



Financial Statements  
June 30, 2021

# Orange County Department of Education

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## Independent Auditor's Report

To the Superintendent of Schools  
and County Board of Education  
Orange County Department of Education  
Costa Mesa, 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 Orange County Department of Education (the County) as of and for the year ended June 30, 2021, 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. 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 Orange County Department of Education, as of June 30, 2021, 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 4 through 15, budgetary comparison information on pages 77 through 79, schedule of changes in the County's total OPEB liability and related ratios on page 80, schedule of the County's proportionate share of the net OPEB liability – MPP program on page 81, schedule of the County's proportionate share of the net pension liability on pages 82 and 83, and the schedule of County contributions on pages 84 and 85, 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 Orange County Department of Education's financial statements. The combining non-major governmental fund financial statements, Schedule of Expenditures of Federal Awards as required by the audit requirements of 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 other supplementary information listed in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements.

The combining non-major governmental fund financial statements, the Schedule of Expenditures of Federal Awards, and the other supplementary information listed in the table of contents are the responsibility of management and were derived from and relate 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 combining non-major governmental fund financial statements, the Schedule of Expenditures of Federal Awards, and the other supplementary information listed in the table of contents are 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 a report dated January 26, 2022 on our consideration of Orange County Department of Education’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 Orange County Department of Education’s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Orange County Department of Education’s internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Rancho Cucamonga, California  
January 26, 2022



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County Superintendent  
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**ORANGE COUNTY  
BOARD OF EDUCATION**

MARI BARKE

REBECCA "BECKIE" GOMEZ

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LISA SPARKS, PH.D.

KEN L. WILLIAMS, D.O.

This section of the Orange County Department of Education's (the County) annual financial report presents our discussion and analysis of the County's financial performance during the fiscal year that ended on June 30, 2021, with comparative information for the year ended June 30, 2020. 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 (including capital assets) and deferred outflows of resources of the County as well as all liabilities (including long-term liabilities) and deferred inflows of resources. Additionally, certain eliminations have occurred as prescribed by the statement in regards to interfund activity, payables, and receivables.

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

- The Governmental Funds are prepared using the current financial resources measurement focus and modified accrual basis of accounting.
- The Proprietary Funds are prepared using the economic resources measurement focus and the 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 Orange County Department of Education.

## FINANCIAL HIGHLIGHTS OF THE PAST YEAR

For the 2020-2021 school year, COVID-19 had the biggest impact on our financial picture. As a County Office we continued to be funded based on the 2019-2020 Average Daily Attendance to help mitigate the loss of funding relating to absences due to the pandemic. County Offices are funded under the Local Control Funding Formula (LCFF) with funding for an Operations grant based on the total number of districts and students served in our county and the Alternative Education grant. We receive funding for school district referred students in local revenue. One of the complex calculations specific to County Office of Education and LCFF is when county property taxes increase and ADA decreases, COE's move into a category called minimum state aid. We have been considered minimum state aid for multiple years which requires us to give excess funds (from property taxes) to the County Courts which reduces their state contribution. We continue to be a County that moved into this category and it is problematic because even though we receive a Cost of Living increase, it is not realized since we do not get to keep the funds but transfer to county courts. We continue to see increases on expenditures without an offsetting increase to revenue from cost of living increases that will impact future years.

In the current fiscal year, the County School Service Fund revenue (not including transfers from other funds) increased by \$8 million. AB602 requires a transfer to Special Education of 36% of the total property tax received. Property tax increased by \$6 million which required a transfer totaling \$43.5 million to the Special Education Pass-Through Fund (SELPA). This was an increase of \$2.3 million to the SELPA and the remaining \$3.7 million remained in the County School Service Fund. The County continues to receive increases in local taxes, overall LCFF funding for 2020-21 grew by \$5 million, this included a decrease of \$162 thousand for Alternative Education programs, an increase of \$82 thousand for the College & Career Preparatory Academy charter school, and an increase for our contribution to the County Courts. Federal funding increased \$8 million or 2.9% of the County School Service Fund revenues. The increase is mostly due to an increase of \$8 million for various COVID-19 Relief funds including CARES Act (Coronavirus Aid Relief Economic Security Act), GEER (Governor's Emergency Education Relief) & ESSER I, II, III (Elementary and Secondary School Emergency Relief) funding, an increase of \$2.2 million in the Medi-Cal Administrative Activities program and changes in various other federal programs. Other State revenue increased \$10.6 million or 3.9% of the County School Service Fund revenues (and an increase of \$24 million or 6.2% of government-wide revenues). The increase is largely due to an increase of \$5.5 million in Expanded Learning Opportunities (ELO) and CARES Learning Loss Mitigation funds, an increase of \$3.7 million for K-12 Strong Workforce, an increase of \$1.7 million for Tobacco Use Prevention Education, an increase of \$900 thousand for Lottery funds, a decrease of \$1 million for Instruction Curriculum, a decrease of \$1 million for Career Technical Education Incentive Grant, a decrease of \$300 thousand for California Complete Counts Census, and other state grants and entitlements. Finally, government-wide local revenue for 2020-2021 decrease by \$15 million as a result of various decreases in interagency fees and decreases in tuition fees.

The expenditures in the County School Service Fund (not including transfers to other funds) decreased by \$2.4 million or 1% of expenditures. This includes the decrease of GASB 68 CalSTRS on behalf of the district contribution of \$104 thousand and the rate decrease of CalSTRS from 17.10% to 16.15% and CalPERS rate increase from 19.721% to 20.70%. In 2020-2021, all bargaining units received a one and one quarter percent on-going salary increase and a one-time salary increase of one-and-one-half percent. In addition, the cap to the health and welfare benefit plans was raised and the district agreed to contribute and cover the increase to

eliminate an increase to employee contributions for 2020-2021 for all groups. Salaries and benefits increased by \$2.7 million, which include a decrease for retirements and staff attrition and the decrease for the GASB 68 CalSTRS on behalf of the district contribution. In 2020-2021 the annual LCAP update was not required but instead it called for the Learning Continuity and Attendance Plan (LCP). This plan was to address funding stability for schools while providing information for how student learning continuity was being addressed during the COVID-19 crisis in the school year. Books, computers, and instructional materials and various other changes in services and contracts remain part of the focus in our LCAP.

Due to COVID-19, CDE held constant the 2020-2021 Average Daily Attendance at the 2019-2020 funding levels and adjusted for growth. ADA shows a slight decrease of eleven average daily attendance (ADA) due to prior year adjustments. This is one-time and will return to the regular calculation in the coming year.

As always, our focus is on providing world-class education and services to support our districts and students in Orange County. We continue to plan and design permanent facilities for the Alternative Education Program and joint-use projects for Special Schools.

### **Vision**

Orange County students will lead the nation in college and career readiness and success.

### **Mission**

The mission of the Orange County Department of Education (OCDE) is to ensure that all students are equipped with the competencies they need to thrive in the 21st century.

OCDE is a public education organization offering support to 27 school districts and more than 600 schools and 20,000 educators serving more than 464,000 students in Orange County.

OCDE's personnel offer support, professional development, and student programs through its divisions and departments: Administrative Services, Alternative Education, Business Services, Communications, Educational Services, Governance, Leadership, and Community Partnerships Services, Information Technology, Legal Services, and Special Education.

### **Values**

OCDE is dedicated to the fundamental human values of respect, responsibility, integrity, and professional ethics. Our priority is service to students, schools, districts, families, and community members. We provide a safe, caring, courteous, and professional environment that fosters collaborative work and individual development for our employees. We hold ourselves and each other accountable for the highest level of performance, efficiency, resource management, and professionalism.

## Enrollment

A primary source of revenue for the County is generated by ADA of students in the County programs. The changes of ADA can have significant impact on the financial stability of the office. Due to COVID-19, the County operated student programs ADA was held constant at the 2019-2020 funding levels and adjusted for growth, which shows no change from last year. This is one-time and will return to the regular calculation in the coming year.

## Solvency

The County is required to maintain a two percent Reserve for Economic Uncertainties and strives to meet a budgetary reserve of three percent. In 2020-2021, we met our goal with a minimum three percent Reserve for Economic Uncertainties.

## 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, deferred outflows of resources, liabilities, and deferred inflows of resources of the County using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the County's *net position* and changes in them. Net position is the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources, 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 County'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, the coordination of educational programs among school districts within Orange County, and the ongoing effort to improve and maintain buildings and sites. Property taxes, State income and sales taxes, user fees, interest income, as well as Federal, State and local grants, finance these activities.

## REPORTING THE COUNTY'S MOST SIGNIFICANT FUNDS

### Fund Financial Statements

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

**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.

**Proprietary Funds** – When the County charges users for the services it provides, whether to outside customers or to other departments within the County, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the *Statement of Net Position* and the *Statement of Revenues, Expenses, and Changes in Fund Net Position*. We use internal service funds (the other component of proprietary funds – the County does not use enterprise funds) to report activities that provide supplies and services for the County's other programs and activities, such as the County's Internal Service Fund. The internal service fund are reported with the governmental activities in the government-wide financial statements.

## 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 *Statement of Net Position* and the *Statement of Changes in 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.

**THE COUNTY AS A WHOLE**

**Net Position**

The County's net position was \$259,597,436 for the fiscal year ended June 30, 2021. Of this amount, \$89,379,603 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.

	Governmental Activities	
	2021	2020
Assets		
Current and other assets	\$ 420,829,190	\$ 355,550,957
Capital assets	101,319,948	90,984,038
Total assets	522,149,138	446,534,995
Deferred outflows of resources	38,185,168	43,391,677
Liabilities		
Current liabilities	59,821,219	45,752,835
Long-term liabilities other than OPEB and Pension	13,770,157	15,597,231
Net other postemployment benefits (OPEB) liability	3,942,363	3,910,547
Aggregate net pension liability	202,322,394	194,736,975
Total liabilities	279,856,133	259,997,588
Deferred inflows of resources	20,880,737	24,426,235
Net Position		
Investment in capital assets	91,670,948	80,271,038
Restricted	78,546,885	67,737,781
Unrestricted	89,379,603	57,494,030
Total net position	\$ 259,597,436	\$ 205,502,849

The \$259,597,436 in unrestricted net position of governmental activities represents the *accumulated* results of all past years' operations.

**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 17. 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

	Governmental Activities	
	2021	2020
Revenues		
Program revenues		
Charges for services and sales	\$ 40,272,746	\$ 49,598,479
Operating grants and contributions	100,075,379	78,147,030
Capital grants and contributions	11,095,943	35,539
General revenues		
Federal and State aid not restricted	59,934,810	52,765,522
Property taxes	125,221,970	118,829,589
Other general revenues	50,989,750	60,709,119
Total revenues	387,590,598	360,085,278
Expenses		
Instruction-related	191,927,940	193,864,941
Pupil services	18,309,656	20,673,249
Administration	32,778,621	31,382,846
Plant services	14,197,429	13,423,214
All other services	76,282,365	69,749,714
Total expenses	333,496,011	329,093,964
Change in net position	\$ 54,094,587	\$ 30,991,314

**Governmental Activities**

As reported in the *Statement of Activities* on page 17, the cost of all of our governmental activities this year was \$333,496,011. However, the amount that our taxpayers ultimately financed for these activities through local taxes was only \$125,221,970 because the cost was paid by those who benefited from the programs (\$40,272,746) or by other governments and organizations who subsidized certain programs with grants and contributions (\$111,171,322). We paid for the remaining "public benefit" portion of our governmental activities with \$110,924,560 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 and instruction-related activities, pupil services, administration, plant services, and all other services. 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

	Total Cost of Services		Net Cost of Services	
	2021	2020	2021	2020
Instruction-related	\$ 191,927,940	\$ 193,864,941	\$ (80,702,283)	\$ (105,751,187)
Pupil services	18,309,656	20,673,249	(12,851,137)	(14,714,992)
Administration	32,778,621	31,382,846	(24,594,986)	(23,645,925)
Plant services	14,197,429	13,423,214	(13,304,154)	(12,775,140)
All other services	76,282,365	69,749,714	(50,599,383)	(44,425,672)
<b>Total</b>	<b>\$ 333,496,011</b>	<b>\$ 329,093,964</b>	<b>\$ (182,051,943)</b>	<b>\$ (201,312,916)</b>

**THE COUNTY'S FUNDS**

As the County completed this year, our governmental funds reported a combined fund balance of \$354,419,267, which is an increase of \$50,626,385, or 16.7% from last year (Table 4).

Table 4

	Balances and Activities			June 30, 2021
	June 30, 2020	Revenues and Other Financing Sources	Expenditures and Other Financing Uses	
County School Service Fund	\$ 258,312,938	\$ 275,452,323	\$ 227,908,158	\$ 305,857,103
Special Education				
Pass-Through Fund	9,116,324	47,947,536	47,712,081	9,351,779
Child Development Fund	-	49,191,510	48,959,383	232,127
Deferred Maintenance Fund	30,198,727	2,286,330	1,651,908	30,833,149
County School Facilities Fund	2,320,244	11,107,182	8,871,512	4,555,914
Special Reserve Fund for				
Capital Outlay Projects	2,534,327	2,139,923	2,343,076	2,331,174
Debt Service Fund	1,310,322	1,323,993	1,376,294	1,258,021
<b>Total</b>	<b>\$ 303,792,882</b>	<b>\$ 389,448,797</b>	<b>\$ 338,822,412</b>	<b>\$ 354,419,267</b>

The County School Service Fund is our principal operating fund. The fund balance in the County School Service Fund increased to \$305 million, this includes a \$13 million increase for one-time COVID-19 response relief funds to address and mitigate the students learning loss and negative effects of the pandemic, \$5 million increase in the Local Control Funding Formula (LCFF) from an increase in Property Tax and due to the districts minimum state aid status \$4 million will be transferred to the County Courts reducing the state's obligation to the courts, \$2.2 million increase for Medical Administrative Activities, \$374 thousand increase for Every Student Succeed Act, School Improvement programs, \$9 million decrease for K-12 Strong Workforce, \$1.4 million decrease for Title I programs, \$120 thousand decrease for California Quality Counts, and staff reductions.

**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 on March 15, 2021. (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 77).

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets**

At June 30, 2021, the County had \$101,319,948 in a broad range of capital assets, including land, buildings, and furniture and equipment, net of depreciation. This amount represents a net increase (including additions, deductions, and depreciation) of \$10,335,910, or 11.4%, from last year (Table 5).

Table 5

	Governmental Activities	
	2021	2020
Land and construction in process	\$ 39,339,973	\$ 32,322,534
Buildings and improvements	54,154,304	52,568,168
Furniture and equipment	7,825,671	6,093,336
Total	\$ 101,319,948	\$ 90,984,038

The \$10 million increase in capital assets was the result of an increase of \$2 million in capital purchases, an increase of \$7 million of capital asset acquisitions, and an increase of \$1.7 million in equipment and related accumulated depreciation.

We present more detailed information about our capital assets in Note 4 to the financial statements.

**Long-Term Liabilities other than Other Postemployment Benefits (OPEB) and Pension**

At the year-end, the County had \$13,770,157 in long-term liabilities other than OPEB and pension versus \$15,597,231 last year, a decrease of \$1,827,074, or 11.7%. Those liabilities consisted of:

Table 6

	Governmental Activities	
	2021	2020
Certificates of participation (net of discount)	\$ 9,649,000	\$ 10,713,000
Supplemental early retirement plan	1,466,571	2,933,142
Compensated absences	2,654,586	1,951,089
Total	\$ 13,770,157	\$ 15,597,231

We present more detailed information regarding our long-term liabilities other than OPEB and pension in Note 8 of the financial statements.

### **OPEB and Pension Liabilities**

At year-end, the County had \$3,942,363 in net OPEB liability versus \$3,910,547 last year, an increase of \$31,816, or 0.8%.

We present more detailed information regarding our net OPEB liability in Note 9 of the financial statements.

At the year-end, the County had \$202,322,394 in aggregate net pension liability versus \$194,736,975 last year, an increase of \$7,585,419, or 3.9%.

We present more detailed information regarding our aggregate net pension liability in Note 13 of the financial statements

### **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

As a COE, we have reached our funding target and because the increase in property taxes above the statewide averages and the declining enrollment changes, we maintain the status of minimum state aid guarantee. Under the minimum state aid guarantee, we will not receive any new LCFF funding from either growth in attendance or cost of living increases. Future growth in funding will be limited until the Average Daily Attendance (ADA) significantly increases, or changes occur in targeted sub-group populations, and/or property taxes decline. As a COE, our declining ADA has a negative impact on current year funding for various programs.

Operational costs continue to increase, and we continue to be concerned about unfunded and mandated activities. Although the State provided some relief to the districts for the CalSTRS liability, the CalSTRS and CalPERS rates are scheduled to show significant increases annually. The cost for health and welfare benefits continues to be an area with rising costs. We collaborate with our broker and Health Benefits Committee to ensure we are able to continue providing quality health care for all employees. We have negotiated a cap on medical benefits and increases to the cap are part of our total compensation calculation for negotiations. We are also budgeting for one-time expenditures in this current year from funding received in prior years. We will continue to adjust our budget revenue and expenditure projections as we receive more clarity on attendance, legislative changes, the State budget, and the current economy.

Items specifically addressed in the budget are as follows:

2020-2021 is the eighth year of our Local Control Accountability Plan (LCAP) and the need to address increased and improved services to our students continues to be our focus. We have seen great progress and look forward to successfully continue providing: (1) Counselors, Teachers on Special Assignments, and Academic Support Assistants that are providing a greater level of support to students and staff through individualized interactions, direct services, and the sharing of best practices, (2) continue providing more opportunities for parents and guardians to increase family engagement in their students educational experience, (3) to fully complete the upgrade of the bandwidth and site connectivity that has increased the number of devices for student usage and provided offsite internet connection to students, and greater collaboration between the Special Education and

Alternative Education divisions. We continue to receive students in our program with more significant attendance, academic, behavioral, and emotional needs that impact attendance rates negatively. Our plan is to address these needs by conducting student intervention meetings, utilizing the support of the District Attorney, and the Student Attendance Board. In addition, we will continue to expand opportunities for career technical activities to better engage students in their learning. As we prepare and revise our Budget Reports, our ADA continues to project a decline. The district will continue to evaluate vacancies and anticipate not replacing most positions not related to Special Education. We continue to monitor ADA and to establish better control over staffing ratios at each site.

The LCFF changed how students are recorded and COEs are funded directly from the state for students that reside in Juvenile Hall, are probation referred, or expelled. Probation and the County of Orange continue to implement alternatives to incarceration programs which have a significant impact on our Juvenile Court population. Because of the changes in the LCFF funding model, students referred by school districts are credited to the district of residence and then CDE transfers the funding back to the COE who provides the services. This has created a more favorable impact on our districts cash flow. We will continue to monitor our expenditures and will concentrate on evaluating our multi-year projections to ensure that we have fiscal stability for future years.

Legislation passed by the State of California in recent years has increased the oversight responsibilities for COEs. COEs are required to review and give technical assistance for school districts with their LCAPs. In addition to approving the LCAP, the County is required to ensure that the district's budget is aligned with the services required in their plan. Financial oversight continues to be a significant issue, as every school district will have different funding under LCFF, and they have to address the needs in their LCAPs. Due to COVID-19, the State of California received a federal waiver from the Every Student Succeed Act (ESSA) assessment and accountability requirements which waived the 2020-2021 dashboard. This action did not identify additional school districts or released any from the list. Assistance and support will continue for the school districts previously identified in the second dashboard released in 2018-2019 by the California Department of Education (CDE). The dashboard identified Orange County districts in need of intervention and continuous improvement. We will continue to provide technical assistance for instructional programs and have increased the staffing support and expertise to assist the districts as needed. We have successfully completed the twelve round of school inspections for the Williams Settlement. The Williams Settlement required visits to over 86 schools within Orange County that were in deciles one through three in Academic Performance Index (API) scores. With the new legislative requirements and the continued focus on the Every Student Succeeds (formerly No Child Left Behind) Act, all facets of our office will be focused on aiding our school districts to meet all State and Federal requirements.

## **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 Renee Hendrick, Associate Superintendent of Administrative Services, at the Orange County Department of Education, 200 Kalmus Drive, Costa Mesa, California, 92626, or e-mail at [rhendrick@ocde.us](mailto:rhendrick@ocde.us).

Orange County Department of Education

Statement of Net Position

June 30, 2021

	<u>Governmental Activities</u>
<b>Assets</b>	
Deposits and investments	\$ 349,506,159
Receivables	71,323,031
Capital assets not depreciated	39,339,973
Capital assets, net of accumulated depreciation	<u>61,979,975</u>
Total assets	<u>522,149,138</u>
<b>Deferred Outflows of Resources</b>	
Deferred outflows of resources related to OPEB	127,537
Deferred outflows of resources related to pensions	<u>38,057,631</u>
Total deferred outflows of resources	<u>38,185,168</u>
<b>Liabilities</b>	
Accounts payable	50,993,924
Accrued interest payable	22,992
Unearned revenue	8,574,129
Claims liability	230,174
Long-term liabilities	
Long-term liabilities other than OPEB and pensions due within one year	2,566,571
Long-term liabilities other than OPEB and pensions due in more than one year	11,203,586
Net other postemployment benefits (OPEB) liability	3,942,363
Aggregate net pension liability	<u>202,322,394</u>
Total liabilities	<u>279,856,133</u>
<b>Deferred Inflows of Resources</b>	
Deferred inflows of resources related to OPEB	191,444
Deferred inflows of resources related to pensions	<u>20,689,293</u>
Total Deferred Inflows of Resources	<u>20,880,737</u>
<b>Net Position</b>	
Investment in capital assets	91,670,948
Restricted for	
Debt service	1,233,737
Capital projects	6,873,276
Educational programs	54,268,353
Other activities	16,171,519
Unrestricted	<u>89,379,603</u>
Total net position	<u><u>\$ 259,597,436</u></u>

Orange County Department of Education  
Statement of Activities  
Year Ended June 30, 2021

Functions/Programs	Expenses	Program Revenues		Capital Grants and Contributions	Net (Expenses) Revenues and Changes in Net Position
		Charges for Services	Operating Grants and Contributions		
Governmental Activities					
Instruction	\$ 110,758,213	\$ 11,381,612	\$ 51,359,024	\$ 11,095,943	\$ (36,921,634)
Instruction-related activities					
Supervision of instruction	68,172,426	6,624,217	28,936,237	-	(32,611,972)
Instructional library, media, and technology	1,106,103	7	13,597	-	(1,092,499)
School site administration	11,891,198	1,252,342	562,678	-	(10,076,178)
Pupil services					
Home-to-school transportation	4,115,642	-	-	-	(4,115,642)
Food services	998,061	-	175,275	-	(822,786)
All other pupil services	13,195,953	3,089,691	2,193,553	-	(7,912,709)
Administration					
Data processing	10,794,622	-	2,944	-	(10,791,678)
All other administration	21,983,999	2,102,070	6,078,621	-	(13,803,308)
Plant services	14,197,429	607,396	285,879	-	(13,304,154)
Interest on long-term liabilities	309,761	-	-	-	(309,761)
Other outgo	75,972,604	15,215,411	10,467,571	-	(50,289,622)
Total governmental activities	<u>\$ 333,496,011</u>	<u>\$ 40,272,746</u>	<u>\$ 100,075,379</u>	<u>\$ 11,095,943</u>	<u>(182,051,943)</u>
General Revenues and Subventions					
Property taxes, levied for general purposes					121,521,802
Taxes levied for other specific purposes					3,700,168
Federal and State aid not restricted to specific purposes					59,934,810
Interest and investment earnings					3,222,665
Interagency revenues					8,058,376
Miscellaneous					39,708,709
Subtotal, general revenues and subventions					<u>236,146,530</u>
Change in Net Position					54,094,587
Net Position - Beginning					<u>205,502,849</u>
Net Position - Ending					<u>\$ 259,597,436</u>

Orange County Department of Education

Balance Sheet – Governmental Funds

June 30, 2021

	County School Service Fund	Special Education Pass-Through Fund	Child Development Fund	Non-Major Governmental Fund	Total Governmental Funds
<b>Assets</b>					
Deposits and investments	\$ 291,404,750	\$ 8,123,981	\$ 3,873,529	\$ 39,178,210	\$ 342,580,470
Receivables	48,987,101	9,365,658	12,698,238	268,916	71,319,913
Due from other funds	3,756,752	366,700	1,528,214	980,735	6,632,401
<b>Total assets</b>	<b><u>\$ 344,148,603</u></b>	<b><u>\$ 17,856,339</u></b>	<b><u>\$ 18,099,981</u></b>	<b><u>\$ 40,427,861</u></b>	<b><u>\$ 420,532,784</u></b>
<b>Liabilities and Fund Balances</b>					
<b>Liabilities</b>					
Accounts payable	\$ 26,936,904	\$ 8,106,905	\$ 14,413,575	\$ 1,449,603	\$ 50,906,987
Due to other funds	2,875,649	397,655	3,359,097	-	6,632,401
Unearned revenue	8,478,947	-	95,182	-	8,574,129
<b>Total liabilities</b>	<b><u>38,291,500</u></b>	<b><u>8,504,560</u></b>	<b><u>17,867,854</u></b>	<b><u>1,449,603</u></b>	<b><u>66,113,517</u></b>
<b>Fund Balances</b>					
Nonspendable	70,000	-	-	-	70,000
Restricted	54,268,353	9,335,464	224,359	8,130,005	71,958,181
Committed	-	-	-	30,773,191	30,773,191
Assigned	110,734,532	16,315	7,768	75,062	110,833,677
Unassigned	140,784,218	-	-	-	140,784,218
<b>Total fund balances</b>	<b><u>305,857,103</u></b>	<b><u>9,351,779</u></b>	<b><u>232,127</u></b>	<b><u>38,978,258</u></b>	<b><u>354,419,267</u></b>
<b>Total liabilities and fund balances</b>	<b><u>\$ 344,148,603</u></b>	<b><u>\$ 17,856,339</u></b>	<b><u>\$ 18,099,981</u></b>	<b><u>\$ 40,427,861</u></b>	<b><u>\$ 420,532,784</u></b>

Orange County Department of Education  
 Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position  
 June 30, 2021

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Total Fund Balance - Governmental Funds		\$ 354,419,267
<p>Amounts Reported for Governmental Activities in the Statement of Net Position are Different Because</p>		
<p>Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.</p>		
The cost of capital assets is	\$ 152,752,384	
Accumulated depreciation is	<u>(51,432,436)</u>	
Net capital assets		101,319,948
<p>In governmental funds, unmatured interest on long-term liabilities is recognized in the period when it is due. On the government-wide financial statements, unmatured interest on long-term liabilities is recognized when it is incurred.</p>		
		(22,992)
<p>An internal service fund is used by the County's management to charge the costs of the dental care program to the individual funds. The assets and liabilities of the internal service fund are included with governmental activities.</p>		
		6,611,696
<p>Deferred outflows of resources represent a consumption of net position in a future period and is not reported in the governmental funds. Deferred outflows of resources amounted to and related to</p>		
Net other postemployment benefits (OPEB) liability	127,537	
Aggregate net pension liability	<u>38,057,631</u>	
Total deferred outflows of resources		38,185,168
<p>Deferred inflows of resources represent an acquisition of net position that applies to a future period and is not reported in the governmental funds. Deferred inflows of resources amount to and related to</p>		
Net other postemployment benefits (OPEB) liability	(191,444)	
Aggregate net pension liability	<u>(20,689,293)</u>	
Total deferred inflows of resources		(20,880,737)
<p>Aggregate net pension liability is not due and payable in the current period, and is not reported as a liability in the funds.</p>		
		(202,322,394)

Orange County Department of Education  
 Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position  
 June 30, 2021

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The District's net OPEB liability is not due and payable in the current period, and is not reported as a liability in the funds.		\$ (3,942,363)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.		
Long-term liabilities at year-end consist of		
Certificates of participation	\$ (9,715,000)	
Unamortized discount	66,000	
Supplemental early retirement plan	(1,466,571)	
Compensated absences	<u>(2,654,586)</u>	
Total long-term liabilities		<u>(13,770,157)</u>
Total net position - governmental activities		<u><u>\$ 259,597,436</u></u>

Orange County Department of Education  
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds  
Year Ended June 30, 2021

	County School Service Fund	Special Education Pass-Through Fund	Child Development Fund
<b>Revenues</b>			
Local Control Funding Formula	\$ 110,569,734	\$ 37,483,344	\$ -
Federal sources	18,346,850	7,632,954	28,816,277
Other State sources	26,094,586	2,753,059	18,331,245
Other local sources	120,441,153	78,179	1,410,817
Total revenues	<u>275,452,323</u>	<u>47,947,536</u>	<u>48,558,339</u>
<b>Expenditures</b>			
<b>Current</b>			
Instruction	65,565,662	-	37,656,008
Instruction-related activities			
Supervision of instruction	60,840,337	-	7,172,500
Instructional library, media, and technology	1,027,050	-	-
School site administration	10,996,798	-	-
Pupil services			
Home-to-school transportation	4,102,603	-	-
Food services	949,326	-	-
All other pupil services	12,278,357	-	-
Administration			
Data processing	10,908,536	-	-
All other administration	17,951,751	-	4,077,574
Plant services	13,355,311	-	53,301
Other outgo	28,260,523	47,712,081	-
Facility acquisition and construction	57,998	-	-
Debt Service			
Principal	-	-	-
Interest and other	-	-	-
Total expenditures	<u>226,294,252</u>	<u>47,712,081</u>	<u>48,959,383</u>
Excess (Deficiency) of Revenues over Expenditures	<u>49,158,071</u>	<u>235,455</u>	<u>(401,044)</u>
<b>Other Financing Sources (Uses)</b>			
Transfers in	-	-	633,171
Transfers out	(1,613,906)	-	-
Net Financing Sources (Uses)	<u>(1,613,906)</u>	<u>-</u>	<u>633,171</u>
Net Change in Fund Balances	47,544,165	235,455	232,127
Fund Balances - Beginning	<u>258,312,938</u>	<u>9,116,324</u>	<u>-</u>
Fund Balances - Ending	<u>\$ 305,857,103</u>	<u>\$ 9,351,779</u>	<u>\$ 232,127</u>

Orange County Department of Education  
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds  
Year Ended June 30, 2021

	Non-Major Governmental Fund	Total Governmental Funds
<b>Revenues</b>		
Local Control Funding Formula	\$ 1,022,520	\$ 149,075,598
Federal sources	-	54,796,081
Other State sources	11,033,938	58,212,828
Other local sources	2,502,246	124,432,395
	<u>14,558,704</u>	<u>386,516,902</u>
Total revenues		
<b>Expenditures</b>		
<b>Current</b>		
Instruction	-	103,221,670
Instruction-related activities		
Supervision of instruction	-	68,012,837
Instructional library, media, and technology	-	1,027,050
School site administration	-	10,996,798
Pupil services		
Home-to-school transportation	-	4,102,603
Food services	-	949,326
All other pupil services	-	12,278,357
Administration		
Data processing	-	10,908,536
All other administration	-	22,029,325
Plant services	646,858	14,055,470
Other outgo	-	75,972,604
Facility acquisition and construction	10,901,649	10,959,647
Debt Service		
Principal	1,070,000	1,070,000
Interest and other	306,294	306,294
	<u>12,924,801</u>	<u>335,890,517</u>
Total expenditures		
Excess (Deficiency) of Revenues over Expenditures	<u>1,633,903</u>	<u>50,626,385</u>
<b>Other Financing Sources (Uses)</b>		
Transfers in	2,298,724	2,931,895
Transfers out	(1,317,989)	(2,931,895)
	<u>980,735</u>	<u>-</u>
Net Financing Sources (Uses)		
Net Change in Fund Balances	2,614,638	50,626,385
Fund Balances - Beginning	<u>36,363,620</u>	<u>303,792,882</u>
Fund Balances - Ending	<u>\$ 38,978,258</u>	<u>\$ 354,419,267</u>

## Orange County Department of Education

### Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2021

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Total Net Change in Fund Balances - Governmental Funds \$ 50,626,385

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 capital outlay exceeds depreciation expense in the period.

Capital outlay	\$ 13,745,455
Depreciation expense	<u>(3,409,545)</u>

Net expense adjustment 10,335,910

In the Statement of Activities, certain operating expenses - compensated absences (vacations) and special termination benefits (supplemental early retirement plan) 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 used was less than the amounts earned by \$703,497. Special termination benefits added was less than the amount paid by \$1,466,571.

763,074

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 aggregate net pension liability during the year.

(9,261,587)

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 the changes in the net OPEB liability during the year.

(16,659)

Repayment of debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Position and does not affect the Statement of Activities

Certificates of participation 1,070,000

## Orange County Department of Education

### Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2021

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Under the modified basis of accounting used in the governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the Statement of Activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. This adjustment combines the net changes of the following balances

Amortization of debt discount	\$ (6,000)
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Interest on long-term liabilities in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. The additional interest reported in the Statement of Activities is the result of the decrease in accrued interest on the certificates of participation by \$2,533.

2,533
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An internal service fund is used by the County's management to charge the costs of the dental care program to the individual funds. The net revenue of the Internal Service Fund is reported with governmental activities.

<u>580,931</u>
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Change in net position of governmental activities

<u><u>\$ 54,094,587</u></u>
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Orange County Department of Education  
Statement of Net Position – Proprietary Funds  
June 30, 2021

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	Governmental Activities - Internal Service Fund <u>Self-Insurance Fund</u>
Assets	
Current Assets	
Deposits and investments	\$ 6,925,689
Receivables	<u>3,118</u>
Total current assets	<u>6,928,807</u>
Liabilities	
Current Liabilities	
Accounts payable	86,937
Claim liability	<u>230,174</u>
Total current liabilities	<u>317,111</u>
Net Position	
Restricted	<u>\$ 6,611,696</u>

Orange County Department of Education  
Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Funds  
Year Ended June 30, 2021

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	Governmental Activities - Internal Service Fund <u>Self-Insurance Fund</u>
Operating Revenues	
Local and intermediate sources	<u>\$ 1,904,370</u>
Operating Expenses	
Claims payments	1,286,161
Other operating cost	<u>84,339</u>
Total operating expenses	<u>1,370,500</u>
Operating income	<u>533,870</u>
Nonoperating Revenues	
Interest income	<u>47,061</u>
Change in Net Position	580,931
Total Net Position - Beginning	<u>6,030,765</u>
Total Net Position - Ending	<u><u>\$ 6,611,696</u></u>

Orange County Department of Education  
Statement of Cash Flows – Proprietary Funds  
Year Ended June 30, 2021

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	<u>Governmental  Activities -  Internal  Service Fund  Self-Insurance  Fund</u>
Operating Activities	
Cash receipts from customers	\$ 1,906,930
Cash payments to other suppliers of goods or services	(1,296,354)
Other operating cash payments	<u>(84,339)</u>
Net Cash Provided By Operating Activities	<u>526,237</u>
Investing Activities	
Interest on investments	<u>47,061</u>
Net Increase in Cash and Cash Equivalents	573,298
Cash and Cash Equivalents - Beginning	<u>6,352,391</u>
Cash and Cash Equivalents - Ending	<u><u>\$ 6,925,689</u></u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating income	\$ 533,870
Changes in assets and liabilities	
Receivables	2,560
Accounts payable	9,629
Claim liability	<u>(19,822)</u>
Net Cash Provided by Operating Activities	<u><u>\$ 526,237</u></u>

Orange County Department of Education  
Statement of Net Position – Fiduciary Funds  
June 30, 2021

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	<u>Custodial Funds</u>
Assets	
Investments	<u>\$ 35,415,155</u>
Liabilities	
Due to other governments	<u>\$ 35,486,422</u>

Orange County Department of Education  
Statement of Changes in Net Position – Fiduciary Funds  
Year Ended June 30, 2021

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	Custodial Funds
Additions	
Funds collected for others	\$ 9,134,365,766
Investment income	71,267
Total additions	9,134,437,033
Deductions	
Funds distributed to others	9,134,437,033
Change in Net Position	-
Net Position - Beginning	-
Net Position - Ending	\$ -

**Note 1 - Summary of Significant Accounting Policies****Financial Reporting Entity**

The Orange County Department of Education (the "County") operates under the laws of the State of California. The County operates under a locally elected five-member board form of government and provides coordination of educational services to grades K-12 as mandated by the State and/or Federal agencies. The County provides professional and administrative assistance to 13 elementary school districts, three high school districts, 12 unified school districts, four community college districts, three regional occupational programs, and 35 charter schools, within Orange County.

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 Orange County Department of Education, this includes general operations of the County.

**Component Units**

Component units are legally separate organizations for which the County is financially accountable. Component units may also include organizations that are fiscally dependent on the County, in that the County approves their budget, the issuance of their debt or the levying of their taxes. In addition, component units are other legally separate organizations for which the County is not financially accountable but the nature and significance of the organization's relationship with the County is such that exclusion would cause the County's financial statements to be misleading or incomplete. For financial reporting purposes, the component unit discussed below has a financial and operational relationship which meets the reporting entity definition criteria of the Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, and GASB Statement No. 80, *Blending Requirements For Certain Component Units*, and thus is included in the financial statements of the County. The component unit, although a legally separate entity, is reported in the financial statements using the blended presentation method as if it were part of the County's operations because the governing board of the component unit is essentially the same as the governing board of the County and because its purpose is to finance the construction of facilities to be used for the direct benefit of the County.

The Orange County Department of Education Facilities Corporation (the Corporation) is a nonprofit, public benefit corporation incorporated under the laws of the State of California and recorded by the Secretary of State. The Corporation was formed for the sole purpose of providing financial assistance to the County by acquiring, constructing, financing, selling, and leasing public facilities, land, personal property, and equipment for the use and benefit of the County. The County leases certain facilities from the corporation under various lease-purchase agreements recorded in long-term liabilities.

The Corporation's financial activity is presented in the financial statements as the Special Reserve Fund for Capital Outlay Projects. Certificates of participation bonds issued by the Corporation are included as long-term liabilities in the government-wide financial statements. Individually-prepared financial statements are not prepared for the Corporation.

**Other Related Entities**

**Charter School** The County has approved Samuelli Academy, Vista Heritage Global Academy, Citrus Springs Charter, Ednovate – Legacy College Prep., Orange County Academy of Sciences and Arts, Scholarship Prep – Orange County, Orange County Workforce Innovation High, EPIC Charter, Oxford Preparatory Academy, Unity Middle College High, Vista Condor Global Academy, Tomorrow’s Leadership Collaborative (TLC) Charter, Suncoast Preparatory Academy, Sycamore Creek Community Charter, International School for Science and Culture, Irvine International Academy, OCSA, and College and Career Preparatory Academy pursuant to *Education Code* Section 47605. The Samuelli Academy, Vista Heritage Global Academy, Citrus Springs Charter, Ednovate – Legacy College Prep., Orange County Academy of Sciences and Arts, Scholarship Prep - Orange County, Orange County Workforce Innovation High, EPIC Charter, Oxford Preparatory Academy, Unity Middle College High, Vista Condor Global Academy, Tomorrow’s Leadership Collaborative (TLC) Charter, Suncoast Preparatory Academy, Sycamore Creek Community Charter, International School for Science and Culture, Irvine International Academy, and OCSA are direct-funded and are not considered component units of the County. The Charter Schools are independent of the County, but subject to periodic charter renewal by the County. The College and Career Preparatory Academy is operated by the County, and its financial activity is presented in the County School Service Fund.

**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 three broad fund categories: governmental, proprietary, 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 School 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 \$26,136,289 in fund balance, and an increase in revenue of \$251,631.

**Special Education Pass-Through Fund** The Special Education Pass-Through Fund is used by the Administrative Unit of a multi-district Special Education Local Plan Area (SELPA) to account for Special Education revenue passed through to other member districts.

**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.

#### **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.

- **Deferred Maintenance Fund** The Deferred Maintenance Fund is used to account separately for revenues that are restricted or committed for deferred maintenance purposes (*Education Code* Section 17582).

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

- **County School Facilities Fund** The County School Facilities Fund is established pursuant to *Education Code* Section 17070.43 to receive apportionments from the 1998 State School Facilities Fund (Proposition 1A), the 2002 State School Facilities Fund (Proposition 47), the 2004 State School Facilities Fund (Proposition 55), the 2006 State School Facilities Fund (Proposition 1D), or the 2016 State School Facilities Fund (Proposition 51) authorized by the State Allocation Board for new school facility construction, modernization projects, and facility hardship grants, as provided in the Leroy F. Greene School Facilities Act of 1998 (*Education Code* Section 17070 et seq.).
- **Special Reserve Fund for Capital Outlay Projects** The Special Reserve Fund for Capital Outlay Projects exists primarily to provide for the accumulation of County School Service Fund monies for capital outlay purposes (*Education Code* Section 42840).

**Debt Service Funds** The Debt Service Funds are used to account for the accumulation of resources for, and the payment of, principal and interest on general long-term liabilities.

- **Debt Service Fund** The Debt Service Fund is used for the accumulation of resources for and the retirement of principal and interest on general long-term liabilities.

**Proprietary Funds** Proprietary Funds are used to account for activities that are more business-like than government-like in nature. Business-type activities include those for which a fee is charged to external users or to other organizational units of the local education agency, normally on a full cost-recovery basis. Proprietary funds are generally intended to be self-supporting and are classified as enterprise or internal service. The County has the following proprietary funds:

- **Internal Service Fund** Internal Service Funds may be used to account for goods or services provided to other funds of the County on a cost-reimbursement basis. The County operates a dental self-insurance fund that is accounted for in an internal service fund.

**Fiduciary Funds** Fiduciary funds are used to account for resources held for the benefit of parties outside the County and are not available to support the County's own programs. Fiduciary funds are split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds, and custodial funds. The three types of trust funds are distinguished from custodial funds by the existence of a trust agreement or equivalent arrangement that has certain characteristics.

The County's custodial funds are used to account for resources, not in a trust, that are held by the County for other parties outside the County's reporting entity. The County's custodial fund accounts for payroll revolving activity, vendor revolving activity, and pass-thru funds to the districts within the County, including Federal and State apportionments and charter school activity.

#### **Basis of Accounting - Measurement Focus**

**Government-Wide Financial Statements** The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared.

The government-wide 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.

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 result from special revenue funds and the internal service fund, and the restrictions on their net asset 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 the flow of current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures, and changes in fund 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 reconciliations with brief explanations to better identify the relationship between the government-wide financial statements, prepared using the economic resources measurement focus and the accrual basis of accounting, and the governmental fund financial statements, prepared using the flow of current financial resources measurement focus and the modified accrual basis of accounting.
- **Proprietary Funds** Proprietary funds are accounted for using the flow of economic resources measurement focus and the accrual basis of accounting. All assets and all liabilities associated with the operation of this fund are included in the statement of net position. The statement of changes in fund net position presents increases (revenues) and decreases (expenses) in net total assets. The statement of cash flows provides information about how the County finances and meets the cash flow needs of its proprietary fund.
- **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. The County considers revenues to be available if they are collected within one year after year-end, except for property taxes, which are considered available if collected within 60 days. The following revenue sources are considered to be both measurable and available at fiscal year-end: State apportionments, interest, certain grants, and other local sources.

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

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.

**Unearned Revenue** Unearned revenues arise when resources are received by the County before it has a legal claim to them, such as when certain grants are received prior to the occurrence of qualifying expenditures. In the subsequent periods, when the County has a legal claim to the resources, the liability for unearned revenue is removed from the balance sheet and the revenue is recognized.

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

#### **Cash and Cash Equivalents**

The County's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Cash equivalents also include cash with county treasury balances for purposes of the statement of cash flows.

#### **Investments**

Investments 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 acquisition 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.

**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. The compensated absence liability will be paid by the County School Service Fund and Child Development Fund.

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 Liabilities**

All payables, accrued liabilities, and long-term liabilities 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 liabilities 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 other long-term liabilities are recognized as liabilities in the governmental fund financial statements when due.

**Debt Issuance Costs, Premiums, and Discounts**

In the government-wide financial statements and in the proprietary fund type financial statements, long-term liabilities are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund statement of net position. Debt premiums and discounts are amortized over the life of the bonds using the straight-line method, which approximates the effective interest method.

In governmental fund financial statements, bond premiums and discounts, as well as debt issuance costs are recognized in the period the bonds are issued. The face amount of the debt is reported as other financing sources. Premiums received on debt issuance are also reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds, are reported as debt service expenditures in the period the bonds are issued.

**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. The deferred amounts related to pension and OPEB relate to contributions subsequent to measurement date, differences between projected and actual earnings on pension plan investments, differences between expected and actual experiences in the measurement of total pension liability, and changes of assumptions.

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. The deferred amounts related to pension and OPEB relate to differences between contributions and the County's proportionate share of contributions, differences between expected and actual experiences in the measurement of the OPEB liability, change in proportion and differences between contributions made and the County's proportionate share of contributions, and differences between expected and actual experiences in the measurement of total pension liability.

**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), the California Public Employees' Retirement System (CalPERS), Orange County Employees Retirement System (OCERS) 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, CalPERS, and OCERS. 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. The net pension liability attributable to the governmental activities will be paid by the fund in which the employee worked.

**Postemployment Benefits Other Than Pensions (OPEB)**

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the CalSTRS Medicare Premium Payment (MPP) Program and additions to/deductions from the MPP's fiduciary net position have been determined on the same basis as they are reported by the MPP. For this purpose, 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. The total OPEB liability attributable to the governmental activities will be paid primarily by the County School Service Fund.

**Fund Balances - Governmental Funds**

As of June 30, 2021, fund balances of the governmental funds are classified as follows:

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

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

**Committed** - amounts that can be used only for specific purposes determined by a formal action of the County Superintendent of Schools. Commitments may be established, modified, or rescinded only through resolutions or other action as approved by the County Superintendent of Schools.

**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 associate superintendent of administrative 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.

**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 deferred outflows of resources, and liabilities and deferred inflows of resources. 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, 2021. 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 \$78,546,885 of restricted net position.

**Operating Revenues and Expenses**

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the County, these revenues are charges to other funds for self-insurance. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the fund. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

**Interfund Activity**

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

**Estimates**

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

**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 Orange bills and collects the taxes on behalf of the County. Local property tax revenues are recorded when received.

**Change in Accounting Principles**

As of July 1, 2020, the County adopted GASB Statement No. 84, Fiduciary Activities. The objective of this Statement is to improve the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements of this Statement will enhance consistency and comparability by (1) establishing specific criteria for identifying activities that should be reported as fiduciary activities and (2) clarifying whether and how business-type activities should report their fiduciary activities. Greater consistency and comparability enhance the value provided by the information reported in financial statements for assessing government accountability and stewardship. The impact to the County resulted in a reclassification of the County's fiduciary activity from an agency fund to a custodial fund and required the County to include the Statement of Changes in Net Position.

**New Accounting Pronouncements**

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 June 15, 2021. Early implementation is encouraged. The effects of this change on the County's financial statements have not yet been determined.

**Note 2 - Deposits and Investments**

**Summary of Deposits and Investments**

Deposits and investments as of June 30, 2021, are classified in the accompanying financial statements as follows:

Governmental activities	\$ 349,506,159
Fiduciary funds	<u>35,415,155</u>
Total deposits and investments	<u><u>\$ 384,921,314</u></u>

Deposits and investments as of June 30, 2021, consist of the following:

Cash on hand and in banks	\$ 215,106
Cash in revolving	70,000
Investments	<u>384,636,208</u>
Total deposits and investments	<u><u>\$ 384,921,314</u></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.

**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 Orange County Treasury Investment Pool. The County maintains an investment of \$384,345,424 with the Orange County Treasury Investment Pool. This investment has an average weighted maturity of 375 days. In addition, the County maintains an investment of \$1,800,233 with US Bank Money Market Account.

**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 investment with the Orange County Treasury Investment Pool and US Bank Money Market Account are not required to be rated nor have they been rated.

**Custodial Credit Risk - Deposits**

This is the risk that in the event of a bank failure, the County's deposits may not be returned to it. The County does not have a policy for custodial credit risk for deposits. However, the California *Government Code* requires that a financial institution secure deposits made by State or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under State law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% 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% of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105% of the secured deposits. As of June 30, 2021, the County had no bank balances that were exposed to custodial credit risk.

**Note 3 - Receivables**

Receivables at June 30, 2021, consisted of intergovernmental grants, entitlements, interest, and other local sources. All receivables are considered collectible in full.

	County School Service Fund	Special Education Pass-Through Fund	Child Development Fund
Federal Government			
Categorical aid	\$ 3,711,940	\$ 7,473,717	\$ 11,292,280
State Government			
LCFF apportionment	20,248,883	-	-
Categorical aid	2,282,966	-	1,398,047
Lottery	446,387	-	-
Special education	9,302,845	1,333,651	-
Local Government			
Interest	138,596	-	-
Special education - SELPA	2,252,617	-	-
Educational agencies	8,085,535	558,290	-
Other Local Sources	2,517,332	-	7,911
<b>Total</b>	<b>\$ 48,987,101</b>	<b>\$ 9,365,658</b>	<b>\$ 12,698,238</b>
	Non-Major Governmental Fund	Internal Service Fund	Total Governmental Activities
Federal Government			
Categorical aid	\$ -	\$ -	\$ 22,477,937
State Government			
LCFF apportionment	-	-	20,248,883
Categorical aid	-	-	3,681,013
Lottery	-	-	446,387
Special education	-	-	10,636,496
Local Government			
Interest	17,693	3,118	159,407
Special education - SELPA	-	-	2,252,617
Educational agencies	-	-	8,643,825
Other Local Sources	251,223	-	2,776,466
<b>Total</b>	<b>\$ 268,916</b>	<b>\$ 3,118</b>	<b>\$ 71,323,031</b>

**Note 4 - Capital Assets**

Capital asset activity for the fiscal year ended June 30, 2021, was as follows:

	Balance July 1, 2020	Additions	Deductions	Balance June 30, 2021
<b>Governmental Activities</b>				
Capital assets not being depreciated				
Land	\$ 28,641,315	\$ -	\$ -	\$ 28,641,315
Construction in process	3,681,219	10,785,820	(3,768,381)	10,698,658
<b>Total capital assets not being depreciated</b>	<b>32,322,534</b>	<b>10,785,820</b>	<b>(3,768,381)</b>	<b>39,339,973</b>
Capital assets being depreciated				
Land improvements	4,511,925	-	-	4,511,925
Buildings and improvements	84,286,825	3,774,557	-	88,061,382
Furniture and equipment	18,155,640	2,953,459	(269,995)	20,839,104
<b>Total capital assets being depreciated</b>	<b>106,954,390</b>	<b>6,728,016</b>	<b>(269,995)</b>	<b>113,412,411</b>
<b>Total capital assets</b>	<b>139,276,924</b>	<b>17,513,836</b>	<b>(4,038,376)</b>	<b>152,752,384</b>
Less accumulated depreciation				
Land improvements	(3,535,262)	(185,771)	-	(3,721,033)
Buildings and improvements	(32,695,320)	(2,002,650)	-	(34,697,970)
Furniture and equipment	(12,062,304)	(1,221,124)	269,995	(13,013,433)
<b>Total accumulated depreciation</b>	<b>(48,292,886)</b>	<b>(3,409,545)</b>	<b>269,995</b>	<b>(51,432,436)</b>
<b>Governmental activities capital assets, net</b>	<b>\$ 90,984,038</b>	<b>\$ 14,104,291</b>	<b>\$ (3,768,381)</b>	<b>\$ 101,319,948</b>

Depreciation expense was charged to governmental functions as follows:

<b>Governmental Activities</b>	
Instruction	\$ 170,477
Data processing	170,477
All other general administration	3,068,591
<b>Total depreciation expenses governmental activities</b>	<b>\$ 3,409,545</b>

**Note 5 - 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, 2021, between major and non-major governmental funds are as follows:

Due To	Due From			Total
	County School Service Fund	Special Education Pass-Through Fund	Child Development Fund	
County School Service Fund	\$ -	\$ 397,655	\$ 3,359,097	\$ 3,756,752
Special Education Pass-Through Fund	366,700	-	-	366,700
Child Development Fund	1,528,214	-	-	1,528,214
Non-Major Governmental Funds	980,735	-	-	980,735
<b>Total</b>	<b>\$ 2,875,649</b>	<b>\$ 397,655</b>	<b>\$ 3,359,097</b>	<b>\$ 6,632,401</b>

The balance of \$397,655 is due to the County School Service Fund from the Special Education Pass-Through Fund for the special education allocation.

The balance of \$3,359,097 is due to the County School Service Fund from the Child Development Fund for indirect costs and reimbursement of operating costs.

The balance of \$366,700 is due to the Special Education Pass-Through Fund from the County School Service Fund for SELPA funding.

The balance of \$1,528,214 is due to the Child Development Fund from the County School Service Fund for operating costs.

The balance of \$980,735 is due the Deferred Maintenance Non-Major Governmental Fund from the County School Service Fund for future deferred maintenance projects.

**Operating Transfers**

Interfund transfers for the year ended June 30, 2021, consisted of the following:

Transfer To	Transfer From		Total
	County School Service Fund	Non-Major Governmental Fund	
Child Development Fund	\$ 633,171	\$ -	\$ 633,171
Non-Major Governmental Funds	980,735	1,317,989	2,298,724
Total	<u>\$ 1,613,906</u>	<u>\$ 1,317,989</u>	<u>\$ 2,931,895</u>

The County School Service Fund transferred to the Child Development Fund to cover excess costs of programs. \$ 633,171

The County School Service Fund transferred to the Deferred Maintenance Non-Major Governmental Fund for future deferred maintenance projects. 980,735

The Special Reserve Non-Major Governmental Fund for Capital Outlay Projects transferred to the Debt Service Non-Major Governmental Fund for debt service payments for the certificates of participation. 1,317,989

Total \$ 2,931,895

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.

**Note 6 - Accounts Payable**

Accounts payable at June 30, 2021, consisted of the following:

	County School Service Fund	Special Education Pass-Through Fund	Child Development Fund
Salaries and benefits	\$ 10,615,151	\$ -	\$ 447,337
LCFF apportionment	45,472	-	-
Excess property tax	4,326,559	-	-
Supplies	1,540,359	-	256,430
Services	4,246,186	-	3,969,782
Construction	20,882	-	-
Local educational agencies	4,864,123	8,106,905	9,737,169
Other	916,121	-	2,857
	<u>\$ 26,574,853</u>	<u>\$ 8,106,905</u>	<u>\$ 14,413,575</u>
	Non-Major Governmental Fund	Internal Service Fund	Total Governmental Activities
Salaries and benefits	\$ -	\$ -	\$ 11,062,488
LCFF apportionment	-	-	45,472
Excess property tax	-	-	4,326,559
Supplies	-	-	1,796,789
Services	110,105	86,937	8,413,010
Construction	1,059,595	-	1,080,477
Local educational agencies	-	-	22,708,197
Other	279,903	-	1,198,881
	<u>\$ 1,449,603</u>	<u>\$ 86,937</u>	<u>\$ 50,631,873</u>

**Note 7 - Unearned Revenue**

Unearned revenue at June 30, 2021, consists of the following:

	County School Service Fund	Child Development Fund	Total Governmental Activities
Federal financial assistance	\$ 1,924,854	\$ 95,182	\$ 2,020,036
State categorical aid	6,341,067	-	6,341,067
Other local	213,026	-	213,026
<b>Total</b>	<b>\$ 8,478,947</b>	<b>\$ 95,182</b>	<b>\$ 8,574,129</b>

**Note 8 - Long-Term Liabilities Other than OPEB and Pensions**

**Summary**

The changes in the County's long-term liabilities other than OPEB and pensions during the year consisted of the following:

	Balance July 1, 2020	Additions	Deductions	Balance June 30, 2021	Due in One Year
Certificates of participation	\$ 10,785,000	\$ -	\$ (1,070,000)	\$ 9,715,000	\$ 1,100,000
Unamortized discount	(72,000)	-	6,000	(66,000)	-
Supplemental early retirement plan	2,933,142	-	(1,466,571)	1,466,571	1,466,571
Compensated absences	1,951,089	703,497	-	2,654,586	-
<b>Total</b>	<b>\$ 15,597,231</b>	<b>\$ 703,497</b>	<b>\$ (2,530,571)</b>	<b>\$ 13,770,157</b>	<b>\$ 2,566,571</b>

The certificates of participation are liquidated by the Debt Service Fund. Payments for the supplemental early retirement plan are made by the County School Service Fund. The compensated absences are paid by the County School Service Fund and the Child Development Fund.

**Certificates of Participation (Private Placement)**

In June 2002, the Orange County Department of Education Facilities Corporation issued Certificates of Participation in the amount of \$20,000,000 with weekly variable interest rates. In February 2012, the Certificates of Participation were restricted. As of June 30, 2021, the principal balance outstanding was \$9,715,000 and unamortized discount on issuance was \$66,000.

**The certificates mature through 2029 as follows:**

Year Ending June 30,	Principal	Interest	Total
2022	\$ 1,100,000	\$ 275,906	\$ 1,375,906
2023	1,130,000	244,666	1,374,666
2024	1,160,000	212,574	1,372,574
2025	1,195,000	179,630	1,374,630
2026	1,230,000	145,692	1,375,692
2027-2029	3,900,000	223,508	4,123,508
<b>Total</b>	<b>\$ 9,715,000</b>	<b>\$ 1,281,976</b>	<b>\$ 10,996,976</b>

**Supplemental Early Retirement Plan (SERP)**

During the 2017-2018 fiscal year, the County adopted the supplemental early retirement plan whereby certain eligible certificated employees are provided an annuity to supplement the retirement benefits they are entitled to through the California State Teachers' Retirement System. The annuities offered to the employees are to be paid over a five-year period.

Future annuity payments are as follows:

Year Ending June 30,	Amount
2022	\$ 1,466,571

**Compensated Absences**

Compensated absences (unpaid employee vacation) for the County at June 30, 2021 amounted to \$2,654,586.

**Note 9 - Net Other Postemployment Benefit (OPEB) Liability**

For the fiscal year ended June 30, 2021, the County reported net OPEB liability, deferred outflows of resources, deferred inflows of resources, and OPEB expense for the following plans:

OPEB Plan	OPEB Liability	Deferred Outflows of Resources	Deferred Inflows of Resources	OPEB Expense
County Plan	\$ 3,378,650	\$ 127,537	\$ 191,444	\$ 274,811
Medicare Premium Payment (MPP) Program	563,713	-	-	34,655
<b>Total</b>	<b>\$ 3,942,363</b>	<b>\$ 127,537</b>	<b>\$ 191,444</b>	<b>\$ 309,466</b>

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.

**Plan Membership**

As of June 30, 2020, the valuation date, the Plan membership consisted of the following:

Inactive employees or beneficiaries currently receiving benefits payments	51
Active employees	994
	<hr/>
	1,045
	<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 Orange County Schools Educators Association (OCSEA), the local California Service Employees Association (CSEA), and unrepresented groups. The benefits payment is based on projected pay-as-you-go financing requirements as determined annually through the agreements with the County, OCSEA, CSEA, and the unrepresented groups. For the measurement period of June 30, 2021, the County paid \$292,807 in benefits.

**Total OPEB Liability of the County**

The County's total OPEB liability of \$3,378,650 was measured as of June 30, 2021. The total OPEB liability was determined by an actuarial valuation as of June 30, 2020.

**Actuarial Assumptions**

The total OPEB liability as of June 30, 2021 was determined by applying updated procedures to the financial reporting actuarial valuation as of June 30, 2020 and rolling forward the total OPEB liability to June 30, 2021. The following assumptions were applied to all periods included in the measurement, unless otherwise specified :

Inflation	2.75%
Salary increases	2.75%
Discount rate	2.16% for 2021
Healthcare cost trend rates	4.00%

The discount rate was based on an index of 20-year General Obligation municipal bonds rated AA or higher.

Mortality rates were based on the 2020 CalSTRS Mortality table for certificated employees and the 2017 CalPERS Mortality for Miscellaneous and Schools Employees table for classified employees. Mortality rates vary by age and sex. (Unisex mortality rates are not often used as individual OPEB benefits do not depend on the mortality table used.) If employees die prior to retirement, past contributions are available to fund benefits for employees who live to retirement. After retirement, death results in benefit termination or reduction. Although higher mortality rates reduce service costs, the mortality assumption is not likely to vary from employer to employer.

The actuarial assumptions used in the June 30, 2020 valuation were based on the results of an actual experience study for the period July 1, 2019 to June 30, 2020.

**Changes in the Total OPEB Liability**

	Total OPEB Liability
Balance at June 30, 2020	<u>\$ 3,381,489</u>
Service cost	207,457
Interest	73,454
Changes of assumptions	9,057
Benefit payments	<u>(292,807)</u>
Net change in total OPEB liability	<u>(2,839)</u>
Balance at June 30, 2021	<u><u>\$ 3,378,650</u></u>

Change of assumptions reflect a change in the discount rate from 2.20% in 2020 to 2.16% to 2021.

**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:

<u>Discount Rate</u>	<u>Total OPEB Liability</u>
1% decrease (1.16%)	\$ 3,568,931
Current discount rate (2.16%)	3,378,650
1% increase (3.16%)	3,190,286

**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:

<u>Healthcare Cost Trend Rates</u>	<u>Total OPEB Liability</u>
1% decrease (3.00%)	\$ 3,028,537
Current healthcare cost trend rate (4.00%)	3,378,650
1% increase (5.00%)	3,784,558

**OPEB Expense and Deferred Outflows of Resources**

For the year ended June 30, 2021, the County recognized OPEB expense of \$274,811. At June 30, 2021, the County reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience in the measurement of the total OPEB liability	\$ -	\$ 191,444
Changes of assumptions	127,537	-
Total	<u>\$ 127,537</u>	<u>\$ 191,444</u>

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

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2022	\$ (6,100)
2022	(6,100)
2024	(6,100)
2025	(6,100)
2026	(6,100)
Thereafter	(33,407)
	<u>\$ (63,907)</u>

**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, 2019 annual actuarial valuation report, Medicare Premium Payment Program Actuarial Valuation. This report and CalSTRS audited financial information are publicly available reports that can be found on the CalSTRS website under Publications at: <http://www.calstrs.com/member-publications>.

**Benefits Provided**

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

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

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, contributions that would otherwise be credited to the DB Program each month are instead credited to the MPP Program to fund monthly program and administrative costs. Total redirections to the MPP Program are monitored to ensure that total incurred costs do not exceed the amount initially identified as the cost of the program.

**Net OPEB Liability and OPEB Expense**

At June 30, 2021, the County reported a liability of \$563,713 for its proportionate share of the net OPEB liability for the MPP Program. The net OPEB liability was measured as of June 30, 2020, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2019. 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 local educational agencies, actuarially determined. The County's proportionate share for the measurement period June 30, 2020 and June 30, 2019, respectively was 0.1330%, and 0.1421%, resulting in a net decrease in the proportionate share of 0.0091%

For the year ended June 30, 2021, the County recognized OPEB expense of \$34,655.

**Actuarial Methods and Assumptions**

The June 30, 2020 total OPEB liability was determined by applying update procedures to the financial reporting actuarial valuation as of June 30, 2019, and rolling forward the total OPEB liability to June 30, 2020, using the assumptions listed in the following table:

Measurement Date	June 30, 2020	June 30, 2019
Valuation Date	June 30, 2019	June 30, 2018
Experience Study	June 30, 2014 through June 30, 2018	June 30, 2010 through June 30, 2015
Actuarial Cost Method	Entry age normal	Entry age normal
Investment Rate of Return	2.21%	3.50%
Medicare Part A Premium Cost Trend Rate	4.50%	3.70%
Medicare Part B Premium Cost Trend Rate	5.40%	4.10%

For the valuation as of June 30, 2019, 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% of the ultimate improvement factor from the Mortality Improvement Scale (MP-2019) 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 294 or an average of 0.18% of the potentially eligible population (159,339).

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, 2020, 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, 2020, is 2.21%. As the MPP Program is funded on a pay-as-you-go basis as previously noted, the OPEB Plan’s fiduciary net position was not projected to be sufficient to make projected future benefit payments. Therefore, a discount rate of 2.21%, which is the Bond Buyer 20-Bond GO Index from Bondbuyer.com as of June 30, 2020, was applied to all periods of projected benefit payments to measure the total OPEB liability. The discount rate decreased 1.29% from 3.50% as of June 30, 2019.

**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:

<u>Discount Rate</u>	<u>Net OPEB Liability</u>
1% decrease (1.21%)	\$ 623,341
Current discount rate (2.21%)	563,713
1% increase (3.21%)	512,973

**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 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:

<u>Medicare Costs Trend Rate</u>	<u>Net OPEB Liability</u>
1% decrease (3.50% Part A and 4.40% Part B)	\$ 511,137
Current Medicare costs trend rate (4.50% Part A and 5.40% Part B)	563,713
1% increase (5.50% Part A and 6.40% Part B)	624,236

Orange County Department of Education

Notes to Financial Statements

June 30, 2021

**Note 10 - Fund Balances**

Fund balances are composed of the following elements:

	County School Service Fund	Special Education Pass-Through Fund	Child Development Fund	Non-Major Governmental Fund	Total
<b>Nonspendable</b>					
Revolving cash	\$ 70,000	\$ -	\$ -	\$ -	\$ 70,000
<b>Restricted</b>					
Legally restricted programs	54,268,353	9,335,464	224,359	-	63,828,176
Capital projects	-	-	-	6,873,276	6,873,276
Debt service	-	-	-	1,256,729	1,256,729
<b>Total restricted</b>	<b>54,268,353</b>	<b>9,335,464</b>	<b>224,359</b>	<b>8,130,005</b>	<b>71,958,181</b>
<b>Committed</b>					
Deferred maintenance program	-	-	-	30,773,191	30,773,191
<b>Assigned</b>					
ACCESS LCFF/LCAP priorities	52,804,918	-	-	-	52,804,918
Mandated costs	9,117,289	-	-	-	9,117,289
COE LCAP support and approval	5,259,375	-	-	-	5,259,375
Medical Administrative Activities (MAA)	4,650,336	-	-	-	4,650,336
Reserve for classroom equipment upgrade	3,500,000	-	-	-	3,500,000
OCDE E-Rate	2,844,406	-	-	-	2,844,406
Reserve for payroll project	2,250,000	-	-	-	2,250,000
Reserve for ACCESS book adoption	2,021,444	-	-	-	2,021,444
2015-16 one-time discretionary funding	1,826,576	-	-	-	1,826,576
Reserve for workstation improvements	1,750,000	-	-	-	1,750,000
Reserve for infrastructure upgrades	1,730,000	-	-	-	1,730,000
Reserve for information technology system upgrade	1,500,000	-	-	-	1,500,000
Risk management safety and security	1,040,118	-	-	-	1,040,118
Reserve for health and safety equipment	900,000	-	-	-	900,000
CTEp (ROP) tier III	812,324	-	-	-	812,324
Reserve for outdated checks	802,984	-	-	-	802,984
Various other designated programs	689,204	-	-	-	689,204
EISS workshops	653,015	-	-	-	653,015
GASB 31 fair market value adjustment	584,352	16,315	7,768	75,062	683,497
Various workshops & trainings	449,180	-	-	-	449,180
Special education JPA	378,758	-	-	-	378,758
County board discretionary	350,000	-	-	-	350,000
FIS V-Card district discretionary	328,467	-	-	-	328,467
Special schools tier III	319,237	-	-	-	319,237
Courier services	264,481	-	-	-	264,481
Information technology BiTech	227,590	-	-	-	227,590
Instructional materials lottery	8,988,619	-	-	-	8,988,619
CTEp (ROP) lottery	344,103	-	-	-	344,103
CCPA instructional material lottery	73,459	-	-	-	73,459
Other postemployment benefits	4,274,297	-	-	-	4,274,297
<b>Total assigned</b>	<b>110,734,532</b>	<b>16,315</b>	<b>7,768</b>	<b>75,062</b>	<b>110,833,677</b>
<b>Unassigned</b>					
Reserve for economic uncertainties	140,784,218	-	-	-	140,784,218
<b>Total</b>	<b>\$ 305,857,103</b>	<b>\$ 9,351,779</b>	<b>\$ 232,127</b>	<b>\$ 38,978,258</b>	<b>\$ 354,419,267</b>

**Note 11 - Lease Revenues**

The County has property held for lease with a combined estimated cost of \$10,078,223 and accumulated depreciation of \$3,930,507. Lease agreements have been entered into with various lessees for terms that exceed one year. None of the agreements contain purchase options. All of the agreements contain a termination clause providing for cancellation after a specified number of days written notice to lessors but is unlikely that the County will cancel any of the agreements prior to their expiration date. The future minimum lease payments expected to be received under these agreements are as follows:

Year Ending June 30,	Lease Revenue
2022	\$ 1,990,015
2023	879,910
2024	302,021
2025	120,120
2026	20,427
	<u>\$ 3,312,493</u>

**Note 12 - Risk Management**

The County is exposed to various risks of losses related to torts; thefts, damage, 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 and in the Internal Service Fund. The purpose of the Internal Service Fund is to administer retiree and employee dental program of the County on a cost-reimbursement basis. 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, 2021, information was not available that indicates that the County has an outstanding obligation for any calculated deficits. See Note 15 for additional information regarding the pools.

For insured programs, there have been no significant reductions in insurance coverage. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

**Claims Liability**

The County records an estimated liability for indemnity torts and other claims against the County. Claims liability are based on estimates of the ultimate cost of reported claims (including future claim adjustment expenses) and an estimate for claims incurred, but not reported based on historical experience.

**Unpaid Claims Liability**

The fund establishes a liability for both reported and unreported events, which includes estimates of both future payments of losses and related claim adjustment expenses. The following represent the changes in approximate aggregate liabilities for the County from July 1, 2019 to June 30, 2021:

	<u>Dental Care</u>
Liability Balance, July 1, 2019	\$ 241,927
Claims and changes in estimates	1,162,693
Claims payments	<u>(1,154,624)</u>
Liability Balance, June 30, 2020	249,996
Claims and changes in estimates	1,286,161
Claims payments	<u>(1,305,983)</u>
Liability Balance, June 30, 2021	<u>\$ 230,174</u>
Assets available to pay claims at June 30, 2021	<u>\$ 6,928,807</u>

**Note 13 - Employee Retirement Systems**

Qualified employees are covered under multiple-employer defined benefit pension plans maintained by agencies of the State of California. Academic employees are members of the California State Teachers' Retirement System (CalSTRS), classified employees are members of the California Public Employees' Retirement System (CalPERS), and employees whose hire date was prior to July 1, 1977 are members of the Orange County Employees Retirement System (OCERS).

For the fiscal year ended June 30, 2021, the County reported its proportionate share of net pension liabilities, deferred outflows of resources, deferred inflows of resources, and pension expense for each of the above plans as follows:

<u>Pension Plan</u>	<u>Net Pension Liability</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>	<u>Pension Expense</u>
CalSTRS	\$ 73,979,992	\$ 16,001,565	\$ 15,010,708	\$ 5,697,387
CalPERS	125,681,012	21,492,880	4,602,361	23,019,604
OCERS	<u>2,661,390</u>	<u>563,186</u>	<u>1,076,224</u>	<u>373,484</u>
Total	<u>\$ 202,322,394</u>	<u>\$ 38,057,631</u>	<u>\$ 20,689,293</u>	<u>\$ 29,090,475</u>

The details of each plan are as follows:

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

#### **Plan Description**

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

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2019, annual actuarial valuation report, Defined Benefit Program Actuarial Valuation. This report and CalSTRS audited financial information are publicly available reports that can be found on the CalSTRS website under Publications at: <http://www.calstrs.com/member-publications>.

#### **Benefits Provided**

The STRP provides retirement, disability and survivor benefits to beneficiaries. Benefits are based on members' final compensation, age, and years of service credit. Members hired on or before December 31, 2012, with five years of credited service are eligible for the normal retirement benefit at age 60. Members hired on or after January 1, 2013, with five years of credited service are eligible for the normal retirement benefit at age 62. The normal retirement benefit is equal to 2.0% 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, 2021, are summarized as follows:

	<u>STRP Defined Benefit Program</u>	
	On or before December 31, 2012	On or after January 1, 2013
Hire date	2% at 60	2% at 62
Benefit formula	5 Years of Service	5 Years of Service
Benefit vesting schedule	Monthly for Life	Monthly for Life
Benefit payments	60	62
Retirement age	2.0% - 2.4%	2.0% - 2.4%
Monthly benefits as a percentage of eligible compensation	10.25%	10.205%
Required employee contribution rate	16.15%	16.15%
Required employer contribution rate	10.328%	10.328%
Required State contribution rate		

**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% of applicable member earnings phased over a seven-year period. The contribution rates for each plan for the year ended June 30, 2021, are presented above and the County's total contributions were \$6,899,588.

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

At June 30, 2021, 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	\$ 73,979,992
State's proportionate share of the net pension liability associated with the County	<u>38,136,694</u>
Total	<u><u>\$ 112,116,686</u></u>

The net pension liability was measured as of June 30, 2020. 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, 2020 and June 30, 2019, respectively, was 0.0763% and 0.0803%, resulting in a net decrease in the proportionate share of 0.0040%.

Orange County Department of Education

Notes to Financial Statements

June 30, 2021

For the year ended June 30, 2021, the County recognized pension expense of \$5,697,387. In addition, the County recognized pension expense and revenue of \$5,342,577 for support provided by the State. At June 30, 2021, 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	\$ 6,899,588	\$ -
Change in proportion and differences between contributions made and County's proportionate share of contributions	-	12,924,346
Difference between projected and actual earnings on pension plan investments	1,757,339	-
Differences between expected and actual experience in the measurement of the total pension liability	130,541	2,086,362
Changes of assumptions	7,214,097	-
Total	\$ 16,001,565	\$ 15,010,708

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
2022	\$ (1,072,317)
2023	598,758
2024	1,194,588
2025	1,036,310
	\$ 1,757,339

The deferred outflows/(inflows) of resources related to the change in proportion and differences between contributions made and County’s proportionate share of contributions, 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
2022	\$ (2,345,996)
2023	(857,321)
2024	(163,787)
2025	(1,949,363)
2026	(1,864,758)
Thereafter	(484,845)
	<u>\$ (7,666,070)</u>

**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, 2019 and rolling forward the total pension liability to June 30, 2020. The financial reporting actuarial valuation as of June 30, 2019, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2019
Measurement date	June 30, 2020
Experience study	July 1, 2015 through June 30, 2018
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% of the ultimate improvement factor from the Mortality Improvement Scale (MP-2019) 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 January 2020 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, 2020, are summarized in the following table:

<u>Asset Class</u>	<u>Assumed Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Public equity	42%	4.8%
Real estate	15%	3.6%
Private equity	13%	6.3%
Fixed income	12%	1.3%
Risk mitigating strategies	10%	1.8%
Inflation sensitive	6%	3.3%
Cash/liquidity	2%	-0.4%

**Discount Rate**

The discount rate used to measure the total pension liability was 7.10%. 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%) 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%)	\$ 111,773,462
Current discount rate (7.10%)	73,979,992
1% increase (8.10%)	42,776,160

**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, 2019 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>.

**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, 2021, are summarized as follows:

	School Employer Pool (CalPERS)	
	On or before December 31, 2012	On or after January 1, 2013
Hire date		
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	20.700%	20.700%

**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 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, 2021, are presented above and the total County contributions were \$12,182,332.

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

As of June 30, 2021, the County reported net pension liabilities for its proportionate share of the CalPERS net pension liability totaling \$125,681,012. The net pension liability was measured as of June 30, 2020. 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, 2020 and June 30, 2019, respectively, was 0.4096% and 0.4087%, resulting in a net decrease in the proportionate share of 0.0009%.

For the year ended June 30, 2021, the County recognized pension expense of \$23,019,604. At June 30, 2021, 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	\$ 12,182,332	\$ -
Change in proportion and differences between contributions made and District's proportionate share of contributions	-	4,602,361
Difference between projected and actual earnings on pension plan investments	2,616,279	-
Differences between expected and actual experience in the measurement of the total pension liability	6,233,392	-
Changes of assumptions	460,877	-
	<u>\$ 21,492,880</u>	<u>\$ 4,602,361</u>
Total	<u>\$ 21,492,880</u>	<u>\$ 4,602,361</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:

<u>Year Ended June 30,</u>	<u>Deferred Outflows/(Inflows) of Resources</u>
2022	\$ (979,065)
2023	873,292
2024	1,517,925
2025	<u>1,204,127</u>
	<u>\$ 2,616,279</u>

The deferred outflows/(inflows) of resources related to the change in proportion and differences between contributions made and County's proportionate share of contributions, 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 4.1 years and will be recognized in pension expense as follows:

<u>Year Ended June 30,</u>	<u>Deferred Outflows/(Inflows) of Resources</u>
2022	\$ 2,264,813
2023	199,826
2024	(333,457)
2025	<u>(39,274)</u>
	<u>\$ 2,091,908</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, 2019 and rolling forward the total pension liability to June 30, 2020. The financial reporting actuarial valuation as of June 30, 2019, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2019
Measurement date	June 30, 2020
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% of scale MP-2016.

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%. 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:

<u>Discount Rate</u>	<u>Net Pension Liability</u>
1% decrease (6.15%)	\$ 180,689,373
Current discount rate (7.15%)	125,681,012
1% increase (8.15%)	80,026,832

**Orange County Employees Retirement System (OCERS)**

**Plan Description**

All qualified regular full time and part-time employees participate in the Orange County Employees Retirement System (OCERS), a cost-sharing multiple-employer defined benefit pension plan. OCERS was established in 1945. OCERS is administered by the Board of Retirement and governed by the County Employees' Retirement Law of 1937 (California Government Code Section 31450 et. seq.). OCERS main function is to provide service retirement, disability, death, and survivor benefits to the plan participants, who include the County of Orange, Orange County Courts, the Orange County Retirement System, two Cities, and thirteen special districts, including the County.

Management of OCERS is vested with the Orange County Board of Retirement. The Board consists of nine members and one alternate. The County Treasurer is a member of the Board of Retirement by law. Four members are appointed by the Board of Supervisors, one of whom may be a County supervisor. Two members are elected by the General membership; one member and one alternate are elected by the Safety membership; one member is elected by the retired members of the System. All members of the Board of Retirement serve terms of three years except for the County Treasurer whose term runs concurrent with the term as County Treasurer. OCERS issues a stand-alone annual financial report, which can be obtained at OCERS website ([www.ocers.org](http://www.ocers.org)).

**Benefits Provided**

OCERS provides service retirement, disability, death, and survivor benefits to eligible employees. All regular full-time employees of the County of Orange or contracting agencies who work a minimum of 20 hours per week become members of OCERS effective on the first day of employment in an eligible position. There are separate retirement plans for General and Safety member employees. New General Members employed after January 1, 2013 are designated as PEPRA General subject to the provisions of California Government Code 7522 et seq. and AB 197. The County's employees participate as General members.

General members hired prior to January 1, 2013 are eligible to retire once they attain the age of 50 and have acquired ten or more years of retirement service credit. A member with 30 years of service is eligible to retire regardless of age. All General members can also retire at the age of 70 regardless of service. The County participates in Plan M, which is 2.0% at 55 benefits. Plan M is for General Members hired before September 21, 1979.

The retirement benefits the member will receive is based upon age at retirement, final average compensation, years of retirement service credit and retirement plan and tier.

General member benefits are calculated pursuant to the provisions of California Government Code Sections 31676.01, 31676.1, 31676.12, 31676.16, 31676.18 or 31676.19. For section 31676.01, the monthly allowance is equal to 1/90th of final compensation times years of accrued retirement service credit times age factor from that Section. For Section 31676.1, the monthly allowance is equal to 1/60th of final compensation times years of accrued retirement service credit times age factor from the Section. For Sections 31676.12, 31676.16, 31676.18 or 31676.19, the monthly allowance is equal to 1/50th of final compensation times years of accrued retirement service credit times age factor from the corresponding Section.

For members with membership dates before January 1, 2013 the maximum monthly retirement allowance is 100% of final compensation. There is no maximum with membership dates on or after January 1, 2013.

Final average compensation consists of the highest 12 consecutive months for Plan M.

The member may elect an unmodified retirement allowance or choose an optional retirement allowance. The unmodified retirement allowance provides the highest monthly benefit and a 60% continuance to an eligible surviving spouse or domestic partner. An eligible surviving spouse or domestic partner is one married to or registered with the member one year prior to the effective retirement date. Certain surviving spouses or domestic partners may also be eligible if marriage or domestic partnership was at least two years prior to the date of death and the surviving spouse or domestic partner has attained age 55. There are four optional retirement allowances the member may choose. Each of the optional retirement allowances requires a reduction in the unmodified retirement allowance in order to allow the member the ability to provide certain benefits to a surviving spouse, domestic partner, or named beneficiary having an insurable interest in the life of the member.

OCERS provides an annual cost-of-living benefit to all retirees. The cost-of-living adjustments, based upon the Consumer Price Index for All Urban Consumers for the Los Angeles-Riverside-Orange County Area, is capped at 3.0%.

**Contributions**

The County contributes to the retirement plan based upon actuarially determined contribution rates adopted by the Board of Retirement. Employer contribution rates are adopted annually based upon recommendations received from OCERS' actuary after the completion of the annual actuarial valuation. Contributions to the plan in 2020-2021 were \$286,085, which were immediately recognized as part of fiduciary net position by the Plan.

All members are required to make contributions to OCERS regardless of the retirement plan or tier in which they are included. The member contribution rates for 2020-2021 vary by member based on age of entry.

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

As of June 30, 2021, the County reported a net pension liability for its proportionate share of the OCERS net pension liability of \$2,661,390. The collective net pension liability for the Plan was measured as of December 31, 2020. Plan fiduciary net position was valued as of the measurement date, while the total pension liability (TPL) was determined based upon rolling forward the TPL from an actuarial valuation as of December 31, 2019. The plan provisions used in the measurement of the net pension liability are the same as those used in the OCERS actuarial valuations as of December 31, 2019. The County's proportionate share for the measurement period December 31, 2020 and December 31, 2019, respectively, was 0.063% and 0.061%, resulting in a net increase of 0.002%.

For the year ended June 30, 2021, the County recognized pension expense of \$373,484. At June 30, 2021, 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>
Differences between projected and actual earnings on pension plan investments	\$ -	\$ 557,158
Differences between expected and actual experience in the measurement of the total pension liability	444,465	417,291
Changes of assumptions	<u>118,721</u>	<u>101,775</u>
Total	<u>\$ 563,186</u>	<u>\$ 1,076,224</u>

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

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2022	\$ (245,262)
2023	(100,781)
2024	(138,938)
2025	(40,100)
2026	12,043
Total	<u>\$ (513,038)</u>

**Actuarial Methods and Assumptions**

The collective total pension liability as of December 31, 2020 was determined by rolling forward the total pension liability from the actuarial valuation as of December 31, 2019. The actuarial assumptions used were based on the results of an experience study for the period from January 1, 2017 through December 31, 2019. Following are the key methods and assumptions used for the total pension liability as of December 31, 2020.

Actuarial Cost Method	Entry age normal
Inflation	2.50%
Salary Increases	General: 4.00% to 11.00%, vary by service, including inflation
Investment Rate of Return	7.00%, net of pension plan investment expense, including inflation
Discount Rate	7.00%
Cost of Living Adjustment	2.75% of retirement income

Post – Retirement Mortality Rates:

*Healthy:* For General Members and All Beneficiaries: Headcount-Weighted RP-2014 Healthy Annuitant Mortality Table, projected generationally with the two-dimensional MP-2016 projection scale.

*Disabled:* For General Members: Headcount-Weighted RP-2014 Healthy Annuitant Mortality Table, projected generationally with two-dimensional MP-2016 projection scale, set forward five years.

**Discount Rate**

The discount rate used to measure the TPL as of December 31, 2020 was 7.00%. In determining the discount rate, OCERS took into account the projection of cash flows and assumed plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the actuarially determined contribution rates. For this purpose, only employer contributions that are intended to fund benefits for current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs for future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, the Plan’s fiduciary net position was projected to be available to make all projected future benefit payments for current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability as of December 31, 2020.

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. These returns are combined to produce the long-term expected rate of return by weighting the expected future real rate of return by the target asset allocation percentage and by adding expected inflation and deducting expected investment expenses and a risk margin. Additional information on the target allocation and projected arithmetic real rate of return for each major asset class is available in the OCERS’ Comprehensive Annual Financial Report for the year ended December 31, 2020. This information will change every three years based on the actuarial experience study. The expected investment rate of return assumption is summarized in the following table:

Asset Class	Assumed asset Allocation	Long-term Expected real Rate of return
Large Cap Equity	23.10%	5.43%
Small Cap Equity	1.90%	6.21%
International Developed Equity	13.00%	6.67%
Emerging Markets Equity	9.00%	8.58%
Core Bonds	9.00%	1.10%
High Yield Bonds	1.50%	2.91%
TIPS	2.00%	0.65%
Emerging Market Debt	2.00%	3.25%
Corporate Credit	1.00%	0.53%
Long Duration Fixed Income	2.50%	1.44%
Real Estate	3.01%	4.42%
Private Equity	13.00%	9.41%
Value Added Real Estate	3.01%	7.42%
Opportunistic Real Estate	0.98%	10.18%
Energy	2.00%	9.68%
Infrastructure (Core Private)	1.50%	5.08%
Infrastructure (Non-Core Private)	1.50%	8.92%
CTA - Trend Following	2.50%	2.38%
Global Macro	2.50%	2.13%
Private Credit	2.50%	5.47%
Alternative Risk Premia	2.50%	2.50%

**Sensitivity of the Net Pension Liability to Changes in the Discount Rate**

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 (6.00%)	\$ 4,354,261
Current discount rate (7.00%)	2,661,390
1% increase (8.00%)	1,281,440

**Alternative Retirement Plan**

As established by Federal Law, all public sector employees who are not members their employer’s exiting retirement systems (CalSTRS or CalPERS) must be covered by social security or an alternative plan. The County has elected to use the Public Agency Retirement System as its alternative plan. Contributions made by the County and an employee vest immediately. The County contributes 3.75% of an employee’s gross earnings. An employee is required to contribute 3.75% of his or her gross earnings to the pension plan.

During the year, the County’s required and actual contributions amounted to \$106,538.

**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 \$5,969,998 (10.328% 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.

**Note 14 - Commitments and Contingencies**

**Grants**

The County received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the County School Service Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the County at June 30, 2021.

**Litigation**

The County is involved in various litigation arising from the normal course of business. In the opinion of management and legal counsel, the disposition of all litigation pending is not expected to have a material adverse effect on the overall financial position of the County at June 30, 2021.

**Construction Commitments**

As of June 30, 2021, the County had the following commitments with respect to the unfinished capital projects:

<u>Capital Projects</u>	<u>Remaining Construction Commitment</u>	<u>Expected Date of Completion</u>
CS #9 Anaheim	<u>\$ 3,358,704</u>	06/30/22

**Operating Leases**

The County has entered into various operating leases for buildings and equipment with lease terms in excess of one year. None of these agreements contain purchase options. Future minimum lease payments under these agreements are as follows:

<u>Year Ending June 30,</u>	<u>Lease Payment</u>
2022	\$ 3,984,329
2023	2,011,592
2024	1,819,547
2025	1,285,690
2026	<u>503,470</u>
Total	<u>\$ 9,604,628</u>

Lease payments for the year ended June 30, 2021, were approximately \$6,740,963.

**Note 15 - Participation in Public Entity Risk Pools and Joint Power Authorities**

The County is a member of the Western Orange County Self-Funded Workers' Compensation Agency (WOCSWCA) and the Alliance of Schools for Cooperative Insurance Programs Joint Powers Authority. The County pays an annual premium to each entity for its property and liability, 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, 2021, the County made payments of \$2,314,962 and \$377,576 to WOCSWCA and Alliance of Schools for Cooperative Insurance Programs Joint Powers Authority, respectively, for annual premium payments.

**Note 16 - Risks and Uncertainties**

The County has been negatively impacted by the effects of the world-wide coronavirus pandemic. The County is closely monitoring its operations, liquidity, and capital resources and is actively working to minimize the current and future impact of this unprecedented situation. As of the issuance date of these financial statements, the full impact to the County's financial position is not known beyond increased cash flow monitoring due to state apportionment deferrals.



Required Supplementary Information  
June 30, 2021

# Orange County Department of Education

Orange County Department of Education  
Budgetary Comparison Schedule – County School Service Fund  
Year Ended June 30, 2021

	Budgeted Amounts		Actual (GAAP Basis)	Variances - Positive (Negative)
	Original	Final		Final to Actual
<b>Revenues</b>				
Local Control Funding Formula	\$ 101,610,796	\$ 110,730,851	\$ 110,569,734	\$ (161,117)
Federal sources	31,394,019	46,501,828	18,346,850	(28,154,978)
Other State sources	15,315,615	31,010,753	26,094,586	(4,916,167)
Other local sources	<u>99,751,747</u>	<u>91,389,205</u>	<u>120,441,153</u>	<u>29,051,948</u>
Total revenues <sup>1</sup>	<u>248,072,177</u>	<u>279,632,637</u>	<u>275,452,323</u>	<u>(4,180,314)</u>
<b>Expenditures</b>				
Current				
Certificated salaries	51,550,339	49,049,566	48,838,222	211,344
Classified salaries	61,629,037	57,931,522	55,819,242	2,112,280
Employee benefits	54,211,767	53,802,249	51,265,795	2,536,454
Books and supplies	16,417,261	10,166,474	7,957,795	2,208,679
Services and operating expenditures	46,510,722	45,217,216	34,318,485	10,898,731
Other outgo	36,296,165	23,875,074	24,182,949	(307,875)
Capital outlay	<u>3,185,807</u>	<u>5,219,538</u>	<u>3,911,764</u>	<u>1,307,774</u>
Total expenditures <sup>1</sup>	<u>269,801,098</u>	<u>245,261,639</u>	<u>226,294,252</u>	<u>18,967,387</u>
Excess (Deficiency) of Revenues over Expenditures	<u>(21,728,921)</u>	<u>34,370,998</u>	<u>49,158,071</u>	<u>14,787,073</u>
Other Financing Uses				
Transfers out	<u>(1,431,837)</u>	<u>(1,756,888)</u>	<u>(1,613,906)</u>	<u>142,982</u>
Net Change in Fund Balance	(23,160,758)	32,614,110	47,544,165	14,930,055
Fund Balance - Beginning	<u>258,312,938</u>	<u>258,312,938</u>	<u>258,312,938</u>	<u>-</u>
Fund Balance - Ending	<u>\$ 235,152,180</u>	<u>\$ 290,927,048</u>	<u>\$ 305,857,103</u>	<u>\$ 14,930,055</u>

<sup>1</sup> The consolidation of Fund 17, Special Reserve Fund for Other Than Capital Outlay Projects, and for reporting purposes into the County School Service Fund, additional revenues and expenditures pertaining to these other funds are included in the Actual (GAAP Basis) revenues and expenditures; however, are not included in the original and final County School Service Fund budgets.

Orange County Department of Education  
 Budgetary Comparison Schedule – Special Education Pass-Through Fund  
 Year Ended June 30, 2021

	Budgeted Amounts		Actual (GAAP Basis)	Variances - Positive (Negative)
	Original	Final		Final to Actual
Revenues				
Local Control Funding Formula	\$ 36,922,791	\$ 37,483,345	\$ 37,483,344	\$ (1)
Federal sources	7,685,181	7,642,939	7,632,954	(9,985)
Other State sources	2,444,975	2,763,253	2,753,059	(10,194)
Other local sources	1,400,602	70,438	78,179	7,741
Total revenues	<u>48,453,549</u>	<u>47,959,975</u>	<u>47,947,536</u>	<u>(12,439)</u>
Expenditures				
Current				
Other outgo	<u>47,065,196</u>	<u>45,779,287</u>	<u>47,712,081</u>	<u>(1,932,794)</u>
Net Change in Fund Balances	1,388,353	2,180,688	235,455	(1,945,233)
Fund Balance - Beginning	<u>9,116,324</u>	<u>9,116,324</u>	<u>9,116,324</u>	<u>-</u>
Fund Balance - Ending	<u><u>\$ 10,504,677</u></u>	<u><u>\$ 11,297,012</u></u>	<u><u>\$ 9,351,779</u></u>	<u><u>\$ (1,945,233)</u></u>

Orange County Department of Education  
 Budgetary Comparison Schedule – Child Development Fund  
 Year Ended June 30, 2021

	Budgeted Amounts		Actual (GAAP Basis)	Variances - Positive (Negative)
	Original	Final		Final to Actual
<b>Revenues</b>				
Federal sources	\$ 21,577,288	\$ 30,447,376	\$ 28,816,277	\$ (1,631,099)
Other State sources	17,708,076	23,442,088	18,331,245	(5,110,843)
Other local sources	512,129	805,633	1,410,817	605,184
Total revenues	<u>39,797,493</u>	<u>54,695,097</u>	<u>48,558,339</u>	<u>(6,136,758)</u>
<b>Expenditures</b>				
Current				
Certificated salaries	224,431	9,497	17,675	(8,178)
Classified salaries	2,891,220	3,169,570	3,433,419	(263,849)
Employee benefits	1,569,656	1,562,964	1,669,326	(106,362)
Books and supplies	454,129	125,297	335,986	(210,689)
Services and operating expenditures	31,671,841	45,866,317	39,425,403	6,440,914
Other outgo	3,437,318	4,737,605	4,077,574	660,031
Total expenditures	<u>40,248,595</u>	<u>55,471,250</u>	<u>48,959,383</u>	<u>6,511,867</u>
Excess (Deficiency) of Revenues over Expenditures	<u>(451,102)</u>	<u>(776,153)</u>	<u>(401,044)</u>	<u>375,109</u>
Other Financing Sources				
Transfers in	<u>451,102</u>	<u>776,153</u>	<u>633,171</u>	<u>(142,982)</u>
Net Change in Fund Balances	-	-	232,127	232,127
Fund Balance - Beginning	-	-	-	-
Fund Balance - Ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 232,127</u>	<u>\$ 232,127</u>

Orange County Department of Education  
Schedule of Changes in the County's Total OPEB Liability and Related Ratios  
Year Ended June 30, 2021

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Total OPEB Liability				
Service cost	\$ 207,457	\$ 223,211	\$ 207,170	\$ 201,625
Interest	73,454	120,570	117,952	128,023
Differences between expected and actual experience	-	(229,356)	-	-
Changes of assumptions	9,057	85,167	63,344	-
Benefit payments	<u>(292,807)</u>	<u>(302,691)</u>	<u>(340,709)</u>	<u>(327,605)</u>
Net change in total OPEB liability	(2,839)	(103,099)	47,757	2,043
Total OPEB liability - beginning	<u>3,381,489</u>	<u>3,484,588</u>	<u>3,436,831</u>	<u>3,434,788</u>
Total OPEB liability - ending	<u>\$ 3,378,650</u>	<u>\$ 3,381,489</u>	<u>\$ 3,484,588</u>	<u>\$ 3,436,831</u>
Covered payroll	<u>N/A<sup>1</sup></u>	<u>N/A<sup>1</sup></u>	<u>N/A<sup>1</sup></u>	<u>N/A<sup>1</sup></u>
Total OPEB liability as a percentage of covered payroll	<u>N/A<sup>1</sup></u>	<u>N/A<sup>1</sup></u>	<u>N/A<sup>1</sup></u>	<u>N/A<sup>1</sup></u>
Measurement Date	June 30, 2021	June 30, 2020	June 30, 2019	June 30, 2018

<sup>1</sup> 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.

Orange County Department of Education  
Schedule of the County's Proportionate Share of the Net OPEB Liability – MPP Program  
Year Ended June 30, 2021

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Year ended June 30,	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Proportion of the net OPEB liability	<u>0.1330%</u>	<u>0.1421%</u>	<u>0.1621%</u>	<u>0.1647%</u>
Proportionate share of the net OPEB liability	<u>\$ 563,713</u>	<u>\$ 529,058</u>	<u>\$ 620,596</u>	<u>\$ 693,007</u>
Covered payroll	<u>N/A<sup>1</sup></u>	<u>N/A<sup>1</sup></u>	<u>N/A<sup>1</sup></u>	<u>N/A<sup>1</sup></u>
Proportionate share of the net OPEB liability as a percentage of its covered payroll	<u>N/A<sup>1</sup></u>	<u>N/A<sup>1</sup></u>	<u>N/A<sup>1</sup></u>	<u>N/A<sup>1</sup></u>
Plan fiduciary net position as a percentage of the total OPEB liability	<u>-0.71%</u>	<u>-0.81%</u>	<u>-0.40%</u>	<u>0.01%</u>
Measurement Date	June 30, 2020	June 30, 2019	June 30, 2018	June 30, 2017

<sup>1</sup>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.

Orange County Department of Education  
Schedule of the County's Proportionate Share of the Net Pension Liability  
Year Ended June 30, 2021

	2021	2020	2019
<b>CalSTRS</b>			
Proportion of the net pension liability	0.0763%	0.0803%	0.0903%
Proportionate share of the net pension liability	\$ 73,979,992	\$ 72,532,183	\$ 83,019,800
State's proportionate share of the net pension liability associated with the County	38,136,694	39,571,148	47,532,718
Total	\$ 112,116,686	\$ 112,103,331	\$ 130,552,518
Covered payroll	\$ 43,217,982	\$ 43,101,112	\$ 48,515,759
Proportionate share of the net pension liability as a percentage of its covered payroll	171%	168%	171%
Plan fiduciary net position as a percentage of the total pension liability	72%	73%	71%
Measurement Date	June 30, 2020	June 30, 2019	June 30, 2018
<b>CalPERS</b>			
Proportion of the net pension liability	0.4096%	0.4087%	0.4230%
Proportionate share of the net pension liability	\$ 125,681,012	\$ 119,105,453	\$ 112,783,669
Covered payroll	\$ 58,988,865	\$ 55,802,192	\$ 55,298,184
Proportionate share of the net pension liability as a percentage of its covered payroll	213%	213%	204%
Plan fiduciary net position as a percentage of the total pension liability	70%	70%	71%
Measurement Date	June 30, 2020	June 30, 2019	June 30, 2018
<b>OCERS<sup>1</sup></b>			
Proportion of the net pension liability	0.063%	0.061%	0.057%
Proportionate share of the net pension liability	\$ 2,661,390	\$ 3,099,339	\$ 3,517,372
Covered payroll	N/A <sup>2</sup>	N/A <sup>2</sup>	N/A <sup>2</sup>
Proportionate share of the net pension liability as a percentage of its covered payroll	N/A <sup>2</sup>	N/A <sup>2</sup>	N/A <sup>2</sup>
Plan fiduciary net position as a percentage of the total pension liability	77%	77%	70%
Measurement Date	December 31, 2020	December 31, 2019	December 31, 2018

<sup>1</sup> Prior to June 30, 2018, the County did not implement GASB Statement No. 68 for OCERS.

<sup>2</sup> As of June 30, 2018, the County did not have any active members participating in OCERS; therefore, the covered payroll disclosure is not applicable.

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

Orange County Department of Education  
Schedule of the County's Proportionate Share of the Net Pension Liability  
Year Ended June 30, 2021

	2018	2017	2016	2015
<b>CalSTRS</b>				
Proportion of the net pension liability	0.0910%	0.0950%	0.1040%	0.1110%
Proportionate share of the net pension liability	\$ 84,144,083	\$ 76,836,950	\$ 70,016,960	\$ 64,865,070
State's proportionate share of the net pension liability associated with the County	49,778,929	43,748,345	37,031,154	39,168,723
Total	\$ 133,923,012	\$ 120,585,295	\$ 107,048,114	\$ 104,033,793
Covered payroll	\$ 47,398,000	\$ 48,203,000	\$ 47,996,000	\$ 49,181,000
Proportionate share of the net pension liability as a percentage of its covered payroll	178%	159.40%	145.88%	131.89%
Plan fiduciary net position as a percentage of the total pension liability	69%	70%	74%	77%
Measurement Date	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014
<b>CalPERS</b>				
Proportion of the net pension liability	0.4292%	0.4443%	0.4474%	0.4904%
Proportionate share of the net pension liability	\$ 102,455,197	\$ 87,749,525	\$ 65,947,202	\$ 55,672,340
Covered payroll	\$ 54,825,000	\$ 53,475,000	\$ 49,525,000	\$ 49,734,000
Proportionate share of the net pension liability as a percentage of its covered payroll	187%	164.09%	133.16%	111.94%
Plan fiduciary net position as a percentage of the total pension liability	72%	74%	79%	83%
Measurement Date	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014
<b>OCERS<sup>1</sup></b>				
Proportion of the net pension liability	0.051%			
Proportionate share of the net pension liability	\$ 2,530,324			
Covered payroll	N/A <sup>2</sup>			
Proportionate share of the net pension liability as a percentage of its covered payroll	N/A <sup>2</sup>			
Plan fiduciary net position as a percentage of the total pension liability	75%			
Measurement Date	December 31, 2017			

<sup>1</sup> Prior to June 30, 2018, the County did not implement GASB Statement No. 68 for OCERS.

<sup>2</sup> As of June 30, 2018, the County did not have any active members participating in OCERS; therefore, the covered payroll disclosure is not applicable.

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

Orange County Department of Education  
Schedule of the County Contributions  
Year Ended June 30, 2021

	2021	2020	2019
<b>CalSTRS</b>			
Contractually required contribution	\$ 6,899,588	\$ 7,390,275	\$ 7,016,861
Contributions in relation to the contractually required contribution	<u>(6,899,588)</u>	<u>(7,390,275)</u>	<u>(7,016,861)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	<u>\$ 42,721,907</u>	<u>\$ 43,217,982</u>	<u>\$ 43,101,112</u>
Contributions as a percentage of covered payroll	<u>16.15%</u>	<u>17.10%</u>	<u>16.28%</u>
<b>CalPERS</b>			
Contractually required contribution	\$ 12,182,332	\$ 11,633,194	\$ 10,078,992
Contributions in relation to the contractually required contribution	<u>(12,182,332)</u>	<u>(11,633,194)</u>	<u>(10,078,992)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	<u>\$ 58,851,845</u>	<u>\$ 58,988,865</u>	<u>\$ 55,802,192</u>
Contributions as a percentage of covered payroll	<u>20.700%</u>	<u>19.721%</u>	<u>18.062%</u>
<b>OCERS<sup>1</sup></b>			
Contractually required contribution	\$ 286,085	\$ 267,432	\$ 301,464
Contributions in relation to the contractually required contribution	<u>(286,085)</u>	<u>(267,432)</u>	<u>(301,464)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	<u>N/A<sup>2</sup></u>	<u>N/A<sup>2</sup></u>	<u>N/A<sup>2</sup></u>
Contributions as a percentage of covered payroll	<u>N/A<sup>2</sup></u>	<u>N/A<sup>2</sup></u>	<u>N/A<sup>2</sup></u>

<sup>1</sup> Prior to June 30, 2018, the County did not implement GASB Statement No. 68 for OCERS.

<sup>2</sup> As of June 30, 2018, the County did not have any active members participating in OCERS; therefore, the covered payroll disclosure is not applicable.

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

Orange County Department of Education  
Schedule of the County Contributions  
Year Ended June 30, 2021

	2018	2017	2016	2015
<b>CalSTRS</b>				
Contractually required contribution	\$ 7,000,824	\$ 6,030,647	\$ 5,172,158	\$ 4,262,028
Contributions in relation to the contractually required contribution	<u>(7,000,824)</u>	<u>(6,030,647)</u>	<u>(5,172,158)</u>	<u>(4,262,028)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	<u>\$ 48,515,759</u>	<u>\$ 47,398,000</u>	<u>\$ 48,203,000</u>	<u>\$ 47,996,000</u>
Contributions as a percentage of covered payroll	<u>14.43%</u>	<u>12.58%</u>	<u>10.73%</u>	<u>8.88%</u>
<b>CalPERS</b>				
Contractually required contribution	\$ 8,588,361	\$ 7,614,077	\$ 6,335,210	\$ 5,829,589
Contributions in relation to the contractually required contribution	<u>(8,588,361)</u>	<u>(7,614,077)</u>	<u>(6,335,210)</u>	<u>(5,829,589)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	<u>\$ 55,298,184</u>	<u>\$ 54,825,000</u>	<u>\$ 53,475,000</u>	<u>\$ 49,525,000</u>
Contributions as a percentage of covered payroll	<u>15.531%</u>	<u>13.888%</u>	<u>11.847%</u>	<u>11.771%</u>
<b>OCERS<sup>1</sup></b>				
Contractually required contribution	\$ 524,000			
Contributions in relation to the contractually required contribution	<u>(524,000)</u>			
Contribution deficiency (excess)	<u>\$ -</u>			
Covered payroll	<u>N/A<sup>2</sup></u>			
Contributions as a percentage of covered payroll	<u>N/A<sup>2</sup></u>			

<sup>1</sup> Prior to June 30, 2018, the County did not implement GASB Statement No. 68 for OCERS.

<sup>2</sup> As of June 30, 2018, the County did not have any active members participating in OCERS; therefore, the covered payroll disclosure is not applicable.

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

**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 States 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.

At June 30, 2021, the following County major fund exceeded the budgeted amount in total as follows:

	Budget	Expenditures Actual	Excess
Special Education Pass-Through Fund	\$ 45,779,287	\$ 47,712,081	\$ 1,932,794

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

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

- *Change in Benefit Terms* – There were no changes in benefit terms.
- *Changes of Assumptions* – The discount rate changed from 2.20% to 2.16%.

**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 3.50% to 2.21% since the previous valuation.

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

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

- *Changes in Benefit Terms* – There were no changes in benefit terms since the previous valuations for either the CalSTRS, CalPERS, or OCERS plans.
- *Changes of Assumptions* – There were no changes in economic assumptions for either the CalSTRS, CalPERS, or OCERS 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  
June 30, 2021

# Orange County Department of Education

Orange County Department of Education  
Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2021

Federal Grantor/Pass-Through Grantor/Program	Federal Financial Assistance Listing/Federal 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):				
Special Education (IDEA) Cluster:				
Basic Local Assistance Entitlement, Part B, Sec 611	84.027	13379	\$ 7,995,309	\$ 6,949,232
Local Assistance, Part B, Sec 611, Private School ISPs	84.027	10115	19,167	19,167
Preschool Grants, Part B, Sec 619	84.173	13430	199,378	159,237
Mental Health Allocation Plan, Part B, Sec 611	84.027A	15197	505,318	505,318
Preschool Staff Development, Part B, Sec 619	84.173A	13431	973	-
Alternate Dispute Resolution	84.173A	13007	14,601	-
Mental Health Services, Part B, Sec 611	84.027A	15321	178,757	-
			<u>8,913,503</u>	<u>7,632,954</u>
Total Special Education (IDEA) Cluster				
Title I, Part A, Basic Grants Low-Income and Neglected	84.010	14329	2,592,513	-
Title I, Part D, Local Delinquent Programs	84.010	14357	1,926,284	-
School Improvement Funding for LEAs	84.010	15438	587,881	-
School Improvement Funding for COEs	84.010	15439	194,592	-
			<u>5,301,270</u>	<u>-</u>
Subtotal				
Title III, Immigrant Student Program	84.365	15146	303	-
Title III, English Learner Student Program	84.365	14346	335,416	-
			<u>335,719</u>	<u>-</u>
Subtotal				
COVID-19: Elementary and Secondary School Emergency Relief (ESSER) Fund	84.425D	15536	823,231	-
COVID-19: Elementary and Secondary School Emergency Relief II (ESSER II) Fund	84.425D	15547	-	-
COVID-19: Governor's Emergency Education Relief Fund: Learning Loss Mitigation	84.425C	15517	63,575	-
COVID-19: CARES Act Supplemental Meal Reimbursement	84.425D	15535	4,891	-
			<u>891,697</u>	<u>-</u>
Subtotal				
Title II, Part A, Supporting Effective Instruction	84.367	14341	39,194	-
Title IV, 21st Century Community Learning Centers Technical Assistance	84.287	14350	218,227	-
Title IX, Part A, McKinney-Vento Homeless Assistance Grants	84.196	14332	252,269	-
Early Intervention Grants, Part C	84.181	23761	373,789	-
Passed through County of Orange:				
California Career Innovations: Work Based Learning Initiative	84.126	[1]	124,617	-
			<u>16,450,285</u>	<u>7,632,954</u>
Total U.S. Department of Education				

[1] Pass-Through Entity Number not available

Orange County Department of Education  
Schedule of Expenditures of Federal Awards  
June 30, 2021

Federal Grantor/Pass-Through Grantor/Program	Federal Financial Assistance Listing/Federal CFDA Number	Pass-Through Entity Identifying Number	Program Expenditures	Amounts Passed Through to Subrecipients
U.S. Department of Health and Human Services				
Passed through CDE:				
Child Care and Development Fund Cluster:				
Federal Alternative Payment	93.596	13694	\$ 11,620,259	\$ -
Federal Alternative Payment, Stage 3	93.575	13881	2,292,989	-
Local Planning Councils	93.575	13946	72,623	-
Quality Improvement Activities	93.575	14092	366,056	-
Quality Improvement Activities	93.575	14130	1,042,009	-
Federal Alternative Payment	93.596	14153	1,775,877	-
Federal Alternative Payment, Stage 2	93.575	14178	1,552,443	-
Federal Alternative Payment, Stage 3	93.575	14984	406,864	-
Federal Alternative Payment, Stage 3	93.596	14985	14,856	-
Federal Alternative Payment	93.596	15400	6,558,967	-
Federal Alternative Payment, Stage 3	93.596	15452	254,182	-
Federal Alternative Payment	93.575	15511	1,453,048	-
COVID-19 CARES Act Federal Alternative Payment, Stage 2	93.575	15512	85,579	-
COVID-19 CARES Act Federal Alternative Payment, Stage 3	93.575	15513	244,192	-
COVID-19: Coronavirus Response and Relief Supplemental Appropriations (CRRSA) Act - One-time Stipend	93.575	15555	1,836,766	-
Total Child Care and Development Fund Cluster			<u>29,576,710</u>	<u>-</u>
U.S. Department of Health and Human Services				
Passed through County of Orange:				
Alcohol and Other Drug Prevention Services Friday Night Live	93.959	[1]	459,019	-
Block Grant for Substance Abuse Prevention Services	93.959	[1]	568,113	-
Subtotal			<u>1,027,132</u>	<u>-</u>
Foster Youth Services Coordinating Programs	93.658	[1]	456,160	-
Total U.S. Department of Health and Human Services			<u>31,060,002</u>	<u>-</u>
U.S. Department of Agriculture				
Passed through CDE:				
Child Nutrition Cluster:				
National School Lunch Program	10.555	13396	103,090	-
Basic School Breakfast Program	10.553	13390	30,918	-
Especially Needy Breakfast Program	10.553	13526	41,164	-
Commodities	10.555	13396	17,524	-
Total Child Nutrition Cluster			<u>192,696</u>	<u>-</u>
Forest Service Schools and Roads Cluster:				
Forest Reserve Funds	10.665	10044	27,506	23,380
Total Forest Service Schools and Roads Cluster			<u>27,506</u>	<u>23,380</u>
Total U.S. Department of Agriculture			<u>220,202</u>	<u>23,380</u>
U.S. Department of the Treasury				
Passed through CDE:				
COVID-19: Coronavirus Relief Fund: Learning Loss Mitigation	21.019	25516	6,841,234	-
Total U.S. Department of the Treasury			<u>6,841,234</u>	<u>-</u>
Total Federal Financial Assistance			<u>\$ 54,571,723</u>	<u>\$ 7,656,334</u>

[1] Pass-Through Entity Number not available

**Organization**

The Orange County Department of Education was established and consists of an area comprising approximately 782 square miles. The County operates one community home education site, one homeless outreach program site, 30 community schools/independent study program sites, three juvenile court schools program sites, one field program site, and 14 special education program sites. There were no boundary changes during the year.

The County provides professional and administrative assistance to 13 elementary school districts, three high school districts, 12 unified school districts, four community college districts, three regional occupational programs, and 35 charter schools, within Orange County.

The Board of Education and the County Administrators for the fiscal year ended June 30, 2021 is presented herein.

**County Board of Education**

<u>Member</u>	<u>Office</u>	<u>Term Expires</u>
Dr. Ken L. Williams	President	2024
Ms. Mari Barke	Vice President	2022
Dr. Lisa Sparks	Member	2022
Ms. Rebecca Gomez	Member	2024
Mr. Tim Shaw	Member	2024

**Administration**

Dr. Al Mijares	County Superintendent of Schools and Board Secretary
Dr. Jeff Hittenberger	Chief Academic Officer
Ms. Renee Hendrick	Associate Superintendent, Administrative Services

Orange County Department of Education  
Reconciliation of Annual Financial and Budget Report with Audited Financial Statements  
Year Ended June 30, 2021

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There were no adjustments to the Unaudited Actual Financial Report, which required reconciliation to the audited financial statements at June 30, 2021.

Orange County Department of Education  
Schedule of Financial Trends and Analysis  
Year Ended June 30, 2021

	(Budget) 2022 <sup>1</sup>	2021	2020	2019
County School Service Fund <sup>3</sup>				
Revenues	\$ 314,429,473	\$ 275,200,692	\$ 268,221,679	\$ 279,744,668
Other sources	-	-	-	21,049
Total revenues and other sources	<u>314,429,473</u>	<u>275,200,692</u>	<u>268,221,679</u>	<u>279,765,717</u>
Expenditures	308,747,360	226,294,252	229,823,519	246,802,762
Other uses	1,526,354	1,613,906	1,459,258	1,493,127
Total expenditures and other uses	<u>310,273,714</u>	<u>227,908,158</u>	<u>231,282,777</u>	<u>248,295,889</u>
Increase in Fund Balance	<u>\$ 4,155,759</u>	<u>\$ 47,292,534</u>	<u>\$ 36,938,902</u>	<u>\$ 31,469,828</u>
Ending Fund Balance	<u>\$ 283,876,573</u>	<u>\$ 279,720,814</u>	<u>\$ 232,428,280</u>	<u>\$ 195,489,378</u>
Available Reserves <sup>2</sup>	<u>\$ 125,789,081</u>	<u>\$ 140,784,218</u>	<u>\$ 123,409,056</u>	<u>\$ 107,738,426</u>
Available Reserves as a Percentage of Total Outgo	<u>40.5%</u>	<u>61.8%</u>	<u>53.4%</u>	<u>43.4%</u>
Long-Term Obligations including OPEB and Pensions	<u>N/A</u>	<u>\$ 220,034,914</u>	<u>\$ 214,244,753</u>	<u>\$ 221,256,673</u>
K-12 Average Daily Attendance at Annual <sup>4</sup>	<u>1,003</u>	<u>2,597</u>	<u>2,597</u>	<u>1,847</u>

The County School Service Fund balance has increased by \$84,231,436 over the past two years. The fiscal year 2021-2022 budget projects an increase of \$4,155,759 (1.5%). For a County this size, the State recommends available reserves of at least three percent of total County School Service Fund expenditures, and other uses (total outgo).

The County has incurred operating surpluses for each of the past three years. The County anticipates incurring an operating surplus during the 2021-2022 fiscal year. Total long-term liabilities have decreased by \$1,221,759 over the past two years.

Average daily attendance has increased by 750 over the past two years. However, a decline of 1,594 ADA is anticipated during fiscal year 2021-2022.

<sup>1</sup> Budget 2021 is included for analytical purposes only and has not been subjected to audit.

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

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

<sup>4</sup> The reported ADA is the same for 2020-2021 and 2019-2020 due to local education agencies being held harmless as a result of the COVID-19 pandemic.

Orange County Department of Education

Schedule of Charter Schools

Year Ended June 30, 2021

Name of Charter School	Charter Number	Included in Audit Report
College and Career Preparatory Academy	1761	Yes
Citrus Springs Charter	1831	No
Ednovate - Legacy College Prep.	1798	No
EPIC Charter (Excellence Performance Innovation Citizenship)	1807	No
International School for Science and Culture	2048	No
Irvine International Academy	2116	No
OCSA	0290	No
Orange County Academy of Sciences and Arts	1799	No
Orange County Workforce Innovation High	1833	No
Oxford Preparatory Academy - Saddleback Valley	1784	No
Samueli Academy	1419	No
Scholarship Prep - Orange County	1808	No
Suncoast Preparatory Academy	2025	No
Sycamore Creek Community Charter	2047	No
Tomorrow's Leadership Collaborative (TLC) Charter	1987	No
Unity Middle College High	1800	No
Vista Condor Global Academy	1930	No
Vista Heritage Global Academy	1752	No

Orange County Department of Education  
Combining Balance Sheet – Non-Major Governmental Funds  
June 30, 2021

	Deferred Maintenance Fund	County School Facilities Fund	Special Reserve Fund for Capital Outlay Projects	Debt Service Fund	Total Non-Major Governmental Funds
<b>Assets</b>					
Deposits and investments	\$ 29,855,300	\$ 5,596,234	\$ 2,468,958	\$ 1,257,718	\$ 39,178,210
Receivables	13,821	95,483	159,309	303	268,916
Due from other funds	980,735	-	-	-	980,735
<b>Total assets</b>	<b><u>\$ 30,849,856</u></b>	<b><u>\$ 5,691,717</u></b>	<b><u>\$ 2,628,267</u></b>	<b><u>\$ 1,258,021</u></b>	<b><u>\$ 40,427,861</u></b>
<b>Liabilities and Fund Balances</b>					
<b>Liabilities</b>					
Accounts payable	\$ 16,707	\$ 1,135,803	\$ 297,093	\$ -	\$ 1,449,603
<b>Fund Balances</b>					
Restricted	-	4,544,675	2,328,601	1,256,729	8,130,005
Committed	30,773,191	-	-	-	30,773,191
Assigned	59,958	11,239	2,573	1,292	75,062
<b>Total fund balance</b>	<b><u>30,833,149</u></b>	<b><u>4,555,914</u></b>	<b><u>2,331,174</u></b>	<b><u>1,258,021</u></b>	<b><u>38,978,258</u></b>
<b>Total liabilities and fund balances</b>	<b><u>\$ 30,849,856</u></b>	<b><u>\$ 5,691,717</u></b>	<b><u>\$ 2,628,267</u></b>	<b><u>\$ 1,258,021</u></b>	<b><u>\$ 40,427,861</u></b>

Orange County Department of Education

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Non-Major Governmental Funds  
Year Ended June 30, 2021

	Deferred Maintenance Fund	County School Facilities Fund	Special Reserve Fund for Capital Outlay Projects	Debt Service Fund	Total Non-Major Governmental Funds
<b>Revenues</b>					
Local Control Funding Formula	\$ 1,022,520	\$ -	\$ -	\$ -	\$ 1,022,520
Other State sources	-	11,033,938	-	-	11,033,938
Other local sources	283,075	73,244	2,139,923	6,004	2,502,246
<b>Total revenues</b>	<b>1,305,595</b>	<b>11,107,182</b>	<b>2,139,923</b>	<b>6,004</b>	<b>14,558,704</b>
<b>Expenditures</b>					
Current					
Plant services	-	-	646,858	-	646,858
Facility acquisition and construction	1,651,908	8,871,512	378,229	-	10,901,649
Debt service					
Principal	-	-	-	1,070,000	1,070,000
Interest and other	-	-	-	306,294	306,294
<b>Total expenditures</b>	<b>1,651,908</b>	<b>8,871,512</b>	<b>1,025,087</b>	<b>1,376,294</b>	<b>12,924,801</b>
<b>Excess (Deficiency) of Revenue over Expenditures</b>	<b>(346,313)</b>	<b>2,235,670</b>	<b>1,114,836</b>	<b>(1,370,290)</b>	<b>1,633,903</b>
<b>Other Financing Sources (Uses)</b>					
Transfers in	980,735	-	-	1,317,989	2,298,724
Transfers out	-	-	(1,317,989)	-	(1,317,989)
<b>Net Financing Sources (Uses)</b>	<b>980,735</b>	<b>-</b>	<b>(1,317,989)</b>	<b>1,317,989</b>	<b>980,735</b>
<b>Net Change in Fund Balances</b>	<b>634,422</b>	<b>2,235,670</b>	<b>(203,153)</b>	<b>(52,301)</b>	<b>2,614,638</b>
<b>Fund Balances - Beginning</b>	<b>30,198,727</b>	<b>2,320,244</b>	<b>2,534,327</b>	<b>1,310,322</b>	<b>36,363,620</b>
<b>Fund Balances - Ending</b>	<b>\$ 30,833,149</b>	<b>\$ 4,555,914</b>	<b>\$ 2,331,174</b>	<b>\$ 1,258,021</b>	<b>\$ 38,978,258</b>

**Note 1 - Purpose of Schedules**

**Schedule of Expenditures of Federal Awards**

Basis of Presentation

The accompanying schedule of expenditures of federal awards (the schedule) includes the federal award activity of the Orange County Department of Education (the County) under programs of the federal government for the year ended June 30, 2021. The information 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). Because the schedule presents only a selected portion of the operations of the Orange County Department of Education, it is not intended to and does not present the financial position of the County.

Summary of Significant Accounting Policies

Expenditures reported in the schedule are reported on the modified accrual basis of accounting, except for subrecipient expenditures, which are recorded on the cash basis. When applicable, such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Indirect Cost Rate

The County has not elected to use the 10% de minimis cost rate.

Food Donation

Nonmonetary assistance is reported in the schedule at the fair market value of the commodities received and disbursed. At June 30, 2021, the County did not report any commodities in inventory.

SEFA Reconciliation

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 COVID-19: Coronavirus Response and Relief Supplemental Appropriations (CRRSA) Act - One-time Stipend funds have been recorded in the current period as revenues that have not been expended as of June 30, 2021. These unspent balances are reported as legally restricted ending balances within the Child Development Fund.

	Federal Financial Assistance Listing/Federal CFDA Number	Amount
Total Federal Revenues From the Statement of Revenues, Expenditures, and Changes in Fund Balances:		\$ 54,796,081
COVID-19: Coronavirus Response and Relief Supplemental Appropriations (CRRSA) Act - One-time Stipend	93.778	(224,358)
Total Federal Financial Assistance		\$ 54,571,723

### **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.

### **Reconciliation of Annual Financial and Budget Report with Audited Financial Statements**

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

### **Schedule of Financial Trends and Analysis**

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

### **Schedule of Charter Schools**

This schedule lists all Charter Schools chartered by the County Office of Education and displays information for each Charter School on whether or not the Charter School is included in the County Office of Education audit.

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

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



Independent Auditor's Reports  
June 30, 2021

**Orange County Department of  
Education**



**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***

To the Superintendent of Schools  
and County Board of Education  
Orange County Department of Education  
Costa Mesa, California

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Orange County Department of Education, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise Orange County Department of Education’s basic financial statements and have issued our report thereon dated January 26, 2022.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Orange County Department of Education’s internal control over financial reporting (internal control) as a basis for designing 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 Orange County Department of Education’s internal control. Accordingly, we do not express an opinion on the effectiveness of Orange County Department of Education’s internal control.

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

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

**Compliance and Other Matters**

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

**Purpose of this Report**

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

A handwritten signature in black ink that reads "Eide Sully LLP". The signature is written in a cursive, flowing style.

Rancho Cucamonga, California  
January 26, 2022



## **Independent Auditor's Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance Required by the Uniform Guidance**

To the Superintendent of Schools  
and County Board of Education  
Orange County Department of Education  
Costa Mesa, California

### **Report on Compliance for Each Major Federal Program**

We have audited Orange County Department of Education's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Orange County Department of Education's major federal programs for the year ended June 30, 2021. Orange County Department of Education's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

### **Management's Responsibility**

Management is responsible for compliance with 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 Orange County Department of Education's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Orange County Department of Education's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Orange County Department of Education's compliance.

### **Opinion on Each Major Federal Program**

In our opinion, Orange County Department of Education's 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, 2021.

### **Report on Internal Control over Compliance**

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

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

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

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



Rancho Cucamonga, California  
January 26, 2022



## Independent Auditor's Report on State Compliance

To the Superintendent of Schools  
and County Board of Education  
Orange County Department of Education  
Costa Mesa, California

### **Report on State Compliance**

We have audited Orange County Department of Education's (the County) compliance with the types of compliance requirements described in the *2020-2021 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, applicable to the state laws and regulations listed in the table below for the year ended June 30, 2021.

### **Management's Responsibility**

Management is responsible for compliance with the state laws and regulations as identified in the table below.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on the County's compliance with state laws and regulations based on our audit of the types of compliance requirements referred to below. 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 audit requirements of the *2020-2021 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements listed below has occurred. An audit includes examining, on a test basis, evidence about the County'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 state compliance. However, our audit does not provide a legal determination of the County's compliance.

**Compliance Requirements Tested**

In connection with the audit referred to above, we selected and tested transactions and records to determine the County’s compliance with laws and regulations applicable to the following items:

	Procedures Performed
<b>LOCAL EDUCATION AGENCIES OTHER THAN CHARTER SCHOOLS</b>	
Attendance and Distance Learning	Yes
Teacher Certification and Misassignments	Yes
Kindergarten Continuance	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
K-3 Grade Span Adjustment	No, see below
Apprenticeship: Related and Supplemental Instruction	No, see below
Comprehensive School Safety Plan	Yes
District of Choice	No, see below
<b>SCHOOL DISTRICTS, COUNTY OFFICES OF EDUCATION, AND CHARTER SCHOOLS</b>	
California Clean Energy Jobs Act	Yes
Proper Expenditure of Education Protection Account Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Independent Study - Course Based	No, see below
<b>CHARTER SCHOOLS</b>	
Attendance	Yes
Mode of Instruction	No, see below
Nonclassroom-Based Instruction/Independent Study	Yes
Determination of Funding for Nonclassroom-Based Instruction	Yes
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.

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 requirement; 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 requirement; 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 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 procedures related to 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 does not have an Independent Study-Course Based Program; therefore, we did not perform procedures related to the Independent Study-Course Based Program.

The County does not have any Charter Schools with Mode of Instruction (classroom-based instruction); therefore, we did not perform procedures related to Mode of Instruction.

The County did not have any funding for the Charter School Facility Grant Program; therefore, we did not perform procedures related to the Charter School Facility Grant Program.

***Unmodified Opinion***

In our opinion, Orange County Department of Education complied, in all material respects, with the laws and regulations of the state programs referred to above for the year ended June 30, 2021.

The purpose of this report on state compliance is solely to describe the results of our testing based on the requirements of the *2020-2021 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. Accordingly, this report is not suitable for any other purpose.



Rancho Cucamonga, California  
January 26, 2022



Schedule of Findings and Questioned Costs  
June 30, 2021

# Orange County Department of Education

**Financial Statements**

Type of auditor's report issued	Unmodified
Internal control over financial reporting	
Material weakness identified	No
Significant deficiencies identified not considered to be material weaknesses	None reported
Noncompliance material to financial statements noted?	No

**Federal Awards**

Internal control over major programs	
Material weaknesses identified	No
Significant deficiencies identified not considered to be material weaknesses	None reported
Type of auditor's report issued on compliance for major programs	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance 2 CFR 200.516(a)	No

**Identification of major programs**

<u>Name of Federal Program or Cluster</u>	<u>Federal Financial Assistance Listing/ Federal CFDA Number</u>
Special Education (IDEA) Cluster	84.027, 84.027A, 84.173, and 84.173A
COVID-19: Coronavirus Relief Fund: Learning Loss Mitigation	21.019
COVID-19: Elementary and Secondary School Emergency Relief (ESSER) Fund	84.425D
COVID-19: Elementary and Secondary School Emergency Relief II (ESSER II) Fund	84.425D
COVID-19: Governor's Emergency Education Relief Fund: Learning Loss Mitigation	84.425C
COVID-19: CARES Act Supplemental Meal Reimbursement	84.425D
Dollar threshold used to distinguish between Type A and Type B programs	\$1,637,152
Auditee qualified as low-risk auditee?	Yes

**State Compliance**

Type of auditor's report issued on compliance for programs	Unmodified
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None reported.

None reported.

None reported.

There were no audit findings reported in the prior year's Schedule of Findings and Questioned Costs.