2015
Actuarial Cost Method	Entry age normal	Entry age normal
Investment Rate of Return	3.87%	3.58%
Medicare Part A Premium Cost Trend Rate	3.70%	3.70%
Medicare Part B Premium Cost Trend Rate	4.10%	4.10%

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For the valuation as of June 30, 2017, CalSTRS uses a generational mortality assumption, which involves the use of a base mortality table and projection scales to reflect expected annual reductions in mortality rates at each age, resulting in increases in life expectancies each year into the future. The base mortality tables are CalSTRS custom tables derived to best fit the patterns of mortality among our members. The projection scale was set equal to 110 percent of the ultimate improvement factor from the Mortality Improvement Scale (MP-2016) table, issued by the Society of Actuaries.

Assumptions were made about future participation (enrollment) into the MPP Program because CalSTRS is unable to determine which members not currently participating meet all eligibility criteria for enrollment in the future. Assumed enrollment rates were derived based on past experience and are stratified by age with the probability of enrollment diminishing as the members' age increases. This estimated enrollment rate was then applied to the population of members who may meet criteria necessary for eligibility and are not currently enrolled in the MPP Program. Based on this, the estimated number of future enrollments used in the financial reporting valuation was 459 or an average of 0.27 percent of the potentially eligible population (171,593).

The MPP Program is funded on a pay-as-you-go basis with contributions generally being made at the same time and in the same amount as benefit payments and expenses coming due. Any funds within the MPP Program as of June 30, 2018, were to manage differences between estimated and actual amounts to be paid and were invested in the Surplus Money Investment Fund, which is a pooled investment program administered by the State Treasurer.

Discount Rate

The discount rate used to measure the total OPEB liability as of June 30, 2018, is 3.87 percent. The MPP Program is funded on a pay-as-you-go basis as described in Note 1, and under the pay-as-you-go method, the OPEB Plan's fiduciary net position was not projected to be sufficient to make projected future benefit payments. Therefore, a discount rate of 3.87 percent, which is the Bond Buyer 20-Bond GO Index from Bondbuyer.com as of June 30, 2018, was applied to all periods of projected benefit payments to measure the total OPEB liability. The discount rate increased 0.29 percent from 3.58 percent as of June 30, 2017.

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

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

Discount Rate	Net OPEB Liability
1% decrease (2.87%)	\$ 174,921
Current discount rate (3.87%)	158,149
1% increase (4.87%)	143,005

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NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

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

The following presents the County's proportionate share of the net OPEB liability calculated using the current Medicare costs trend rates, as well as what the net OPEB liability would be if it were calculated using Medicare costs trend rates that are one percent lower or higher than the current rates:

Medicare Costs Trend Rate	Net OPEB Liability
1% decrease (2.7% Part A and 3.1% Part B)	\$ 144,216
Current Medicare costs trend rate (3.7% Part A and 4.1% Part B)	158,149
1% increase (4.7% Part A and 5.1% Part B)	173,134

NOTE 10 - FUND BALANCES

Fund balances are composed of the following elements:

	County School Service Fund	Child Development Fund	Special Reserve Fund for Capital Outlay Projects	Total
Nonspendable				
Revolving cash	\$ 5,000	\$ -	\$ -	\$ 5,000
Prepaid expenditures	44,654	4,792	-	49,446
Total Nonspendable	49,654	4,792	-	54,446
Restricted				
Legally restricted programs	2,432,583	1,283,623	-	3,716,206
Capital projects	-	-	259,121	259,121
Total Restricted	2,432,583	1,283,623	259,121	3,975,327
Assigned				
Capital projects	-	-	18,719,496	18,719,496
Other program balances	10,157,597	1,497,807	-	11,655,404
Total Assigned	10,157,597	1,497,807	18,719,496	30,374,900
Unassigned				
Reserve for economic uncertainties	3,525,611	-	-	3,525,611
Remaining unassigned	9,833,800	-	-	9,833,800
Total Unassigned	13,359,411	-	-	13,359,411
Total	\$ 25,999,245	\$ 2,786,222	\$ 18,978,617	\$ 47,764,084

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**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 11 - RISK MANAGEMENT

The County is exposed to various risks of losses related to torts; thefts of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

The County's risk management activities are recorded in the County School Service Fund. The County participates in the various public entity risk pools for health, workers' compensation, and property and liability risks. The participation in the public entity risk pools represents a transfer of risk to the pools. Provisions of the agreements with the public entity risk pools provide for additional assessments for deficits within the pool based upon specific calculations. As of June 30, 2019, information was not available that indicates that the County has an outstanding obligation for any calculated deficits. See Note 14 for additional information regarding the pools.

NOTE 12 - EMPLOYEE RETIREMENT SYSTEMS

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

For the fiscal year ended June 30, 2019, the County reported net pension liabilities, deferred outflows of resources, deferred inflows of resources, and pension expense for each of the above plans as follows:

Pension Plan	Collective Net Pension Liability	Collective Deferred Outflows of Resources	Collective Deferred Inflows of Resources	Collective Pension Expense
CalSTRS	\$ 21,156,279	\$ 5,407,622	\$ 7,022,850	\$ 1,325,866
CalPERS	29,651,897	7,823,033	2,590,941	3,914,552
Total	\$ 50,808,176	\$ 13,230,655	\$ 9,613,791	\$ 5,240,418

The details of each plan are as follows:

California State Teachers' Retirement System (CalSTRS)

Plan Description

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

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2017, annual actuarial valuation report, Defined Benefit Program Actuarial Valuation. This report and CalSTRS audited financial information are publicly available reports that can be found on the CalSTRS website under Publications at:

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

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NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

Benefits Provided

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

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

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

The STRP provisions and benefits in effect at June 30, 2019, are summarized as follows:

	<u>STRP Defined Benefit Program</u>	
	On or before December 31, 2012	On or after January 1, 2013
Hire date	December 31, 2012	January 1, 2013
Benefit formula	2% at 60	2% at 62
Benefit vesting schedule	5 Years of Service	5 Years of Service
Benefit payments	Monthly for Life	Monthly for Life
Retirement age	60	62
Monthly benefits as a percentage of eligible compensation	2.0% - 2.4%	2.0% - 2.4%
Required employee contribution rate	10.25%	10.205%
Required employer contribution rate	16.28%	16.28%
Required State contribution rate	9.828%	9.828%

Contributions

Required member local educational agencies and the State of California contributions rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. The contributions rates are expressed as a level percentage of payroll using the entry age normal actuarial method. In accordance with AB 1469, employer contributions into CalSTRS will be increasing to a total of 19.1 percent of applicable member earnings phased over a seven-year period. The contribution rates for each plan for the year ended June 30, 2019, are presented above and the County's total contributions were \$2,055,332.

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NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

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

At June 30, 2019, the County reported a liability for its proportionate share of the net pension liability that reflected a reduction for State pension support provided to the County. The amount recognized by the County as its proportionate share of the net pension liability, the related state support and the total portion of the net pension liability that was associated with the County were as follows:

Total Net Pension Liability, Including State Share:

County's proportionate share of net pension liability	\$ 21,156,279
State's proportionate share of the net pension liability associated with the County	12,112,959
Total	<u><u>\$ 33,269,238</u></u>

The net pension liability was measured as of June 30, 2018. The County's proportion of the net pension liability was based on a projection of the County's long-term share of contributions to the pension plan relative to the projected contributions of all participating school County's and the State, actuarially determined. The County's proportionate share for the measurement period June 30, 2018 and June 30, 2017, respectively, was 0.0230 percent and 0.0262 percent, resulting in a net decrease in the proportionate share of 0.0032 percent.

For the year ended June 30, 2019, the County recognized pension expense of \$1,325,866. In addition, the County recognized pension expense and revenue of \$1,423,000 for support provided by the State. At June 30, 2019, the County reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Pension contributions subsequent to measurement date	\$ 2,055,332	\$ -
Net change in proportionate share of net pension liability	-	5,900,893
Difference between projected and actual earnings on pension plan investments	-	814,650
Differences between expected and actual experience in the measurement of the total pension liability	65,605	307,307
Changes of assumptions	3,286,685	-
Total	<u><u>\$ 5,407,622</u></u>	<u><u>\$ 7,022,850</u></u>

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

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

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2020	\$ 176,884
2021	(128,352)
2022	(683,461)
2023	(179,721)
Total	<u>\$ (814,650)</u>

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

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2020	\$ (636,614)
2021	(636,614)
2022	(636,612)
2023	(567,574)
2024	(14,127)
Thereafter	(364,369)
Total	<u>\$ (2,855,910)</u>

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**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

Actuarial Methods and Assumptions

Total pension liability for STRP was determined by applying update procedures to the financial reporting actuarial valuation as of June 30, 2017 and rolling forward the total pension liability to June 30, 2018. The financial reporting actuarial valuation as of June 30, 2017, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2017
Measurement date	June 30, 2018
Experience study	July 1, 2010 through June 30, 2015
Actuarial cost method	Entry age normal
Discount rate	7.10%
Investment rate of return	7.10%
Consumer price inflation	2.75%
Wage growth	3.50%

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

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. The best estimate ranges were developed using capital market assumptions from CalSTRS general investment consultant (Pension Consulting Alliance-PCA) as an input to the process. The actuarial investment rate of return assumption was adopted by the board in February 2017 in conjunction with the most recent experience study. For each future valuation, CalSTRS consulting actuary (Milliman) reviews the return assumption for reasonableness based on the most current capital market assumptions. Best estimates of 20-year geometrically-linked real rates of return and the assumed asset allocation for each major asset class for the year ended June 30, 2018, are summarized in the following table:

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

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**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

Discount Rate

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

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

<u>Discount Rate</u>	<u>Net Pension Liability</u>
1% decrease (6.10%)	\$ 30,991,472
Current discount rate (7.10%)	21,156,279
1% increase (8.10%)	13,001,949

California Public Employees' Retirement System (CalPERS)

Plan Description

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

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2017 annual actuarial valuation report, Schools Pool Actuarial Valuation. This report and CalPERS audited financial information are publicly available reports that can be found on the CalPERS website under Forms and Publications at:

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

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NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

Benefits Provided

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

The CalPERS provisions and benefits in effect at June 30, 2019, are summarized as follows:

	School Employer Pool (CalPERS)	
	On or before December 31, 2012	On or after January 1, 2013
Hire date	December 31, 2012	January 1, 2013
Benefit formula	2% at 55	2% at 62
Benefit vesting schedule	5 Years of Service	5 Years of Service
Benefit payments	Monthly for Life	Monthly for Life
Retirement age	55	62
Monthly benefits as a percentage of eligible compensation	1.1% - 2.5%	1.0% - 2.5%
Required employee contribution rate	7.00%	7.00%
Required employer contribution rate	18.062%	18.062%

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Total plan contributions are calculated through the CalPERS annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The County is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. The contributions rates are expressed as percentage of annual payroll. The contribution rates for each plan for the year ended June 30, 2019, are presented above and the total County contributions were \$2,675,339.

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**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

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

As of June 30, 2019, the County reported net pension liabilities for its proportionate share of the CalPERS net pension liability totaling \$29,651,897. The net pension liability was measured as of June 30, 2018. The County's proportion of the net pension liability was based on a projection of the County's long-term share of contributions to the pension plan relative to the projected contributions of all participating school County's, actuarially determined. The County's proportionate share for the measurement period June 30, 2018 and June 30, 2017, respectively, was 0.1112 percent and 0.1149 percent, resulting in a net decrease in the proportionate share of 0.0037 percent.

For the year ended June 30, 2019, the County recognized pension expense of \$3,914,552. At June 30, 2019, the County reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 2,675,339	\$ -
Net change in proportionate share of net pension liability	-	2,590,941
Difference between projected and actual earnings on pension plan investments	243,213	-
Differences between expected and actual experience in the measurement of the total pension liability	1,943,870	-
Changes of assumptions	2,960,611	-
Total	<u>\$ 7,823,033</u>	<u>\$ 2,590,941</u>

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

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

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2020	\$ 884,617
2021	211,549
2022	(677,934)
2023	(175,019)
Total	<u>\$ 243,213</u>

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NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

The deferred outflows/(inflows) of resources related to the net change in proportionate share of net pension liability, differences between expected and actual experience in the measurement of the total pension liability, and changes of assumptions will be amortized over the Expected Average Remaining Service Life (EARSL) of all members that are provided benefits (active, inactive, and retirees) as of the beginning of the measurement period. The EARSL for the measurement period is 4.0 years and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2020	\$ 528,327
2021	1,321,224
2022	463,989
Total	<u>\$ 2,313,540</u>

Actuarial Methods and Assumptions

Total pension liability for the SEP was determined by applying update procedures to the financial reporting actuarial valuation as of June 30, 2017 and rolling forward the total pension liability to June 30, 2018. The financial reporting actuarial valuation as of June 30, 2017, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2017
Measurement date	June 30, 2018
Experience study	July 1, 1997 through June 30, 2015
Actuarial cost method	Entry age normal
Discount rate	7.15%
Investment rate of return	7.15%
Consumer price inflation	2.50%
Wage growth	Varies by entry age and service

The mortality table used was developed based on CalPERS-specific data. The table includes 15 years of mortality improvements using Society of Actuaries 90 percent of scale MP-2016.

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NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

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

Asset Class	Assumed Asset Allocation	Long-Term Expected Real Rate of Return
Global equity	50%	5.98%
Fixed income	28%	2.62%
Inflation assets	0%	1.81%
Private equity	8%	7.23%
Real assets	13%	4.93%
Liquidity	1%	-0.92%

Discount Rate

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

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

Discount Rate	Net Pension Liability
1% decrease (6.15%)	\$ 43,171,744
Current discount rate (7.15%)	29,651,897
1% increase (8.15%)	18,435,248

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NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

Social Security

As established by Federal law, all public sector employees who are not members of their employer's existing retirement system (CalSTRS or CalPERS) must be covered by Social Security or an alternative plan. The County has elected to use Social Security as its alternative plan. Contributions made by the County and employees are calculated according to Federal law.

On Behalf Payments

The State of California makes contributions to CalSTRS on behalf of the County. These payments consist of State County School Service Fund contributions to CalSTRS in the amount of \$1,117,957 (9.828 percent of annual payroll). Contributions are no longer appropriated in the annual *Budget Act* for the legislatively mandated benefits to CalPERS. Therefore, there is no on behalf contribution rate for CalPERS. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, these amounts have been recorded in these financial statements.

Senate Bill 90 (Chapter 33, Statutes of 2019), which was signed by the Governor on June 27, 2019, appropriated for an additional 2018–2019 contribution on behalf of school employers of \$2.246 billion for CalSTRS and \$904 million for CalPERS. A proportionate share of these contributions has been recorded in these financial statements. On behalf payments related to these additional contributions have been excluded from the calculation of available reserves and have not been included in the budgeted amounts reported in the *General Fund – Budgetary Comparison Schedule and Major Special Revenue Fund – Budgetary Comparison Schedule*.

NOTE 13 - COMMITMENTS AND CONTINGENCIES

Grants

The County received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the County School Service Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the County at June 30, 2019.

Litigation

The County is not currently a party to any legal proceedings.

SANTA BARBARA COUNTY EDUCATION OFFICE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

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

The County is a member of the Self-Insured Schools of California (SISC II and SISC III) and the Santa Barbara County Schools Self-Insurance Program for Employees (SIPE) public entity risk pools and the Special Education Local Plan Authority (SELPA) joint powers authority (JPA). The County pays an annual premium to each entity for its property and liability, health benefits, and workers' compensation coverage. The relationships between the County, the pools, and the JPA are such that they are not component units of the County for financial reporting purposes.

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

During the year ended June 30, 2019, the County made payments of \$47,435, \$8,610,649, and \$412,517 to SISC II, SISC III, and SIPE, respectively, for services received.



REQUIRED SUPPLEMENTARY INFORMATION

SANTA BARBARA COUNTY EDUCATION OFFICE

**COUNTY SCHOOL SERVICE FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2019**

	Budgeted Amounts		Actual (GAAP Basis)	Variances - Positive (Negative)
	Original	Final		Final to Actual
	REVENUES			
Local Control Funding Formula	\$ 16,571,384	\$ 21,735,460	\$ 21,821,640	\$ 86,180
Federal sources	1,484,897	1,681,774	1,631,954	(49,820)
Other State sources	5,649,018	8,010,773	7,103,801	(906,972)
Other local sources	27,680,958	27,692,144	27,456,929	(235,215)
Total Revenues ¹	51,386,257	59,120,151	58,014,324	(1,105,827)
EXPENDITURES				
Current				
Certificated salaries	12,989,453	13,166,479	12,926,789	239,690
Classified salaries	14,250,283	14,473,965	13,857,647	616,318
Employee benefits	15,627,529	15,234,373	14,354,585	879,788
Books and supplies	755,038	932,737	546,954	385,783
Services and operating expenditures	7,272,583	9,392,891	5,505,208	3,887,683
Other outgo	(859,614)	3,736,075	3,731,947	4,128
Capital outlay	74,061	190,315	169,632	20,683
Total Expenditures ¹	50,109,333	57,126,835	51,092,762	6,034,073
Excess of Revenues Over Expenditures	1,276,924	1,993,316	6,921,562	4,928,246
Other Financing Sources (Uses)				
Transfers in	6,020	6,020	7,438	1,418
Transfers out	(2,845,893)	(5,492,979)	(2,492,979)	3,000,000
Net Financing Sources (Uses)	(2,839,873)	(5,486,959)	(2,485,541)	3,001,418
NET CHANGE IN FUND BALANCE	(1,562,949)	(3,493,643)	4,436,021	7,929,664
Fund Balance - Beginning	21,563,224	21,563,224	21,563,224	-
Fund Balance - Ending	\$ 20,000,275	\$ 18,069,581	\$ 25,999,245	\$ 7,929,664

¹ On behalf payments of \$1,818,552 relating to Senate Bill 90 are included in the actual revenues and expenditures but have not been included in the budgeted amounts. In addition, due to the consolidation of Fund 17, Special Reserve Fund for Other Than Capital Outlay Projects for reporting purposes into the County School Service Fund, additional revenues and expenditures pertaining to this fund is included in the Actual (GAAP Basis) revenues and expenditures, however are not included in the original and final County School Service Fund budgets.

See accompanying note to required supplementary information.

SANTA BARBARA COUNTY EDUCATION OFFICE

**CHILD DEVELOPMENT FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2019**

	Budgeted Amounts		Actual (GAAP Basis)	Variances - Positive (Negative)
	Original	Final		Final to Actual
	REVENUES			
Federal sources	\$ 3,958,445	\$ 7,284,790	\$ 4,997,326	\$ (2,287,464)
Other State sources	7,588,844	10,092,773	9,673,155	(419,618)
Other local sources	1,708,477	2,105,012	2,526,406	421,394
Total Revenues	13,255,766	19,482,575	17,196,887	(2,285,688)
EXPENDITURES				
Current				
Certificated salaries	963,388	884,457	866,679	17,778
Classified salaries	1,219,679	1,333,817	1,275,148	58,669
Employee benefits	1,437,103	1,415,042	1,323,942	91,100
Books and supplies	160,469	313,362	215,744	97,618
Services and operating expenditures	9,029,506	14,454,095	11,867,182	2,586,913
Other outgo	859,614	1,330,560	1,112,140	218,420
Capital outlay	-	38,311	23,139	15,172
Total Expenditures	13,669,759	19,769,644	16,683,974	3,085,670
Excess (Deficiency) of Revenues Over Expenditures	(413,993)	(287,069)	512,913	799,982
Other Financing Sources				
Transfers in	372,023	372,023	372,023	-
NET CHANGE IN FUND BALANCES	(41,970)	84,954	884,936	799,982
Fund Balance - Beginning	1,901,286	1,901,286	1,901,286	-
Fund Balance - Ending	\$ 1,859,316	\$ 1,986,240	\$ 2,786,222	\$ 799,982

See accompanying note to required supplementary information.

SANTA BARBARA COUNTY EDUCATION OFFICE

**SCHEDULE OF CHANGES IN THE COUNTY'S TOTAL OPEB LIABILITY
AND RELATED RATIOS
FOR THE YEAR ENDED JUNE 30, 2019**

	2019	2018
Total OPEB Liability		
Service cost	\$ 2,006	\$ 2,749
Interest	72	106
Difference between expected and actual experience	(118,214)	12,033
Changes of assumptions	(5,126)	-
Benefit payments	(87,512)	(135,087)
Net change in total OPEB liability	(208,774)	(120,199)
Total OPEB liability - beginning	440,406	560,605
Total OPEB liability - ending	<u>\$ 231,632</u>	<u>\$ 440,406</u>
Covered payroll	<u>N/A¹</u>	<u>N/A¹</u>
County's total OPEB liability as a percentage of covered payroll	<u>N/A¹</u>	<u>N/A¹</u>

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

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

See accompanying note to required supplementary information.

SANTA BARBARA COUNTY EDUCATION OFFICE

SCHEDULE OF THE COUNTY'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY – MPP PROGRAM FOR THE YEAR ENDED JUNE 30, 2019

Year ended June 30,	2019	2018
County's proportion of the net OPEB liability	0.0413%	0.0475%
County's proportionate share of the net OPEB liability	\$ 158,149	\$ 199,685
County's covered-employee payroll	N/A ¹	N/A ¹
County's proportionate share of the net OPEB liability as a percentage of it's covered-employee payroll	N/A ¹	N/A ¹
Plan fiduciary net position as a percentage of the total OPEB liability	-0.40%	0.01%

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

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

See accompanying note to required supplementary information.

SANTA BARBARA COUNTY EDUCATION OFFICE

**SCHEDULE OF THE COUNTY'S PROPORTIONATE SHARE OF THE
NET PENSION LIABILITY
FOR THE YEAR ENDED JUNE 30, 2019**

	<u>2019</u>	<u>2018</u>
CalSTRS		
County's proportion of the net pension liability	<u>0.0230%</u>	<u>0.0262%</u>
County's proportionate share of the net pension liability	\$ 21,156,279	\$ 24,245,483
State's proportionate share of the net pension liability associated with the County	<u>12,112,959</u>	<u>14,343,423</u>
Total	<u>\$ 33,269,238</u>	<u>\$ 38,588,906</u>
County's covered - employee payroll	<u>\$ 12,645,412</u>	<u>\$ 13,963,752</u>
County's proportionate share of the net pension liability as a percentage of its covered - employee payroll	<u>167%</u>	<u>174%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>71%</u>	<u>69%</u>
CalPERS		
County's proportion of the net pension liability	<u>0.1112%</u>	<u>0.1149%</u>
County's proportionate share of the net pension liability	<u>\$ 29,651,897</u>	<u>\$ 27,435,257</u>
County's covered - employee payroll	<u>\$ 14,672,442</u>	<u>\$ 15,146,587</u>
County's proportionate share of the net pension liability as a percentage of its covered - employee payroll	<u>202%</u>	<u>181%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>71%</u>	<u>72%</u>

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

See accompanying note to required supplementary information.

<u>2017</u>	<u>2016</u>	<u>2015</u>
<u>0.0292%</u>	<u>0.0340%</u>	<u>0.0343%</u>
<u>\$ 23,576,845</u>	<u>\$ 22,899,487</u>	<u>\$ 20,021,380</u>
<u>13,421,877</u>	<u>12,111,304</u>	<u>12,089,774</u>
<u>\$ 36,998,722</u>	<u>\$ 35,010,791</u>	<u>\$ 32,111,154</u>
<u>\$ 15,518,108</u>	<u>\$ 15,541,351</u>	<u>\$ 15,315,979</u>
<u>152%</u>	<u>147%</u>	<u>131%</u>
<u>70%</u>	<u>74%</u>	<u>77%</u>
<u>0.1292%</u>	<u>0.1546%</u>	<u>0.1760%</u>
<u>\$ 25,526,156</u>	<u>\$ 22,787,829</u>	<u>\$ 19,980,319</u>
<u>\$ 15,688,225</u>	<u>\$ 16,834,560</u>	<u>\$ 18,083,223</u>
<u>163%</u>	<u>135%</u>	<u>110%</u>
<u>74%</u>	<u>79%</u>	<u>83%</u>

SANTA BARBARA COUNTY EDUCATION OFFICE

**SCHEDULE OF THE COUNTY'S CONTRIBUTIONS
FOR THE YEAR ENDED JUNE 30, 2019**

	<u>2019</u>	<u>2018</u>
CalSTRS		
Contractually required contribution	\$ 2,055,332	\$ 1,824,733
Contributions in relation to the contractually required contribution	<u>(2,055,332)</u>	<u>(1,824,733)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
County's covered - employee payroll	<u>\$ 12,823,384</u>	<u>\$ 12,645,412</u>
Contributions as a percentage of covered - employee payroll	<u>16.03%</u>	<u>14.43%</u>
 CalPERS		
Contractually required contribution	\$ 2,675,339	\$ 2,278,777
Contributions in relation to the contractually required contribution	<u>(2,675,339)</u>	<u>(2,278,777)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
County's covered - employee payroll	<u>\$ 14,811,975</u>	<u>\$ 14,672,442</u>
Contributions as a percentage of covered - employee payroll	<u>18.062%</u>	<u>15.531%</u>

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

See accompanying note to required supplementary information.

<u>2017</u>	<u>2016</u>	<u>2015</u>
\$ 1,756,640	\$ 1,665,093	\$ 1,380,072
<u>(1,756,640)</u>	<u>(1,665,093)</u>	<u>(1,380,072)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 13,963,752	\$ 15,518,108	\$ 15,541,351
<u>12.58%</u>	<u>10.73%</u>	<u>8.88%</u>

\$ 2,103,558	\$ 1,858,584	\$ 1,981,596
<u>(2,103,558)</u>	<u>(1,858,584)</u>	<u>(1,981,596)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 15,146,587	\$ 15,688,225	\$ 16,834,560
<u>13.888%</u>	<u>11.847%</u>	<u>11.771%</u>

SANTA BARBARA COUNTY EDUCATION OFFICE

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION JUNE 30, 2019

NOTE 1 - PURPOSE OF SCHEDULES

Budgetary Comparison Schedules

The County employs budget control by object codes and by individual appropriation accounts. Budgets are prepared on the modified accrual basis of accounting in accordance with accounting principles generally accepted in the United State of America as prescribed by the Governmental Accounting Standards Board and provisions of the California *Education Code*. The governing board is required to hold a public hearing and adopt an operating budget no later than July 1 of each year. The adopted budget is subject to amendment throughout the year to give consideration to unanticipated revenue and expenditures primarily resulting from events unknown at the time of budget adoption with the legal restriction that expenditures cannot exceed appropriations by major object account.

The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts after all budget amendments have been accounted for.

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

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

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

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

Change of Assumptions – The discount rate changed from 3.87 percent in 2018 to 3.50 percent in 2019.

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

This schedule presents information on the County's proportionate share of the net OPEB Liability – MPP Program and the plans' fiduciary net position. In the future, as data becomes available, ten years of information will be presented.

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

Changes of Assumptions – The plan rate of investment return assumption was changed from 3.58 percent to 3.87 percent since the previous valuation.

SANTA BARBARA COUNTY EDUCATION OFFICE

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION JUNE 30, 2019

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

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

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

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

Schedule of County Contributions

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



SUPPLEMENTARY INFORMATION

SANTA BARBARA COUNTY EDUCATION OFFICE

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2019**

Federal Grantor/Pass-Through Grantor/Program	CFDA Number	Pass-Through Entity Identifying Number	Program Expenditures	Amounts Passed Through to Subrecipients
U.S. DEPARTMENT OF EDUCATION				
Passed through California Department of Education (CDE):				
Title I, Part D - Local Delinquent Programs	84.010	14357	\$ 425,467	\$ -
School Improvement (CSI) Funding for COEs	84.010	15439	14,417	
Title II, Part A - Supporting Effective Instruction	84.367	14341	8,680	-
Title IX, Homeless Children Education (Stewart McKinney)	84.196	14332	33,996	-
Special Education (IDEA) Cluster:				
Basic Local Assistance Entitlement, Part B, Sec 611	84.027	13379	278,221	-
Preschool Grants, Part B, Sec 619	84.173	13430	8,588	-
Subtotal: Special Education (IDEA) Cluster			<u>286,809</u>	<u>-</u>
Early Intervention Grants, Part C	84.181	23761	127,331	-
Total U.S. Department of Education			<u>896,700</u>	<u>-</u>
U.S. DEPARTMENT OF AGRICULTURE				
Passed through CDE:				
Child and Adult Care Food	10.558	13393	588,723	-
Child Nutrition Cluster:				
National School Lunch	10.555	13396	8,950	-
Subtotal: Child Nutrition Cluster			<u>8,950</u>	<u>-</u>
Forest Reserve	10.665	10044	49,733	42,337
Total U.S. Department of Agriculture			<u>647,406</u>	<u>42,337</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES				
Passed through CDE:				
Child Care and Development Fund Block Grant Cluster:				
Federal Alternative Payment	93.596	13694	2,750,329	-
Quality Improvement Activities	93.575	14092	328,068	-
Local Planning Councils	93.575	13946	56,647	-
Federal Child Care, Center-based	93.575	15136	17,497	-
Federal Alternative Payment, Stage 2	93.575	14178	467,078	-
Federal Alternative Payment, Stage 3	93.596	14985	775,870	-
Subtotal: Child Care and Development Fund Block Grant Cluster			<u>4,395,489</u>	<u>-</u>
Passed through Kern County Superintendent of Schools:				
Medicaid Cluster:				
Medi-Cal Administrative Activities (MAA)	93.778	10060	222,960	-
Passed through California Department of Health Services:				
Medi-Cal Billing Option	93.778	10013	342,805	-
Subtotal: Medicaid Cluster			<u>565,765</u>	<u>-</u>
Total U.S. Department of Health and Human Services			<u>4,961,254</u>	<u>-</u>
Total Federal Programs			<u>\$ 6,505,360</u>	<u>\$ 42,337</u>

See accompanying note to supplementary information.

SANTA BARBARA COUNTY EDUCATION OFFICE

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE JUNE 30, 2019

ORGANIZATION

The Santa Barbara County Education Office is governed by an elected Superintendent of Schools and a seven-member County Board of Education. The County Superintendent develops personnel and program policy and is the employer for all County schools' employees. The County Board makes policy decisions related to County operated programs in appropriate areas of budgeting, curriculum, and planning. Another function of the County Board is to hear appeals related to student interdistrict attendance, student expulsions, and charter schools.

The County provides direct services to students where the County Office is the most appropriate agency to operate specialized student programs and coordinate County-wide student events in specialized programs such as Severely Handicapped Special Education, Regional Occupational Program, incarcerated youth, and expelled and at-risk youth. The County provides essential fiscal and administrative services to twenty school districts and two community college districts throughout the County.

COUNTY BOARD OF EDUCATION

<u>MEMBER</u>	<u>TRUSTEE AREA</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Ms. Roberta Heter	4	President	2020
Ms. Maggi Daane	7	Vice President	2018
Dr. Richard Fulton	3	Member	2020
Mrs. Judith Frost	5	Member	2018
Mr. Weldon U. Howell, Jr.	6	Member	2020
Dr. Peter R. MacDougall	2	Member	2020
Mrs. Marybeth Carty	1	Member	2018

ADMINISTRATION

Dr. Susan Salcido	County Superintendent of Schools
Ms. Catherine Breen	Assistant Superintendent, Special Education
Ms. Mari Minjarez Baptista	Assistant Superintendent, Human Resources
Mr. William Ridgeway	Assistant Superintendent, Administrative Services
Ms. Kathy Hollis	Assistant Superintendent, Educational Services
Ms. Ellen Barger	Assistant Superintendent, Curriculum and Instruction

See accompanying note to supplementary information.

SANTA BARBARA COUNTY EDUCATION OFFICE

**SCHEDULE OF AVERAGE DAILY ATTENDANCE
FOR THE YEAR ENDED JUNE 30, 2019**

	Annual ADA	
	2018-2019	Amended 2017-2018
ELEMENTARY		
Juvenile halls, homes, and camps	2	5
Probation referred, on probation or parole, expelled	3	1
Total Elementary	5	6
SECONDARY		
Juvenile halls, homes, and camps	70	98
Probation referred, on probation or parole, expelled	5	6
Total Secondary	75	104
Total K-12	80	110

Summarized below is the Average Daily Attendance (ADA) generated by school districts participating in the Santa Barbara County Master Plan for Special Education and the Community Schools Program at the second period of the current fiscal year.

	Second Period ADA					
	Community Schools			Special Education		
	Elementary	High School	Total	Elementary	High School	Total
Regular	7	3	10	47	36	83
Extended year	-	-	-	5	3	8
Total	7	3	10	52	39	91

See accompanying note to supplementary information.

SANTA BARBARA COUNTY EDUCATION OFFICE

**RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT WITH
AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019**

There were no adjustments to the Unaudited Actual Financial Report, which required reconciliation to the audited financial statements at June 30, 2019.

See accompanying note to supplementary information.

SANTA BARBARA COUNTY EDUCATION OFFICE

**SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2019**

	(Budget) 2020 ¹	2019	2018	2017
COUNTY SCHOOL SERVICE FUND ³				
Revenues	\$ 56,500,062	\$ 58,014,324	\$ 51,830,895	\$ 54,422,244
Other sources and transfers in	6,952	7,438	13,405	-
Total Revenues and Other Sources	56,507,014	58,021,762	51,844,300	54,422,244
Expenditures	55,064,914	51,092,762	47,253,775	49,623,815
Other uses and transfers out	2,845,893	5,492,979	4,364,311	4,549,828
Total Expenditures and Other Uses	57,910,807	56,585,741	51,618,086	54,173,643
INCREASE (DECREASE) IN FUND BALANCE	\$ (1,403,793)	\$ 1,436,021	\$ 226,214	\$ 248,601
ENDING FUND BALANCE	\$ 14,761,652	\$ 16,165,445	\$ 14,729,424	\$ 14,503,210
AVAILABLE RESERVES ²	\$ 7,048,342	\$ 13,359,411	\$ 14,018,126	\$ 11,127,664
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO ⁴	12.2%	24.4%	27.2%	20.5%
LONG-TERM OBLIGATIONS	N/A	\$ 429,710	\$ 676,291	\$ 850,097
K-12 AVERAGE DAILY ATTENDANCE AT ANNUAL	74	80	110	146

The County School Service Fund balance has increased by \$1,662,235 over the past two years. The fiscal year 2019-2020 budget projects a decrease of \$1,403,793 (8.78 percent). For a County this size, the State recommends available reserves of at least three percent of total County School Service Fund expenditures, transfers out, and other uses (total outgo).

The County has incurred operating surpluses in all the past three years but anticipates incurring an operating deficit during the 2019-2020 fiscal year. Total long-term obligations have decreased by \$420,387 over the past two years.

Average daily attendance has decreased by 66 over the past two years. An additional decline of six ADA is anticipated during fiscal year 2019-2020.

¹ Budget 2020 is included for analytical purposes only and has not been subjected to audit.

² Available reserves consist of all unassigned fund balances including all amounts reserved for economic uncertainties contained with the County School Service Fund.

³ County School Service Fund amounts do not include activity related to the consolidation of the Fund 17, Special Reserve Fund for Other Than Capital Outlay Projects as required by GASB Statement No. 54.

⁴ On behalf payments of \$1,818,552 relating to Senate Bill 90 have been excluded from the calculation of available reserves for the fiscal year ending June 30, 2019.

See accompanying note to supplementary information.

SANTA BARBARA COUNTY EDUCATION OFFICE

**NOTE TO SUPPLEMENTARY INFORMATION
JUNE 30, 2019**

NOTE 1 - PURPOSE OF SCHEDULES

Schedule of Expenditures of Federal Awards

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

The following schedule provides reconciliation between revenues reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances, and the related expenditures reported on the Schedule of Expenditures of Federal Awards. The reconciling amounts consist primarily of Medi-Cal Billing Option funds that in the previous period were recorded as revenues but were unspent. These unspent balances have been expended in the current period. In addition, Medi-Cal Administrative Activities funds have been recorded in the current period as revenues but have not been expended as of June 30, 2019. These unspent balances are reported as legally restricted ending balances within the County School Service Fund.

	<u>CFDA Number</u>	<u>Amount</u>
Total Federal Revenues From the Statement of Revenues, Expenditures, and Changes in Fund Balances:		\$ 6,679,014
Medi-Cal Billing Option	93.778	118,754
Medi-Cal Administrative Activities	93.778	(292,408)
Total Schedule of Expenditures of Federal Awards		<u>\$ 6,505,360</u>

Local Education Agency Organization Structure

This schedule provides information about the County's boundaries, schools operated, members of the governing board, and members of the administration.

Schedule of Average Daily Attendance (ADA)

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

SANTA BARBARA COUNTY EDUCATION OFFICE

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2019

Reconciliation of Annual Financial and Budget Report with Audited Financial Statements

This schedule provides the information necessary to reconcile the fund balance of all funds reported on the Unaudited Actual Financial Report to the audited financial statements.

Schedule of Financial Trends and Analysis

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



INDEPENDENT AUDITOR'S REPORTS



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

Governing Board
Santa Barbara County Education Office
Santa Barbara, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Santa Barbara County Education Office (the County) as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise Santa Barbara County Education Office's basic financial statements, and have issued our report thereon dated December 4, 2019.

Internal Control over Financial Reporting

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

Handwritten signature in cursive script that reads "Eide Bailly LLP".

Rancho Cucamonga, California
December 4, 2019



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

Governing Board
Santa Barbara County Education Office
Santa Barbara, California

Report on Compliance for Each Major Federal Program

We have audited Santa Barbara County Education Office's (the County) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Santa Barbara County Education Office's major Federal programs for the year ended June 30, 2019. Santa Barbara County Education 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 the Federal statutes, regulations, and the terms and conditions of its Federal awards applicable to its Federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Santa Barbara County Education 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 for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about Santa Barbara County Education 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 Santa Barbara County Education Office's compliance.

Opinion on Each Major Federal Program

In our opinion, Santa Barbara County Education 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, 2019.

Report on Internal Control over Compliance

Management of Santa Barbara County Education 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 Santa Barbara County Education 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 the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Santa Barbara County Education 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 a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a Federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a Federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

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



Rancho Cucamonga, California
December 4, 2019



INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Governing Board
Santa Barbara County Education Office
Santa Barbara, California

Report on State Compliance

We have audited Santa Barbara County Education Office's (the County) compliance with the types of compliance requirements as identified in the *2018-2019 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* that could have a direct and material effect on each of the Santa Barbara County Education Office's State government programs as noted below for the year ended June 30, 2019.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance of each of the Santa Barbara County Education Office's State programs based on our audit of the types of compliance requirements referred to above. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *2018-2019 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. These standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the applicable government programs noted below. An audit includes examining, on a test basis, evidence about Santa Barbara County Education 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 opinions. Our audit does not provide a legal determination of Santa Barbara County Education Office's compliance with those requirements.

Basis for Qualified Opinion on Transportation Maintenance of Effort

As described in the accompanying schedule of findings and questioned costs, Santa Barbara County Education Office did not comply with requirements regarding the *Transportation Maintenance of Effort*: refer to State Awards Findings and Questioned Costs of this report, finding 2019-001. Compliance with such requirements is necessary, in our opinion, for Santa Barbara County Education Office to comply with the requirements applicable to that program.

Qualified Opinion on Transportation Maintenance of Effort

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, Santa Barbara County Education Office complied, in all material respects, with the types of compliance requirements referred to above for the year ended June 30, 2019.

Unmodified Opinion on Each of the Other Programs

In our opinion, Santa Barbara County Education Office complied, in all material respects, with the compliance requirements referred to above that are applicable to the government programs noted below that were audited for the year ended June 30, 2019, except as described in the Schedule of State Awards Findings and Questioned Costs section of the accompanying Schedule of Findings and Questioned Costs.

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

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

	<u>Procedures Performed</u>
CHARTER SCHOOLS	
Attendance	No, see below
Mode of Instruction	No, see below
Nonclassroom-Based Instruction/Independent Study for Charter Schools	No, see below
Determination of Funding for Nonclassroom-Based Instruction	No, see below
Annual Instruction Minutes Classroom-Based	No, see below
Charter School Facility Grant Program	No, see below

The County's kindergarten students are retained using an Individualized Education Program based on the identified special needs; therefore, we did not perform procedures related to Kindergarten Continuance.

We did not perform testing over Independent Study because the ADA was below the materiality threshold required for testing.

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

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

The County was not required to meet the Ratio of Administrative Employees to Teachers requirements; therefore, we did not perform procedures related to the Ratio of Administrative Employees to Teachers.

The County was not required to meet the Classroom Teacher Salaries requirements; therefore, we did not perform procedures related to the Classroom Teacher Salaries.

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

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

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

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

The County does not offer a District of Choice Program; therefore, we did not perform any procedures for the District of Choice Program.

The County did not receive funding for the California Clean Energy Jobs Act; therefore, we did not perform any procedures for the California Clean Energy Jobs Act.

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

The County does not have an Independent Study - Course Based Program; therefore, we did not perform any procedures for the Independent Study - Course Based Program.

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

Eide Bailly LLP

Rancho Cucamonga, California
December 4, 2019



SCHEDULE OF FINDINGS AND QUESTIONED COSTS

SANTA BARBARA COUNTY EDUCATION OFFICE

**SUMMARY OF AUDITOR'S RESULTS
FOR THE YEAR ENDED JUNE 30, 2019**

FINANCIAL STATEMENTS

Type of auditor's report issued:	<u>Unmodified</u>
Internal control over financial reporting:	
Material weakness identified?	<u>No</u>
Significant deficiency identified?	<u>None Reported</u>
Noncompliance material to financial statements noted?	<u>No</u>

FEDERAL AWARDS

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

Identification of major Federal programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
93.575 and 93.596	Child Care and Development Fund Block Grant Cluster

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

STATE AWARDS

Type of auditor's report issued on compliance for State programs:	<u>Unmodified</u>
Unmodified for all programs except for the following program which was qualified:	
	<u>Name of Program</u>
	<u>Transportation Maintenance of Effort</u>

SANTA BARBARA COUNTY EDUCATION OFFICE

**FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2019**

None reported.

SANTA BARBARA COUNTY EDUCATION OFFICE

**FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2019**

None reported.

SANTA BARBARA COUNTY EDUCATION OFFICE

STATE AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2019

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

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

2019-001 Code 40000

Criteria or Specific Requirements

According to *California Education Code Section 2575(k) or 42238.03(a)(6)(b)*, for funds received by the County for the purpose of administering the Transportation Program during the 2018-2019 fiscal year, the County must expend no less than the amount of funds expended, or the amount of revenue received, if that is less, for the purpose of that program in the 2012-13 fiscal year.

Condition

The County is deficient in meeting the maintenance of effort requirement for its Transportation Program. Specifically, the County was deficient by \$112,891 for the Transportation Program.

Questioned Costs

There were no questioned costs associated with the condition identified. However, the County was deficient in meeting its Regional Transportation Maintenance of Effort by \$112,891.

Context

The County records its activities related to its Transportation Program using a locally defined resource code 0240. In reviewing the activities posted in resource code 0240, the County expended a total of \$42,079. The total amount expended by the County did not meet the required level of maintenance of effort which was identified as \$154,970 for the Transportation Program.

Effect

As a result of our testing, the County does not appear to be in compliance with *California Education Code Section 42238.03(a)(6)(b)*.

Cause

It appears the condition identified has materialized directly as a result of a reduction in the operation of the programs.

SANTA BARBARA COUNTY EDUCATION OFFICE

STATE AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2019

Recommendation

The County should be cognizant of the general guidelines pertaining to maintenance of effort requirements. The County should ensure its budgeting process incorporates maintenance of effort requirements into account for other programs, especially when there may be a direct fiscal penalty imposed on the County for failing to meet the maintenance of effort requirements.

Corrective Action Plan

The Santa Barbara County Education Office will continue to monitor transportation program costs.

SANTA BARBARA COUNTY EDUCATION OFFICE

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2019**

Except as specified in previous sections of this report, summarized below is the current status of all audit findings reported in the prior year's Schedule of Findings and Questioned Costs.

State Awards Findings

Transportation Maintenance of Effort

2018-001 Code 40000

Criteria or Specific Requirements

According to *California Education Code Section 2575(k)* or *42238.03(a)(6)(b)*, for funds received by the County for the purpose of administering the Transportation Program during the 2017-2018 fiscal year, the County must expend no less than the amount of funds expended, or the amount of revenue received, if that is less, for the purpose of that program in the 2012-2013 fiscal year.

Condition

The County is deficient in meeting the maintenance of effort requirement for its Transportation Program. Specifically, the County was deficient by \$86,964 for the Transportation Program.

Questioned Costs

There were no questioned costs associated with the condition identified. However, the County was deficient in meeting its Regional Transportation Maintenance of Effort by \$86,964.

Context

The County records its activities related to its Transportation Program using a locally defined resource code 0240. In reviewing the activities posted in resource code 0240, the County expended a total of \$68,006. The total amount expended by the County did not meet the required level of maintenance of effort which was identified as \$154,970 for the Transportation Program.

Effect

As a result of our testing, the County does not appear to be in compliance with *California Education Code Section 42238.03(a)(6)(b)*.

Cause

It appears the condition identified has materialized directly as a result of a reduction in the operation of the programs.

SANTA BARBARA COUNTY EDUCATION OFFICE

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2019

Recommendation

The County should be cognizant of the general guidelines pertaining to maintenance of effort requirements. The County should ensure its budgeting process incorporates maintenance of effort requirements into account for other programs, especially when there may be a direct fiscal penalty imposed on the County for failing to meet the maintenance of effort requirements.

Current Status

Not implemented. See Current Year State Awards Finding 2019-001.