

ORANGE COUNTY DEPARTMENT OF EDUCATION

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Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Orange County Department of Education, as of June 30, 2019, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 16, budgetary comparison schedules on pages 79 through 81, schedule of changes in the County's total OPEB liability and related ratios on page 82, schedule of the County's proportionate share of the net OPEB liability - MPP program on page 83, schedule of the County's proportionate share of the net pension liability on page 84, and the schedule of County contributions on page 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 the Orange County Department of Education basic financial statements. The accompanying supplementary information such as the combining and individual non-major fund financial statements and Schedule of Expenditures of Federal Awards, as required by *Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)* and the other supplementary information as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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



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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, 2019, with comparative information for the year ended June 30, 2018. Please read it in conjunction with the County's financial statements, which immediately follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Financial Statements

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

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

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

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

The *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.

ORANGE COUNTY DEPARTMENT OF EDUCATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2019

FINANCIAL HIGHLIGHTS OF THE PAST YEAR

This is the sixth year of the Local Control Funding Formula (LCFF). In 2013-2014, the State budget saw the biggest change in education funding in over forty years with the implementation of the LCFF, and the Local Control Accountability Plan (LCAP). School Districts reached full implementation of the LCFF in 2018-2019, and County Offices of Education (COE) have been fully funded since 2014-2015 and will continue to only receive cost of living increases to their base grant in future years. One of the complex calculations specific to COE LCFF is subject to changes in county property taxes in conjunction with Average Daily Attendance (ADA). When county property taxes increase and ADA decreases, COE's move into a category called minimum state aid. We continue to be a County that has moved into this category. This may become problematic in the future years, because we will not receive any new LCFF funding from either growth in attendance or cost of living increases, while we will still have increases in expenditures.

In the current fiscal year, the County School Service Fund revenue (not including transfers from other funds) increased by \$38 million. AB602 requires a transfer to Special Education of 36 percent of the total property tax received. Property tax increased by \$5.6 million which required a transfer totaling \$39.4 million to the Special Education Pass-Through Fund (SELPA). This was an increase of \$2 million to the SELPA and the remaining \$3.6 million remained in the County School Service Fund. Although the County continues to receive increases in local taxes, overall LCFF funding for 2018-19 grew by \$2.2 million, including \$2 million for County Office of Education (COE) assistance and support to the Orange County school districts and \$257 thousand for the College & Career Preparatory Academy charter school. Federal funding increased \$14 million or 5.5 percent of the County School Service Fund revenues (and an increase of \$16.7 million or 4.7 percent of government-wide revenues). The increase is mostly due to an increase of \$14 million in the Medi-Cal Administrative Activities program and changes in various other federal programs. Other State revenue increased \$11.5 million or four percent of the County School Service Fund revenues (and \$16 million or 4.6 percent of government-wide revenues). The increase is largely due to an increase of \$12.5 million in School Climate Multi-Tiered Support System funds, an increase of \$249 thousand for Career Technical Education Incentive Grant, \$232 thousand increase for CalSTRS on behalf due to GASB 68 recognizing the State's contribution on behalf of the district, an increase of \$177 thousand for One-Time Discretionary funding, a decrease of \$2.3 million for California Career Pathways, a decrease of \$327 thousand for Cal Clean Energy, and other state grants and entitlements. Finally, government-wide local revenue for 2018-2019 increased by \$6.2 million as a result of various increases in interagency fees and decreases in tuition fees.

The expenditures in the County School Service Fund (not including transfers to other funds) decreased by \$14 million or 5.9 percent of expenditures. This includes the increase of GASB 68 CalSTRS on behalf of the district contribution of \$232 thousand and the rate increases of CalSTRS from 14.43 percent to 16.28 percent and CalPERS from 15.531 percent to 18.062 percent. In 2018-2019, all bargaining units received a 3.5 percent on-going salary increase payment. In addition, the district contributed to the health and welfare benefits for the 2018-2019 year with Classified & Management employees paying only the increase in cost of health benefits for the PPO plan. The district contributed 50 percent to the health and welfare benefits increase for Certificated employees. Salaries and benefits decreased by \$1.3 million, which include retirements and staff attrition and the GASB 68 CalSTRS on behalf of the district contribution. The decrease was mostly due to the district offering a Supplemental Employee Retirement Plan for five years to the 99 employees that participated in the program. The LCAP called for increases in books, computers, and instructional materials of \$370 thousand and various other changes in services and contracts.

ORANGE COUNTY DEPARTMENT OF EDUCATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2019

In 2018-2019, we had an overall decrease of 464 average daily attendance (ADA). We continue to look at staffing ratios and new ways to improve our attendance.

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 500,000 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 decline of ADA can have significant impact on the financial stability of the office. The County operated student programs decreased by 464 ADA, a 20 percent decline from last year. County-wide enrollment experienced a decrease of 1.59 percent.

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 2018-2019, we met our goal with a minimum three percent Reserve for Economic Uncertainties.

ORANGE COUNTY DEPARTMENT OF EDUCATION

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2019

REPORTING THE COUNTY AS A WHOLE

The Statement of Net Position and the Statement of Activities

The *Statement of Net Position* and the *Statement of Activities* report information about the County as a whole and about its activities. These statements include *all* assets and deferred outflows of resources and 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 liabilities, one way to measure the County's financial health, or *financial position*. Over time, *increases or decreases* in the County's net position are one indicator of whether its *financial health* is improving or deteriorating. Other factors to consider are changes in the County's property tax base and the condition of the County's facilities.

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

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

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

ORANGE COUNTY DEPARTMENT OF EDUCATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2019

REPORTING THE COUNTY'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

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

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

THE COUNTY AS TRUSTEE

Reporting the County's Fiduciary Responsibilities

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

ORANGE COUNTY DEPARTMENT OF EDUCATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2019

THE COUNTY AS A WHOLE

Net Position

The County's net position was \$174,511,535 for the fiscal year ended June 30, 2019. Of this amount, \$30,440,041 was unrestricted. Restricted net position is reported separately to show legal constraints from debt covenants, grantors, constitutional provisions, and is enabling legislation that limit the governing board's ability to use the net position for day-to-day operations. Our analysis below, in summary form, focuses on the net position (Table 1) and change in net position (Table 2) of the County's governmental activities.

Table 1

	Governmental Activities	
	2019	2018
ASSETS		
Current and other assets	\$ 322,033,619	\$ 288,372,931
Capital assets	88,723,439	88,713,027
Total Assets	410,757,058	377,085,958
Deferred Outflows of Resources	50,868,301	54,337,932
LIABILITIES		
Current liabilities	49,760,518	50,718,086
Long-term obligations	21,935,832	25,653,921
Aggregate net pension liability	199,320,841	189,129,604
Total Liabilities	271,017,191	265,501,611
Deferred Inflows of Resources	16,096,633	20,429,230
NET POSITION		
Investment in capital assets	76,811,439	76,307,027
Restricted	66,712,313	55,414,776
Unrestricted	30,987,783	13,771,246
Total Net Position	\$ 174,511,535	\$ 145,493,049

The \$30,987,783 in unrestricted net position of governmental activities represents the *accumulated* results of all past years' operations.

ORANGE COUNTY DEPARTMENT OF EDUCATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2019

Changes in Net Position

The results of this year's operations for the County as a whole are reported in the *Statement of Activities* on page 18. 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	
	2019	2018
Revenues		
Program revenues:		
Charges for services	\$ 39,177,668	\$ 35,680,840
Operating grants and contributions	81,125,515	63,955,666
Capital grants and contributions	27,921	(2,813,364)
General revenues		
Federal and State aid not restricted	67,921,561	50,515,576
Property taxes	113,594,439	107,541,072
Other general revenues	55,492,138	49,896,528
Total Revenues	357,339,242	304,776,318
Expenses		
Instruction	170,743,525	181,821,818
Pupil services	20,755,650	19,988,956
Administration	27,270,941	31,595,573
Plant services	12,186,514	12,581,399
All other services	97,364,126	72,150,860
Total Expenses	328,320,756	318,138,606
Change in Net Position	\$ 29,018,486	\$ (13,362,288)

ORANGE COUNTY DEPARTMENT OF EDUCATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2019

Governmental Activities

As reported in the *Statement of Activities* on page 18, the cost of all of our governmental activities this year was \$328,320,756. However, the amount that our taxpayers ultimately financed for these activities through local taxes was only \$113,594,439 because the cost was paid by those who benefited from the programs (\$39,177,668) or by other governments and organizations who subsidized certain programs with grants and contributions (\$81,153,436). We paid for the remaining "public benefit" portion of our governmental activities with \$123,413,699 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	
	2019	2018	2019	2018
Instruction	\$ 170,743,525	\$ 181,821,818	\$ 93,108,561	\$ 123,836,853
Pupil services	20,755,650	19,988,956	13,523,731	13,231,663
Administration	27,270,941	31,595,573	19,954,074	25,965,714
Plant services	12,186,514	12,581,399	11,428,054	11,951,254
All other services	97,364,126	72,150,860	69,975,232	46,329,980
Total	\$ 328,320,756	\$ 318,138,606	\$ 207,989,652	\$ 221,315,464

ORANGE COUNTY DEPARTMENT OF EDUCATION

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

THE COUNTY'S FUNDS

As the County completed this year, our governmental funds reported a combined fund balance of \$267,045,434, which is an increase of \$34,028,412 from last year (Table 4).

Table 4

	Balances and Activities			
	July 1, 2018	Revenues and other financing sources	Expenditures and other financing uses	June 30, 2019
County School Service Fund	\$ 188,912,582	\$ 280,277,548	\$ 248,295,889	\$ 220,894,241
Special Education				
Pass-Through Fund	11,223,729	47,270,129	48,663,280	9,830,578
Child Development Fund	-	27,887,098	27,887,098	-
Deferred Maintenance Fund	26,191,667	2,736,962	213,658	28,714,971
County School Facilities Fund	1,352,326	1,246,828	145,826	2,453,328
Special Reserve Fund for				
Capital Outlay Projects	3,921,991	2,527,997	2,593,786	3,856,202
Debt Service Fund	1,414,727	818,537	937,150	1,296,114
Total	\$ 233,017,022	\$ 362,765,099	\$ 328,736,687	\$ 267,045,434

The County School Service Fund is our principal operating fund. The fund balance in the County School Service Fund increased to \$220 million, a \$2.2 million increase, due to further implementation of the Local Control Funding Formula (LCFF), \$14 million increase for Medi-Cal Administrative Activities, \$13 million increase for the School Climate Multi-Tiered Student System of Support, 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 6, 2019. (Schedules showing the County's original and final budget amounts compared with amounts actually paid and received are provided in our annual report beginning on page 79).

ORANGE COUNTY DEPARTMENT OF EDUCATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2019

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2019, the County had \$88,723,439 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 \$10,412, or 0.01 percent, from last year (Table 5).

Table 5

	Governmental Activities	
	2019	2018
Land and construction in process	\$ 30,831,406	\$ 29,876,451
Buildings and improvements	53,879,250	55,009,674
Furniture and equipment	4,012,783	3,826,902
Total	\$ 88,723,439	\$ 88,713,027

The \$10,412 increase in capital assets was the result of a decrease of \$1.3 million in capital purchases and \$954 thousand of capital asset acquisitions including \$185 thousand in equipment and related accumulated depreciation.

Long-Term Obligations

At the year-end, the County had \$21,935,832 in long-term obligations versus \$25,653,921 last year, a decrease of \$3,718,089, or 14.5 percent. Those obligations consisted of:

	Governmental Activities	
	2019	2018
Certificates of participation (net of discount)	\$ 11,912,000	\$ 12,406,000
Compensated absences	1,518,935	1,785,228
Supplemental early retirement plan	4,399,713	7,332,855
Net other postemployment benefits (OPEB) liability	4,105,184	4,129,838
Total	\$ 21,935,832	\$ 25,653,921

Net Pension Liability (NPL)

At the year-end, the County had \$199,320,841 in net pension liability versus \$189,129,604 last year, an increase of \$10,191,237, or 5.4 percent.

ORANGE COUNTY DEPARTMENT OF EDUCATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2019

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 has provided some relief to the districts for the CalSTRS liability, the CalSTRS rate is scheduled to increase every year. It is estimated to increase to 18.1 percent by 2020-2021. Although, the rate for the CalPERS has a different rate increase structure than CalSTRS, it is also increasing annually. Every year we are faced with the increase in cost for medical benefits and trying to maintain an affordable medical benefit plan packages for all parties involved. We have negotiated a cap on medical benefits, and we have a Health Benefits Review Committee to collaborate with our broker for any necessary changes to have a program that is sustainable. 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:

2019-2020 is the sixth year of our Local Control Accountability Plan (LCAP) and the need to address increased and improved services to our students. 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. Our greatest needs are in the area of student attendance. Attendance decreased by two percent from the prior year. 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. Due to declining enrollment, a retirement incentive was offered to certificated and classified non-management groups. We had nine teachers, two nurses, one language speech pathologist, and seventeen classified support staff participate. The district will continue to evaluate vacancies and anticipate not replacing the majority of positions not related to Special Education. We continue to monitor ADA and to establish better control over staffing ratios at each site.

ORANGE COUNTY DEPARTMENT OF EDUCATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2019

The LCFF changed how students are recorded and COEs will only be 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, we were required to bill school districts for students in community schools and special schools but effective with the 2019-2020 fiscal year, the California Department of Education (CDE) will automatically transfer the LCFF funds earned by the ADA from our students to our district. This will have a positive effect on our districts cash flow. We continue to collect from school districts the amounts due from the prior years and not paid. 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. The second dashboard was released in 2018-2019 by the California Department of Education (CDE) identifying additional orange county districts in need of intervention and continuous improvement. We are now required 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 tenth 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.

ORANGE COUNTY DEPARTMENT OF EDUCATION

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

	Governmental Activities
ASSETS	
Deposits and investments	\$ 279,575,567
Receivables	42,458,052
Capital assets	
Land and construction in process	30,831,406
Other capital assets	103,331,342
Less: accumulated depreciation	(45,439,309)
Total Capital Assets	<u>88,723,439</u>
Total Assets	<u>410,757,058</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows of resources related to net other postemployment benefits (OPEB) liability	58,276
Deferred outflows of resources related to pensions	<u>50,810,025</u>
Total Deferred Outflows of Resources	<u>50,868,301</u>
LIABILITIES	
Accounts payable	45,988,782
Accrued interest payable	34,971
Unearned revenue	3,494,838
Claims liability	241,927
Long-term obligations	
Current portion of long-term obligations other than pensions	2,026,571
Noncurrent portion of long-term obligations other than pensions	<u>19,909,261</u>
Total Long-Term Obligations	21,935,832
Aggregate net pension liability	<u>199,320,841</u>
Total Liabilities	<u>271,017,191</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows of resources related to pensions	<u>16,096,633</u>
NET POSITION	
Investment in capital assets	76,811,439
Restricted for:	
Debt service	2,481,904
Capital projects	5,088,769
Educational programs	44,048,424
Other activities	15,093,216
Unrestricted	<u>30,987,783</u>
Total Net Position	<u>\$ 174,511,535</u>

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

ORANGE COUNTY DEPARTMENT OF EDUCATION

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

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
Governmental Activities:					
Instruction	\$ 91,308,524	\$ 10,284,436	\$ 25,601,805	\$ 27,921	\$ (55,394,362)
Instruction-related activities:					
Supervision of instruction	66,818,074	5,893,451	33,974,499	-	(26,950,124)
Instructional library, media, and technology	1,140,469	-	47,130	-	(1,093,339)
School site administration	11,476,458	1,146,148	659,574	-	(9,670,736)
Pupil services:					
Home-to-school transportation	4,893,760	26,629	10,866	-	(4,856,265)
Food services	1,578,640	1,371	353,851	-	(1,223,418)
All other pupil services	14,283,250	3,633,276	3,205,926	-	(7,444,048)
Administration:					
Data processing	9,498,605	-	283,562	-	(9,215,043)
All other administration	17,772,336	2,000,690	5,032,615	-	(10,739,031)
Plant services	12,186,514	564,739	193,721	-	(11,428,054)
Interest on long-term obligations	441,692	-	-	-	(441,692)
Other outgo	96,922,434	15,626,928	11,761,966	-	(69,533,540)
Total Governmental Activities	\$ 328,320,756	\$ 39,177,668	\$ 81,125,515	\$ 27,921	(207,989,652)
General revenues and subventions:					
Property taxes, levied for general purposes					110,594,583
Taxes levied for other specific purposes					2,999,856
Federal and State aid not restricted to specific purposes					67,921,561
Interest and investment earnings					5,037,129
Interagency revenues					10,229,102
Miscellaneous					40,225,907
Subtotal, General Revenues					237,008,138
Change in Net Position					29,018,486
Net Position - Beginning					145,493,049
Net Position - Ending					\$ 174,511,535

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

ORANGE COUNTY DEPARTMENT OF EDUCATION

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2019

	County School Service Fund	Special Education Pass-Through Fund	Child Development Fund	Non-Major Governmental Fund	Total Governmental Funds
ASSETS					
Deposits and investments	\$ 227,527,748	\$ 7,609,432	\$ 3,637,718	\$ 35,193,801	\$ 273,968,699
Receivables	27,017,855	11,328,039	3,839,531	262,348	42,447,773
Due from other funds	4,885,012	8,042,340	307,322	2,396,846	15,631,520
Total Assets	\$ 259,430,615	\$ 26,979,811	\$ 7,784,571	\$ 37,852,995	\$ 332,047,992
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 25,595,486	\$ 14,203,842	\$ 5,763,399	\$ 313,473	\$ 45,876,200
Due to other funds	9,527,601	2,945,391	1,939,621	1,218,907	15,631,520
Unearned revenue	3,413,287	-	81,551	-	3,494,838
Total Liabilities	38,536,374	17,149,233	7,784,571	1,532,380	65,002,558
Fund Balances:					
Nonspendable	70,000	-	-	-	70,000
Restricted	44,048,424	9,830,578	-	7,605,644	61,484,646
Committed	-	-	-	28,714,971	28,714,971
Assigned	69,037,391	-	-	-	69,037,391
Unassigned	107,738,426	-	-	-	107,738,426
Total Fund Balances	220,894,241	9,830,578	-	36,320,615	267,045,434
Total Liabilities and Fund Balances	\$ 259,430,615	\$ 26,979,811	\$ 7,784,571	\$ 37,852,995	\$ 332,047,992

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

ORANGE COUNTY DEPARTMENT OF EDUCATION

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

Total Fund Balance - Governmental Funds **\$ 267,045,434**

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

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

The cost of capital assets is	\$ 134,162,748	
Accumulated depreciation is	(45,439,309)	
Net Capital Assets		88,723,439

In governmental funds, unmatured interest on long-term obligations is recognized in the period when it is due. On the government-wide financial statements, unmatured interest on long-term obligations is recognized when it is incurred. (34,971)

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. 5,262,638

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

Pension contributions subsequent to measurement date	17,095,853	
Differences between projected and actual earnings on pension plan investments	1,298,502	
Differences between expected and actual experience in the measurement of the total pension liability.	8,020,515	
Changes of assumptions	24,395,155	
Total Deferred Outflows of Resources Related to Pensions		50,810,025

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

ORANGE COUNTY DEPARTMENT OF EDUCATION

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

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

Net change in proportionate share of net pension liability	\$ (10,687,629)	
Differences between projected and actual earnings on pension plan investments	(3,196,786)	
Differences between expected and actual experience in the measurement of the total pension liability	(2,146,099)	
Changes of assumptions	<u>(66,119)</u>	
Total Deferred Inflows of Resources Related to Pensions		\$ (16,096,633)

Deferred outflows of resources related to OPEB represent a consumption of net position in a future period and is not reported in the County's funds. Deferred outflows of resources related to OPEB at year-end consist of changes of assumptions. 58,276

Net pension liability is not due and payable in the current period, and is not reported as a liability in the funds. (199,320,841)

Long-term obligations are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.

Long-term obligations at year-end consist of:

Certificates of participation	(11,990,000)	
Discount on certificates of participation	78,000	
Compensated absences	(1,518,935)	
Supplemental early retirement plan	(4,399,713)	
Net other postemployment benefits (OPEB) liability	<u>(4,105,184)</u>	
Total Long-Term Obligations		(21,935,832)
Total Net Position - Governmental Activities		<u><u>\$ 174,511,535</u></u>

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

ORANGE COUNTY DEPARTMENT OF EDUCATION

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

	County School Service Fund	Special Education Pass-Through Fund	Child Development Fund
REVENUES			
Local Control Funding Formula	\$ 101,987,650	\$ 34,842,518	\$ -
Federal sources	46,961,963	7,631,234	9,824,909
Other State sources	36,278,286	3,410,479	17,236,833
Other local sources	95,028,600	1,385,898	510,168
Total Revenues	280,256,499	47,270,129	27,571,910
EXPENDITURES			
Current			
Instruction	66,537,897	-	18,808,926
Instruction-related activities:			
Supervision of instruction	58,910,547	-	6,628,341
Instructional library, media, and technology	1,102,213	-	-
School site administration	11,009,796	-	-
Pupil services:			
Home-to-school transportation	4,885,326	-	-
Food services	1,547,992	-	-
All other pupil services	13,485,272	-	-
Administration:			
Data processing	10,247,909	-	-
All other administration	17,732,789	-	2,379,581
Plant services	12,422,417	-	49,201
Other outgo	48,259,154	48,663,280	-
Facility acquisition and construction	661,450	-	-
Debt service			
Principal	-	-	-
Interest and other	-	-	-
Total Expenditures	246,802,762	48,663,280	27,866,049
Excess (Deficiency) of Revenues Over Expenditures	33,453,737	(1,393,151)	(294,139)
Other Financing Sources (Uses)			
Transfers in	21,049	-	315,188
Transfers out	(1,493,127)	-	(21,049)
Net Financing Sources (Uses)	(1,472,078)	-	294,139
NET CHANGE IN FUND BALANCES	31,981,659	(1,393,151)	-
Fund Balances - Beginning	188,912,582	11,223,729	-
Fund Balances - Ending	\$ 220,894,241	\$ 9,830,578	\$ -

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

Non-Major Governmental Fund	Total Governmental Funds
\$ 1,022,520	\$ 137,852,688
-	64,418,106
-	56,925,598
3,110,958	100,035,624
<u>4,133,478</u>	<u>359,232,016</u>
-	85,346,823
-	65,538,888
-	1,102,213
-	11,009,796
-	4,885,326
-	1,547,992
-	13,485,272
-	10,247,909
-	20,112,370
574,879	13,046,497
-	96,922,434
359,484	1,020,934
500,000	500,000
437,150	437,150
<u>1,871,513</u>	<u>325,203,604</u>
<u>2,261,965</u>	<u>34,028,412</u>
3,196,846	3,533,083
(2,018,907)	(3,533,083)
<u>1,177,939</u>	<u>-</u>
3,439,904	34,028,412
32,880,711	233,017,022
<u>\$ 36,320,615</u>	<u>\$ 267,045,434</u>

ORANGE COUNTY DEPARTMENT OF EDUCATION

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

Total Net Change in Fund Balances - Governmental Funds **\$ 34,028,412**

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 in the period.

Capital outlay	\$ 3,367,307	
Depreciation expense	<u>(3,356,630)</u>	
Net Expense Adjustment		10,677

Loss on disposal of capital assets is reported in the government-wide Statement of Net Position, but is not recorded in the governmental funds. (265)

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 more than the amounts earned by \$266,293. Special termination benefits added was less than the amount paid by \$2,933,142. 3,199,435

In the governmental funds, pension costs are based on employer contributions made to pension plans during the year. However, in the Statement of Activities, pension expense is the net effect of all changes in the deferred outflows, deferred inflows and net pension liability during the year. (9,386,547)

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. 82,930

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

ORANGE COUNTY DEPARTMENT OF EDUCATION

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

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

Certificates of participation \$ 500,000

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)

Interest on long-term obligations 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 \$1,458.

1,458

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.

588,386

Change in Net Position of Governmental Activities

\$ 29,018,486

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

ORANGE COUNTY DEPARTMENT OF EDUCATION

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

	Governmental Activities - Internal Service Fund Self-Insurance Fund
ASSETS	
Current Assets	
Deposits and investments	\$ 5,606,868
Receivables	10,279
Total Current Assets	<u>5,617,147</u>
LIABILITIES	
Current Liabilities	
Accounts payable	112,582
Claim liability	241,927
Total Current Liabilities	<u>354,509</u>
NET ASSETS	
Restricted	<u>\$ 5,262,638</u>

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

ORANGE COUNTY DEPARTMENT OF EDUCATION

**PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET POSITION
JUNE 30, 2019**

	Governmental Activities - Internal Service Fund Self-Insurance Fund
OPERATING REVENUES	
Local and intermediate sources	\$ 1,917,055
OPERATING EXPENSES	
Claims payments	1,342,508
Other operating cost	87,718
Total Operating Expenses	<u>1,430,226</u>
Operating Income	<u>486,829</u>
NONOPERATING REVENUES	
Interest income	101,557
Change in Net Assets	588,386
Total Net Assets - Beginning	<u>4,674,252</u>
Total Net Assets - Ending	<u>\$ 5,262,638</u>

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

ORANGE COUNTY DEPARTMENT OF EDUCATION

**PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
JUNE 30, 2019**

	Governmental Activities - Internal Service Fund Self-Insurance Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash receipts from customers	\$ 2,239,033
Cash payments to other suppliers of goods or services	(1,366,553)
Other operating cash payments	(87,718)
Net Cash Provided by Operating Activities	<u>784,762</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	<u>97,273</u>
Net Increase in Cash and Cash Equivalents	882,035
Cash and Cash Equivalents - Beginning	4,724,833
Cash and Cash Equivalents - Ending	<u>\$ 5,606,868</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating income	\$ 486,829
Changes in assets and liabilities:	
Due from other fund	321,978
Accounts payable	(15,202)
Claim liability	(8,843)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 784,762</u>

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

ORANGE COUNTY DEPARTMENT OF EDUCATION

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

	<u>Agency Funds</u>
ASSETS	
Deposits and investments	\$ 34,224,071
LIABILITIES	
Due to other agencies	\$ 34,224,071

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

ORANGE COUNTY DEPARTMENT OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

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 12 elementary school districts, three high school districts, 12 unified school districts, four community college districts, three regional occupational programs, and 31 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*, 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 obligations.

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 obligations in the government-wide financial statements. Individually-prepared financial statements are not prepared for the Corporation.

ORANGE COUNTY DEPARTMENT OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

Other Related Entities

Charter School The County has approved Samueli Academy, Vista Heritage Global Academy, Citrus Springs Charter, Ednovate – Legacy College Prep., Orange County Academy of Sciences and Arts, Scholarship Prep Charter, Orange County Workforce Innovation High, EPIC Charter, Oxford Preparatory Academy, Unity Middle College High, Vista Condor Global Academy, Tomorrow’s Leadership Collaborative (TLC) Charter, National University Academy Homeschool/Independent Study Orange County, Sycamore Creek Community Charter, International School for Science and Culture, and College and Career Preparatory Academy pursuant to *Education Code* Section 47605. The Samueli Academy, Vista Heritage Global Academy, Citrus Springs Charter, Ednovate – Legacy College Prep., Orange County Academy of Sciences and Arts, Scholarship Prep Charter, Orange County Workforce Innovation High, EPIC Charter, Oxford Preparatory Academy, Unity Middle College High, Vista Condor Global Academy, Tomorrow’s Leadership Collaborative (TLC) Charter, National University Academy Homeschool/Independent Study Orange County, Sycamore Creek Community Charter, and International School for Science and Culture 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 State Accounting Manual (CSAM) does not meet the GASB Statement No. 54 special revenue fund definition. Specifically, Fund 17, Special Reserve Fund for Other Than Capital Outlay Projects, is not substantially composed of restricted or committed revenue sources. While this fund is authorized by statute and will remain open for internal reporting purposes, this fund functions effectively as an extension of the County School Service Fund, and accordingly has been combined with the County School Service Fund for presentation in these audited financial statements.

As a result, the County School Service Fund reflects an increase of \$25,404,863 in fund balance, and an increase in revenue of \$511,831.

ORANGE COUNTY DEPARTMENT OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

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 General 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 obligations.

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 obligations.

ORANGE COUNTY DEPARTMENT OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

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

Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Such funds have no equity accounts since all assets are due to individuals or entities at some future time. The County's agency fund accounts for payroll activity for districts within Orange County.

Basis of Accounting - Measurement Focus

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

ORANGE COUNTY DEPARTMENT OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

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. Generally, available is defined as collectible within 45 days. However, to achieve comparability of reporting among California county offices of education and so as not to distort normal revenue patterns, with specific respect to reimbursement grants and corrections to State-aid apportionments, the California Department of Education has defined available for county offices of education as collectible within one year.

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

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

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

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

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

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

Capital Assets and Depreciation

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

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

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

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Interfund Balances

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

Compensated Absences

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

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

Accrued Liabilities and Long-Term Obligations

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

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

Debt Issuance Costs, Premiums, and Discounts

In the government-wide financial statements and in the proprietary fund type financial statements, long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund statement of net position. Debt premiums and discounts, as well as issuance costs related to prepaid insurance costs are amortized over the life of the bonds using the straight-line method.

In governmental fund financial statements, bond premiums and discounts, as well as debt issuance costs are recognized in the current period. 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.

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Deferred Outflows/Inflows of Resources

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

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

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.

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.

Fund Balances - Governmental Funds

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

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

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

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.

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

Unassigned - all other spendable amounts.

Spending Order Policy

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

Minimum Fund Balance Policy

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

Net Position

Net position represents the difference between assets and liabilities. Net position investment in capital assets, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. The County has no related debt outstanding as of June 30, 2019. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the County or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The County first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available. The government-wide financial statements report \$66,712,313 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.

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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

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

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

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

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

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

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

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

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

New Accounting Pronouncements

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

NOTE 2 - DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

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

Governmental activities	\$ 279,575,567
Fiduciary funds	34,224,071
Total Deposits and Investments	<u>\$ 313,799,638</u>

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

Cash on hand and in banks	\$ 2,124,249
Cash in revolving	70,000
Investments	311,605,389
Total Deposits and Investments	<u>\$ 313,799,638</u>

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NOTES TO FINANCIAL STATEMENTS

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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

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Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The County does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The County manages its exposure to interest rate risk by investing in the Orange County Treasury Investment Pool. The County maintains an investment of \$311,605,389 with the Orange County Treasury Investment Pool. This investment has an average weighted maturity of 310 days.

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 has been rated Aaa by Moody's Investor Service.

Custodial Credit Risk - Deposits

This is the risk that in the event of a bank failure, the County's deposits may not be returned to it. The County does not have a policy for custodial credit risk for deposits. However, the California *Government Code* requires that a financial institution secure deposits made by State or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under State law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agency. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2019, the County's bank balance \$1,843,184 was exposed to custodial credit risk because it was uninsured.

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NOTES TO FINANCIAL STATEMENTS

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NOTE 3 - FAIR VALUE MEASUREMENTS

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

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

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

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

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

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

Investment Type	Reported Amount	Uncategorized
Orange County Treasury Investment Pool	\$ 311,605,389	\$ 311,605,389

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NOTE 4 - RECEIVABLES

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

	County School Service Fund	Special Education Pass-Through Fund	Child Development Fund
Federal Government			
Categorical aid	\$ 3,012,586	\$ 7,352,144	\$ 831,365
State Government			
Categorical aid	2,333,575	-	3,000,256
Lottery	194,691	-	-
Special education	-	800,241	-
Local Government			
Interest	470,396	14,538	7,910
Special education - SELPA	905,970	-	-
Educational agencies	13,455,452	3,161,116	-
Other Local Sources	6,645,185	-	-
Total	<u>\$ 27,017,855</u>	<u>\$ 11,328,039</u>	<u>\$ 3,839,531</u>
	Non-Major Governmental Fund	Internal Service Fund	Total Governmental Activities
Federal Government			
Categorical aid	\$ -	\$ -	\$ 11,196,095
State Government			
Categorical aid	-	-	5,333,831
Lottery	-	-	194,691
Special education	-	-	800,241
Local Government			
Interest	63,712	10,279	566,835
Special education - SELPA	-	-	905,970
Educational agencies	-	-	16,616,568
Other Local Sources	198,636	-	6,843,821
Total	<u>\$ 262,348</u>	<u>\$ 10,279</u>	<u>\$ 42,458,052</u>

ORANGE COUNTY DEPARTMENT OF EDUCATION

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

NOTE 5 - CAPITAL ASSETS

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

	Balance July 1, 2018	Additions	Deductions	Balance June 30, 2019
Governmental Activities				
Capital Assets Not Being Depreciated				
Land	\$ 28,641,315	\$ -	\$ -	\$ 28,641,315
Construction in process	1,235,136	1,910,654	955,699	2,190,091
Total Capital Assets Not Being Depreciated	<u>29,876,451</u>	<u>1,910,654</u>	<u>955,699</u>	<u>30,831,406</u>
Capital Assets Being Depreciated				
Land improvements	4,511,925	-	-	4,511,925
Buildings and improvements	82,447,356	978,787	-	83,426,143
Furniture and equipment	14,001,801	1,433,565	42,092	15,393,274
Total Capital Assets Being Depreciated	<u>100,961,082</u>	<u>2,412,352</u>	<u>42,092</u>	<u>103,331,342</u>
Less Accumulated Depreciation				
Land improvements	3,163,720	185,771	-	3,349,491
Buildings and improvements	28,785,887	1,923,440	-	30,709,327
Furniture and equipment	10,174,899	1,247,419	41,827	11,380,491
Total Accumulated Depreciation Governmental Activities	<u>42,124,506</u>	<u>3,356,630</u>	<u>41,827</u>	<u>45,439,309</u>
Capital Assets, Net	<u>\$ 88,713,027</u>	<u>\$ 966,376</u>	<u>\$ 955,964</u>	<u>\$ 88,723,439</u>

Depreciation expense was charged to governmental functions as follows:

Governmental Activities	
Instruction	\$ 3,020,966
Data processing	167,832
All other general administration	167,832
Total Depreciation Expenses Governmental Activities	<u>\$ 3,356,630</u>

ORANGE COUNTY DEPARTMENT OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

NOTE 6 - INTERFUND TRANSACTIONS

Interfund Receivables/Payables (Due To/Due From)

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

Due To	Due From				Total
	County School Service Fund	Special Education Pass-Through Fund	Child Development Fund	Non-Major Governmental Fund	
County School Service Fund	\$ -	\$ 2,945,391	\$ 1,939,621	\$ -	\$ 4,885,012
Special Education Pass-Through Fund	8,042,340	-	-	-	8,042,340
Child Development Fund	307,322	-	-	-	307,322
Non-Major Governmental Funds	1,177,939	-	-	1,218,907	2,396,846
Total	<u>\$ 9,527,601</u>	<u>\$ 2,945,391</u>	<u>\$ 1,939,621</u>	<u>\$ 1,218,907</u>	<u>\$ 15,631,520</u>

The balance of \$2,945,391 is due to the County School Service Fund from the Special Education Pass-Through Fund for the special education allocation.

The balance of \$1,939,621 is due to the County School Service Fund from the Child Development Fund for indirect costs and reimbursement of operating costs.

The balance of \$8,042,340 is due to the Special Education Pass-Through Fund from the County School Service Fund for SELPA funding.

A balance of \$307,322 is due to the Child Development Fund from the County School Service Fund for operating costs.

A balance of \$1,177,939 is due the Deferred Maintenance Non-Major Governmental Fund from the County School Service Fund for future deferred maintenance projects.

A balance of \$1,218,907 is due to the County School Facilities Fund from the Special Reserve Non-Major Governmental Fund for Capital Outlay Projects for school site construction.

ORANGE COUNTY DEPARTMENT OF EDUCATION

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

Operating Transfers

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

Transfer To	Transfer From			Total
	County School Service Fund	Child Development Fund	Non-Major Governmental Fund	
County School Service Fund	\$ -	\$ 21,049	\$ -	\$ 21,049
Child Development Fund	315,188	-	-	315,188
Non-Major Governmental Funds	1,177,939	-	2,018,907	3,196,846
Total	<u>\$ 1,493,127</u>	<u>\$ 21,049</u>	<u>\$ 2,018,907</u>	<u>\$ 3,533,083</u>

The County School Service Fund transferred to the Child Development Fund to cover excess costs of programs.	\$ 315,188
The County School Service Fund transferred to the Deferred Maintenance Non-Major Governmental Fund	1,177,939
The Child Development Fund transferred to the County School Service Fund to reimburse for program expenditures.	21,049
The Special Reserve Non-Major Governmental Fund for Capital Outlay Projects transferred to the County School Facilities Non-Major Governmental Fund for school site construction.	1,218,907
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.	800,000
Total	<u>\$ 3,533,083</u>

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

ORANGE COUNTY DEPARTMENT OF EDUCATION

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

NOTE 7 - ACCOUNTS PAYABLE

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

	County School Service Fund	Special Education Pass-Through Fund	Child Development Fund	Non-Major Governmental Fund	Internal Service Fund	Total Governmental Activities
Salaries and benefits	\$ 6,151,832	\$ -	\$ 248,705	\$ -	\$ -	\$ 6,400,537
Excess property tax	12,030,799	-	-	-	-	12,030,799
Supplies	695,653	-	5,718	-	-	701,371
Services	3,287,097	-	2,059,416	59,326	112,582	5,518,421
Construction	186,212	-	-	44,355	-	230,567
Local educational agencies	3,108,933	14,203,842	3,448,964	-	-	20,761,739
Other	134,960	-	596	209,792	-	345,348
Total	<u>\$ 25,595,486</u>	<u>\$ 14,203,842</u>	<u>\$ 5,763,399</u>	<u>\$ 313,473</u>	<u>\$ 112,582</u>	<u>\$ 45,988,782</u>

NOTE 8 - UNEARNED REVENUE

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

	County School Service Fund	Child Development Fund	Total Governmental Activities
Federal financial assistance	\$ 1,600,687	\$ 81,551	\$ 1,682,238
State categorical aid	1,677,457	-	1,677,457
Other local	135,143	-	135,143
Total	<u>\$ 3,413,287</u>	<u>\$ 81,551</u>	<u>\$ 3,494,838</u>

ORANGE COUNTY DEPARTMENT OF EDUCATION

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

NOTE 9 - LONG-TERM OBLIGATIONS

Summary

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

	Balance July 1, 2018	Additions	Deductions	Balance June 30, 2019	Due in One Year
Certificates of participation	\$ 12,490,000	\$ -	\$ 500,000	\$ 11,990,000	\$ 560,000
Unamortized discount	(84,000)	-	(6,000)	(78,000)	-
Compensated absences	1,785,228	-	266,293	1,518,935	-
Supplemental early retirement plan	7,332,855	-	2,933,142	4,399,713	1,466,571
Net other postemployment benefits (OPEB) liability	4,129,838	388,466	413,120	4,105,184	-
	<u>\$ 25,653,921</u>	<u>\$ 388,466</u>	<u>\$ 4,106,555</u>	<u>\$ 21,935,832</u>	<u>\$ 2,026,571</u>

The certificates of participation are liquidated by the Debt Service Fund. The compensated absences are paid by the fund for which the employee worked. Payments for the supplemental early retirement plan and the net OPEB liability are made by the County School Service 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, 2019, the principal balance outstanding was \$11,990,000 and unamortized discount on issuance was \$78,000.

The certificates mature through 2032 as follows:

Year Ending June 30,	Principal	Interest	Total
2020	\$ 560,000	\$ 419,650	\$ 979,650
2021	620,000	400,050	1,020,050
2022	690,000	378,350	1,068,350
2023	760,000	354,200	1,114,200
2024	830,000	327,600	1,157,600
2025-2029	5,040,000	1,155,000	6,195,000
2030-2032	3,490,000	246,750	3,736,750
Total	<u>\$ 11,990,000</u>	<u>\$ 3,281,600</u>	<u>\$ 15,271,600</u>

Compensated Absences

Compensated absences (unpaid employee vacation) for the County at June 30, 2019 amounted to \$1,518,935.

ORANGE COUNTY DEPARTMENT OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

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
2020	\$ 1,466,571
2021	1,466,571
2022	1,466,571
Total	<u>\$ 4,399,713</u>

Net Other Postemployment Benefit (OPEB) Liability

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

OPEB Plan	Net OPEB Liability	Deferred Outflows of Resources	OPEB Expense
County Plan	\$ 3,484,588	\$ 58,276	\$ (10,519)
Medicare Premium Payment (MPP) Program	620,596	-	(72,411)
Total	<u>\$ 4,105,184</u>	<u>\$ 58,276</u>	<u>\$ (82,930)</u>

The details of each plan are as follows:

County Plan

Plan Administration

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

Plan Membership

As of June 30, 2018, the valuation date, the Plan membership consisted of the following:

Inactive employees or beneficiaries currently receiving benefits payments	64
Active employees	1,032
	<u>1,096</u>

ORANGE COUNTY DEPARTMENT OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

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 fiscal year 2018-2019, the County paid \$340,709 in benefits.

Total OPEB Liability of the County

The County's total OPEB liability of \$3,484,588 was measured as of June 30, 2019. The total OPEB liability was determined by an actuarial valuation as of June 30, 2018.

Actuarial Assumptions

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

Inflation	2.75 percent
Salary increases	2.75 percent
Discount rate	3.50 percent
Healthcare cost trend rates	4.00 percent

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

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

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

ORANGE COUNTY DEPARTMENT OF EDUCATION

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

Changes in the Total OPEB Liability

	Total OPEB Liability
Balance at June 30, 2018	\$ 3,436,831
Service cost	207,170
Interest	117,952
Changes of assumptions	63,344
Benefit payments	(340,709)
Net change in total OPEB liability	<u>47,757</u>
Balance at June 30, 2019	<u>\$ 3,484,588</u>

Changes of assumptions reflect a change in the discount rate from 3.80 percent in 2018 to 3.50 percent to 2019.

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

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

Discount Rate	Total OPEB Liability
1% decrease (2.5%)	\$ 3,686,004
Current discount rate (3.5%)	3,484,588
1% increase (4.5%)	3,303,989

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

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

Healthcare Cost Trend Rates	Total OPEB Liability
1% decrease (3.0%)	\$ 3,287,533
Current healthcare cost trend rate (4.0%)	3,484,588
1% increase (5.0%)	3,653,801

ORANGE COUNTY DEPARTMENT OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

OPEB Expense and Deferred Outflows of Resources

For the year ended June 30, 2019, the County recognized OPEB expense of \$(10,519). At June 30, 2019, the County reported deferred outflows of resources for changes of assumptions of \$58,276.

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

Year Ended June 30,	Deferred Outflows of Resources
2020	\$ 5,068
2021	5,068
2022	5,068
2022	5,068
2024	5,068
Thereafter	32,936
	<u>\$ 58,276</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, 2017 annual actuarial valuation report, Medicare Premium Payment Program Actuarial Valuation. This report and CalSTRS audited financial information are publicly available reports that can be found on the CalSTRS website under Publications at: <http://www.calstrs.com/member-publications>.

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.

ORANGE COUNTY DEPARTMENT OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

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

Net OPEB Liability and OPEB Expense

At June 30, 2019, the County reported a liability of \$620,596 for its proportionate share of the net OPEB liability for the MPP Program. The net OPEB liability was measured as of June 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2017. The County's proportion of the net OPEB liability was based on a projection of the County's long-term share of contributions to the OPEB Plan relative to the projected contributions of all participating local educational agencies, actuarially determined. The County's proportionate share for the measurement period June 30, 2018 and June 30, 2017, respectively was 0.1621 percent, and 0.1647 percent, resulting in a net decrease in the proportionate share of 0.0026 percent.

For the year ended June 30, 2019, the County recognized OPEB expense of \$(72,411).

Actuarial Methods and Assumptions

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

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

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

ORANGE COUNTY DEPARTMENT OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

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

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

Discount Rate

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

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

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

Discount Rate	Net OPEB Liability
1% decrease (2.87%)	\$ 686,411
Current discount rate (3.87%)	620,596
1% increase (4.87%)	561,171

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

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

Medicare Costs Trend Rate	Net OPEB Liability
1% decrease (2.7% Part A and 3.1% Part B)	\$ 565,921
Current Medicare costs trend rate (3.7% Part A and 4.1% Part B)	620,596
1% increase (4.7% Part A and 5.1% Part B)	679,398

ORANGE COUNTY DEPARTMENT OF EDUCATION

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019

NOTE 10 - FUND BALANCES

Fund balances are composed of the following elements:

	County School Service Fund	Special Education Pass-Through Fund	Non-Major Governmental Fund	Total
Nonspendable				
Revolving cash	\$ 70,000	\$ -	\$ -	\$ 70,000
Restricted				
Legally restricted programs	44,048,424	9,830,578	-	53,879,002
Capital projects	-	-	5,088,769	5,088,769
Debt services	-	-	2,516,875	2,516,875
Total Restricted	<u>44,048,424</u>	<u>9,830,578</u>	<u>7,605,644</u>	<u>61,484,646</u>
Committed				
Deferred maintenance program	-	-	28,714,971	28,714,971
Assigned				
Reserve for LCFF supplemental & concentration	15,592,958	-	-	15,592,958
Mandated costs	8,809,897	-	-	8,809,897
2015-16 one-time discretionary funding	3,658,304	-	-	3,658,304
Reserve for classroom equipment upgrade	3,500,000	-	-	3,500,000
Reserve for workstation improvements	3,500,000	-	-	3,500,000
Medical Administrative Activities (MAA)	3,176,406	-	-	3,176,406
Reserve for new payroll project	3,000,000	-	-	3,000,000
OCDE E-Rate	2,976,481	-	-	2,976,481
COE LCAP district support	2,366,949	-	-	2,366,949
Reserve for school site tenant improvements	2,000,000	-	-	2,000,000
Reserve for information technology system upgrade	1,750,000	-	-	1,750,000
EISS workshops	848,811	-	-	848,811
Reserve designated for outdated checks	840,847	-	-	840,847
CTEp (ROP) tier III	812,324	-	-	812,324
Various other designated programs	634,898	-	-	634,898
Various workshops & trainings	483,414	-	-	483,414
Special education JPA	473,558	-	-	473,558
Time and attendance	459,532	-	-	459,532
Special schools tier III	402,610	-	-	402,610
Information technology imaging service	362,501	-	-	362,501
ACCESS tier III	335,804	-	-	335,804
2015-16 one-time COE discretionary funding	307,550	-	-	307,550
Reserve for replacement of vehicles for student transportation	278,450	-	-	278,450
ACCESS-CHEP	248,472	-	-	248,472
Information technology Bi-Tech	154,767	-	-	154,767
Courier services	151,383	-	-	151,383
College & Career Readiness Consortium	132,178	-	-	132,178
Instructional materials lottery	7,059,158	-	-	7,059,158
CTEp (ROP) lottery	383,358	-	-	383,358
College & Career Preparatory Academy	62,484	-	-	62,484
Other postemployment benefits	4,274,297	-	-	4,274,297
Total Assigned	<u>69,037,391</u>	<u>-</u>	<u>-</u>	<u>69,037,391</u>
Unassigned				
Reserve for economic uncertainties	107,738,426	-	-	107,738,426
Total	<u>\$ 220,894,241</u>	<u>\$ 9,830,578</u>	<u>\$ 36,320,615</u>	<u>\$ 267,045,434</u>

ORANGE COUNTY DEPARTMENT OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

NOTE 11 - LEASE REVENUES

The County has property held for lease with a combined estimated cost of \$10,078,223 and accumulated depreciation of \$3,527,378. 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
2020	\$ 1,046,119
2021	568,891
2022	317,274
2023	131,003
2024	12,737
Total	<u>\$ 2,076,024</u>

NOTE 12 - RISK MANAGEMENT

The County is exposed to various risks of losses related to torts; thefts of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The County's risk management activities are recorded in the County School Service Fund 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, 2019, 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 Liabilities

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.

ORANGE COUNTY DEPARTMENT OF EDUCATION

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

Unpaid Claims Liabilities

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, 2017 to June 30, 2019:

	<u>Dental Care</u>
Liability Balance, July 1, 2017	\$ 343,192
Claims and changes in estimates	1,412,193
Claims payments	<u>(1,504,615)</u>
Liability Balance, June 30, 2018	250,770
Claims and changes in estimates	1,353,837
Claims payments	<u>(1,362,680)</u>
Liability Balance, June 30, 2019	<u>\$ 241,927</u>
Assets available to pay claims at June 30, 2019	<u><u>\$ 5,504,565</u></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 Orange County Employees Retirement System (OCERS).

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

<u>Pension Plan</u>	Collective Net Pension Liability	Collective Deferred Outflows of Resources	Collective Deferred Inflows of Resources	Collective Pension Expense
CalSTRS	\$ 83,019,800	\$ 20,171,652	\$ 12,870,280	\$ 7,565,604
CalPERS	112,783,669	29,658,707	2,220,043	18,938,901
OCERS	3,517,372	979,666	1,006,310	(22,105)
Total	<u>\$ 199,320,841</u>	<u>\$ 50,810,025</u>	<u>\$ 16,096,633</u>	<u>\$ 26,482,400</u>

ORANGE COUNTY DEPARTMENT OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

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The details of each plan are as follows:

California State Teachers' Retirement System (CalSTRS)

Plan Description

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

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

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

Benefits Provided

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

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

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

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NOTES TO FINANCIAL STATEMENTS

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

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

Contributions

Required member local educational agencies and the State of California contributions rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. The contributions rates are expressed as a level percentage of payroll using the entry age normal actuarial method. In accordance with AB 1469, employer contributions into CalSTRS will be increasing to a total of 19.1 percent of applicable member earnings phased over a seven-year period. The contribution rates for each plan for the year ended June 30, 2019, are presented above and the County's total contributions were \$7,016,861.

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

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

Total Net Pension Liability, Including State Share:

County's proportionate share of net pension liability	\$ 83,019,800
State's proportionate share of the net pension liability associated with the County	47,532,718
Total	<u>\$ 130,552,518</u>

The net pension liability was measured as of June 30, 2018. The County's proportion of the net pension liability was based on a projection of the County's long-term share of contributions to the pension plan relative to the projected contributions of all participating school County's and the State, actuarially determined. The County's proportionate share for the measurement period June 30, 2018 and June 30, 2017, respectively, was 0.0903 percent and 0.0910 percent, resulting in a net decrease in the proportionate share of 0.0007 percent.

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NOTES TO FINANCIAL STATEMENTS

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For the year ended June 30, 2019, the County recognized pension expense of \$7,565,604. In addition, the County recognized pension expense and revenue of \$5,584,023 for support provided by the State. At June 30, 2019, the County reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Pension contributions subsequent to measurement date	\$ 7,016,861	\$ -
Net change in proportionate share of net pension liability	-	8,467,586
Difference between projected and actual earnings on pension plan investments	-	3,196,786
Differences between expected and actual experience in the measurement of the total pension liability	257,441	1,205,908
Changes of assumptions	12,897,350	-
Total	<u>\$ 20,171,652</u>	<u>\$ 12,870,280</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>
2020	\$ 694,114
2021	(503,666)
2022	(2,681,980)
2023	(705,254)
Total	<u>\$ (3,196,786)</u>

ORANGE COUNTY DEPARTMENT OF EDUCATION

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

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2020	\$ 24,245
2021	24,245
2022	24,248
2023	1,388,406
2024	2,106,456
Thereafter	(86,303)
Total	<u>\$ 3,481,297</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, 2017 and rolling forward the total pension liability to June 30, 2018. The financial reporting actuarial valuation as of June 30, 2017, used the following methods and assumptions, applied to all prior periods included in the measurement:

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

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

ORANGE COUNTY DEPARTMENT OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

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

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

Discount Rate

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

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

Discount Rate	Net Pension Liability
1% decrease (6.10%)	\$ 121,614,293
Current discount rate (7.10%)	83,019,800
1% increase (8.10%)	51,021,221

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NOTES TO FINANCIAL STATEMENTS

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California Public Employees' Retirement System (CalPERS)

Plan Description

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

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

Benefits Provided

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

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

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

ORANGE COUNTY DEPARTMENT OF EDUCATION

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Total plan contributions are calculated through the CalPERS annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The County is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. The contributions rates are expressed as percentage of annual payroll. The contribution rates for each plan for the year ended June 30, 2019, are presented above and the total County contributions were \$10,078,992.

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

As of June 30, 2019, the County reported net pension liabilities for its proportionate share of the CalPERS net pension liability totaling \$112,783,669. The net pension liability was measured as of June 30, 2018. The County's proportion of the net pension liability was based on a projection of the County's long-term share of contributions to the pension plan relative to the projected contributions of all participating school County's, actuarially determined. The County's proportionate share for the measurement period June 30, 2018 and June 30, 2017, respectively, was 0.4230 percent and 0.4292 percent, resulting in a net decrease in the proportionate share of 0.0062 percent.

For the year ended June 30, 2019, the County recognized pension expense of \$18,938,901. At June 30, 2019, the County reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 10,078,992	\$ -
Net change in proportionate share of net pension liability	-	2,220,043
Difference between projected and actual earnings on pension plan investments	925,079	-
Differences between expected and actual experience in the measurement of the total pension liability	7,393,684	-
Changes of assumptions	11,260,952	-
Total	<u>\$ 29,658,707</u>	<u>\$ 2,220,043</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.

ORANGE COUNTY DEPARTMENT OF EDUCATION

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

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2020	\$ 3,364,716
2021	804,643
2022	(2,578,583)
2023	(665,697)
Total	<u>\$ 925,079</u>

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

Year Ended June 30,	Deferred Outflows of Resources
2020	\$ 7,287,455
2021	7,005,090
2022	2,142,048
Total	<u>\$ 16,434,593</u>

Actuarial Methods and Assumptions

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

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

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

ORANGE COUNTY DEPARTMENT OF EDUCATION

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

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

Discount Rate

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

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

Discount Rate	Net Pension Liability
1% decrease (6.15%)	\$ 164,207,629
Current discount rate (7.15%)	112,783,669
1% increase (8.15%)	70,120,133

ORANGE COUNTY DEPARTMENT OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

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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 twelve 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).

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 percent 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.

ORANGE COUNTY DEPARTMENT OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

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For members with membership dates before January 1, 2013 the maximum monthly retirement allowance is 100 percent 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 percent 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 percent.

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 FY 2018-2019 were \$301,464, 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 FY 2018-2019 vary by member based on age of entry. The range of contribution rates is as follows: plan M (2.0 percent at 55) – 8.62 percent to 16.39 percent.

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

As of June 30, 2019, the County reported a net pension liability for its proportionate share of the OCERS net pension liability of \$3,517,372. The collective net pension liability for the Plan was measured as of December 31, 2018. 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, 2017. 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, 2017. The County's proportionate share for the measurement period December 31, 2018 and December 31, 2017, respectively, was 0.0570 percent and 0.0510 percent, resulting in a net increase of 0.006 percent.

ORANGE COUNTY DEPARTMENT OF EDUCATION

**NOTES TO FINANCIAL STATEMENTS
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For the year ended June 30, 2019, the County recognized pension expense of \$(22,105). At June 30, 2019, the County reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between projected and actual earnings on pension plan investments	\$ 373,423	\$ -
Differences between expected and actual experience in the measurement of the total pension liability	369,390	940,191
Changes of assumptions	236,853	66,119
Total	<u>\$ 979,666</u>	<u>\$ 1,006,310</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:

<u>Year Ended June 30,</u>	<u>Deferred Outflows/(Inflows) of Resources</u>
2020	\$ 99,788
2021	(146,986)
2022	(76,751)
2023	67,730
2024	29,575
Total	<u>\$ (26,644)</u>

ORANGE COUNTY DEPARTMENT OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

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Actuarial Methods and Assumptions

The collective total pension liability as of December 31, 2018 was determined by rolling forward the total pension liability from the actuarial valuation as of December 31, 2017. The actuarial assumptions used were based on the results of an experience study for the period from January 1, 2014 through December 31, 2016. Following are the key methods and assumptions used for the total pension liability as of December 31, 2018.

Actuarial Cost Method	Entry age normal
Inflation	2.75%
Salary Increases	General: 4.25% to 12.25%, 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 total pension liability was 7.00 percent as of December 31, 2018 and 2017. The projection of cash flows used to determine the discount rate 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 both December 31, 2018 and 2017.

ORANGE COUNTY DEPARTMENT OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

The long-term expected rate of return on pension plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of 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 rates of return by the target asset allocation percentage, adding expected inflation and subtracting expected investment expenses and a risk margin. The target allocation and projected arithmetic real rates of return for each major asset class, after deducting inflation but before deducting investment expenses are shown in the following table. This information was used in the derivation of the long-term expected investment rate of return assumption for the December 31, 2018 and 2017 actuarial valuations. 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:

<u>Asset Class</u>	<u>Assumed Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global Equity	35.00%	6.38%
Core Bonds	13.00%	1.03%
High Yield Bonds	4.00%	3.52%
Bank Loan	2.00%	2.86%
TIPS	4.00%	0.96%
Emerging Market Debt	4.00%	3.78%
Real Estate	10.00%	4.33%
Core Infrastructure	2.00%	5.48%
Natural Resources	10.00%	7.86%
Risk Mitigation	5.00%	4.66%
Mezzanine/Distressed Debts	3.00%	6.53%
Private Equity	8.00%	9.48%

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%)	\$ 5,334,034
Current discount rate (7.00%)	3,517,372
1% increase (8.00%)	2,040,623

ORANGE COUNTY DEPARTMENT OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

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 percent of an employee's gross earnings. An employee is required to contribute 3.75 percent of his or her gross earnings to the pension plan.

During the year, the County's required and actual contributions amounted to \$109,233.

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 \$4,569,334 (9.828 percent of annual payroll). Contributions are no longer appropriated in the annual *Budget Act* for the legislatively mandated benefits to CalPERS. Therefore, there is no on behalf contribution rate for CalPERS. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, these amounts have been recorded in these financial statements.

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

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, 2019.

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, 2019.

ORANGE COUNTY DEPARTMENT OF EDUCATION

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

Construction Commitments

As of June 30, 2019, 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>
Kalmus doors and windows replacement	\$ 961,822	06/30/20
Kalmus restroom remodel	1,292,404	06/30/20
Prop 39 - HVAC replacement at Kalmus, Esplanade, and HLC	102,625	06/30/20
CS #9 Anaheim	15,000,000	06/30/23
	<u>\$ 17,356,851</u>	

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>
2020	\$ 4,486,617
2021	1,939,964
2022	1,122,536
2023	125,343
2024	62,568
Total	<u>\$ 7,737,028</u>

Lease payments for the year ended June 30, 2019, were approximately \$5,958,839.

ORANGE COUNTY DEPARTMENT OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

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 (WOCSSWCA) 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, health benefits, and workers' compensation coverage. The relationships between the County, the pools, and the JPA are such that they are not component units of the County for financial reporting purposes.

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

During the year ended June 30, 2019, the County made payments of \$1,789,856 and \$299,013 to WOCSSWCA and Alliance of Schools for Cooperative Insurance Programs Joint Powers Authority, respectively, for annual premium payments.

ORANGE COUNTY DEPARTMENT OF EDUCATION

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

	Budgeted Amounts		Actual (GAAP Basis)	Variances - Positive (Negative)
	Original	Final		Final to Actual
	REVENUES			
Local Control Funding Formula	\$ 97,917,698	\$ 103,029,800	\$ 101,987,650	\$ (1,042,150)
Federal sources	27,119,875	42,396,305	46,961,963	4,565,658
Other State sources	16,039,837	32,291,069	36,278,286	3,987,217
Other local sources	92,253,201	94,681,678	95,028,600	346,922
Total Revenues ¹	233,330,611	272,398,852	280,256,499	7,857,647
EXPENDITURES				
Current				
Certificated salaries	49,677,950	46,509,409	47,932,564	(1,423,155)
Classified salaries	57,030,418	54,797,640	54,287,591	510,049
Employee benefits	49,514,277	51,262,224	56,844,476	(5,582,252)
Books and supplies	16,319,021	18,793,077	6,043,930	12,749,147
Services and operating expenditures	32,654,271	37,265,284	33,741,860	3,523,424
Other outgo	13,968,851	40,009,186	45,879,572	(5,870,386)
Capital outlay	3,567,456	4,346,535	2,072,769	2,273,766
Total Expenditures ¹	222,732,244	252,983,355	246,802,762	6,180,593
Excess of Revenues Over Expenditures	10,598,367	19,415,497	33,453,737	14,038,240
Other Financing Sources (Uses)				
Transfers in	-	-	21,049	21,049
Transfers out	(1,229,401)	(1,277,744)	(1,493,127)	(215,383)
Net Financing Sources (Uses)	(1,229,401)	(1,277,744)	(1,472,078)	(194,334)
NET CHANGE IN FUND BALANCE	9,368,966	18,137,753	31,981,659	13,843,906
Fund Balance - Beginning	188,912,582	188,912,582	188,912,582	-
Fund Balance - Ending	\$ 198,281,548	\$ 207,050,335	\$ 220,894,241	\$ 13,843,906

¹ 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. In addition, on behalf payments of \$6,832,626, relating to Senate Bill 90, are included in the Actual (GAAP Basis) revenues and expenditures; however, are not included in the original and final County School Service Fund budgets.

See accompanying note to required supplementary information.

ORANGE COUNTY DEPARTMENT OF EDUCATION

**SPECIAL EDUCATION PASS-THROUGH FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2019**

	Budgeted Amounts		Actual (GAAP Basis)	Variances -
	Original	Final		Positive (Negative)
				Final to Actual
REVENUES				
Local Control Funding Formula	\$ 33,872,181	\$ 35,195,226	\$ 34,842,518	\$ (352,708)
Federal sources	7,412,765	7,513,116	7,631,234	118,118
Other State sources	2,635,771	2,826,421	3,410,479	584,058
Other local sources	1,270,448	1,313,999	1,385,898	71,899
Total Revenues	45,191,165	46,848,762	47,270,129	421,367
EXPENDITURES				
Other outgo	43,700,914	47,099,407	48,663,280	(1,563,873)
NET CHANGE IN FUND BALANCES	1,490,251	(250,645)	(1,393,151)	(1,142,506)
Fund Balance - Beginning	11,223,729	11,223,729	11,223,729	-
Fund Balance - Ending	\$ 12,713,980	\$ 10,973,084	\$ 9,830,578	\$ (1,142,506)

See accompanying note to required supplementary information.

ORANGE COUNTY DEPARTMENT OF EDUCATION

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

	Budgeted Amounts		Actual (GAAP Basis)	Variances - Positive (Negative)
	Original	Final		Final to Actual
	REVENUES			
Federal sources	\$ 8,050,951	\$ 10,361,845	\$ 9,824,909	\$ (536,936)
Other State sources	15,954,738	16,447,460	17,236,833	789,373
Other local sources	340,765	374,243	510,168	135,925
Total Revenues	24,346,454	27,183,548	27,571,910	388,362
EXPENDITURES				
Current				
Certificated salaries	105,842	59,230	41,688	17,542
Classified salaries	1,996,412	2,250,087	2,376,489	(126,402)
Employee benefits	1,047,178	1,108,668	1,138,199	(29,531)
Books and supplies	240,840	134,673	80,002	54,671
Services and operating expenditures	19,104,484	21,581,066	21,850,090	(269,024)
Other outgo	2,100,364	2,346,833	2,379,581	(32,748)
Total Expenditures	24,595,120	27,480,557	27,866,049	(385,492)
Excess (Deficiency) of Revenues Over Expenditures	(248,666)	(297,009)	(294,139)	2,870
Other Financing Sources (Uses)				
Transfers in	248,666	297,009	315,188	18,179
Transfers out	-	-	(21,049)	(21,049)
Net Financing Sources (Uses)	248,666	297,009	294,139	(2,870)
NET CHANGE IN FUND BALANCES	-	-	-	-
Fund Balance - Beginning	-	-	-	-
Fund Balance - Ending	\$ -	\$ -	\$ -	\$ -

See accompanying note to required supplementary information.

ORANGE COUNTY DEPARTMENT OF EDUCATION

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

	2019	2018
Total OPEB Liability		
Service cost	\$ 207,170	\$ 201,625
Interest	117,952	128,023
Changes of assumptions	63,344	-
Benefit payments	(340,709)	(327,605)
Net change in total OPEB liability	<u>47,757</u>	<u>2,043</u>
Total OPEB liability - beginning	<u>3,436,831</u>	<u>3,434,788</u>
Total OPEB liability - ending	<u><u>\$ 3,484,588</u></u>	<u><u>\$ 3,436,831</u></u>
Covered payroll	<u>N/A¹</u>	<u>N/A¹</u>
County's total OPEB liability as a percentage of covered payroll	<u>N/A¹</u>	<u>N/A¹</u>

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

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

See accompanying note to required supplementary information.

ORANGE COUNTY DEPARTMENT OF EDUCATION

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

Year ended June 30,	2019	2018
County's proportion of the net OPEB liability	0.1621%	0.1647%
County's proportionate share of the net OPEB liability	\$ 620,596	\$ 693,007
County's covered-employee payroll	N/A ¹	N/A ¹
County's proportionate share of the net OPEB liability as a percentage of it's covered-employee payroll	N/A ¹	N/A ¹
Plan fiduciary net position as a percentage of the total OPEB liability	-0.40%	0.01%

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

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

See accompanying note to required supplementary information.

ORANGE COUNTY DEPARTMENT OF EDUCATION

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

	2019	2018
CalSTRS		
County's proportion of the net pension liability	0.0903%	0.0910%
County's proportionate share of the net pension liability	\$ 83,019,800	\$ 84,144,083
State's proportionate share of the net pension liability associated with the County	47,532,718	49,778,929
Total	<u>\$ 130,552,518</u>	<u>\$ 133,923,012</u>
County's covered - employee payroll	<u>\$ 48,515,759</u>	<u>\$ 47,398,000</u>
County's proportionate share of the net pension liability as a percentage of its covered - employee payroll	171%	178%
Plan fiduciary net position as a percentage of the total pension liability	71%	69%
CalPERS		
County's proportion of the net pension liability	0.4230%	0.4292%
County's proportionate share of the net pension liability	<u>\$ 112,783,669</u>	<u>\$ 102,455,197</u>
County's covered - employee payroll	<u>\$ 55,298,184</u>	<u>\$ 54,825,000</u>
County's proportionate share of the net pension liability as a percentage of its covered - employee payroll	204%	187%
Plan fiduciary net position as a percentage of the total pension liability	71%	72%
OCERS¹		
County's proportion of the net pension liability	0.0570%	0.0510%
County's proportionate share of the net pension liability	<u>\$ 3,517,372</u>	<u>\$ 2,530,324</u>
County's covered - employee payroll	<u>N/A²</u>	<u>N/A²</u>
County's proportionate share of the net pension liability as a percentage of its covered - employee payroll	<u>N/A²</u>	<u>N/A²</u>
Plan fiduciary net position as a percentage of the total pension liability	70%	75%

¹ Prior to June 30, 2018, the County did not implement GASB Statement No. 68 for OCERS. Refer to Note 16.

² 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.

See accompanying note to required supplementary information.

2017	2016	2015
0.0950%	0.1040%	0.1110%
\$ 76,836,950	\$ 70,016,960	\$ 64,865,070
43,748,345	37,031,154	39,168,723
\$ 120,585,295	\$ 107,048,114	\$ 104,033,793
\$ 48,203,000	\$ 47,996,000	\$ 49,181,000
159.40%	145.88%	131.89%
70%	74%	77%
0.4443%	0.4474%	0.4904%
\$ 87,749,525	\$ 65,947,202	\$ 55,672,340
\$ 53,475,000	\$ 49,525,000	\$ 49,734,000
164.09%	133.16%	111.94%
74%	79%	83%

ORANGE COUNTY DEPARTMENT OF EDUCATION

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

	2019	2018
CalSTRS		
Contractually required contribution	\$ 7,016,861	\$ 7,000,824
Contributions in relation to the contractually required contribution	(7,016,861)	(7,000,824)
Contribution deficiency (excess)	\$ -	\$ -
County's covered - employee payroll	\$ 43,101,112	\$ 48,515,759
Contributions as a percentage of covered - employee payroll	16.28%	14.43%
CalPERS		
Contractually required contribution	\$ 10,078,992	\$ 8,588,361
Contributions in relation to the contractually required contribution	(10,078,992)	(8,588,361)
Contribution deficiency (excess)	\$ -	\$ -
County's covered - employee payroll	\$ 55,802,192	\$ 55,298,184
Contributions as a percentage of covered - employee payroll	18.062%	15.531%
OCERS¹		
Contractually required contribution	\$ 301,464	\$ 524,000
Contributions in relation to the contractually required contribution	(301,464)	(524,000)
Contribution deficiency (excess)	\$ -	\$ -
County's covered - employee payroll	N/A ²	N/A ²
Contributions as a percentage of covered - employee payroll	N/A ²	N/A ²

¹ Prior to June 30, 2018, the County did not implement GASB Statement No. 68 for OCERS. Refer to Note 16.

² 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.

See accompanying note to required supplementary information.

2017	2016	2015
\$ 6,030,647	\$ 5,172,158	\$ 4,262,028
(6,030,647)	(5,172,158)	(4,262,028)
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 47,398,000	\$ 48,203,000	\$ 47,996,000
<u>12.58%</u>	<u>10.73%</u>	<u>8.88%</u>
\$ 7,614,077	\$ 6,335,210	\$ 5,829,589
(7,614,077)	(6,335,210)	(5,829,589)
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 54,825,000	\$ 53,475,000	\$ 49,525,000
<u>13.888%</u>	<u>11.847%</u>	<u>11.771%</u>

ORANGE COUNTY DEPARTMENT OF EDUCATION

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

NOTE 1 - PURPOSE OF SCHEDULES

Budgetary Comparison Schedules

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

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

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

At June 30, 2019, the following County major funds exceeded the budgeted amount in total as follows:

Funds	Expenditures and Other Uses		
	Budget	Actual	Excess
Special Education Pass-Through Fund	\$ 47,099,407	\$ 48,663,280	\$ 1,563,873
Child Development Fund	\$ 27,480,557	\$ 27,887,098	\$ 406,541

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 3.80 percent to 3.50 percent.

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

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

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

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

ORANGE COUNTY DEPARTMENT OF EDUCATION

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION JUNE 30, 2019

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

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

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

Changes of Assumptions – There were no changes in economic assumptions for either the CalSTRS, 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.

ORANGE COUNTY DEPARTMENT OF EDUCATION

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

Federal Grantor/Pass-Through Grantor/Program	CFDA Number	Pass-Through Entity Identifying Number	Program Expenditures	Amounts Passed Through to Subrecipients
U.S. DEPARTMENT OF EDUCATION				
Passed through California Department of Education (CDE):				
Special Education (IDEA) Cluster:				
Basic Local Assistance Entitlement, Part B, Sec 611	84.027	13379	\$ 7,980,240	\$ 6,915,470
Local Assistance, Part B, Sec 611, Private School ISPs	84.027	10115	48,830	48,830
Preschool Grants, Part B, Sec 619	84.173	13430	202,336	157,019
Preschool Local Entitlement, Part B, Sec 611	84.027A	13682	36,832	-
Mental Health Allocation Plan, Part B, Sec 611	84.027A	15197	509,915	509,915
Preschool Staff Development, Part B, Sec 619	84.173A	13431	240	-
Quality Assurance & Focused Monitoring	84.027A	13693	15,000	-
Alternate Dispute Resolution, Part B, Sec 611	84.173A	13007	12,812	-
Total Special Education (IDEA) Cluster			8,806,205	7,631,234
Early Intervention Grants, Part C	84.181	23761	373,789	-
Title III, Immigrant Student Program	84.365	15146	1,384	-
Title III, English Learner Student Program	84.365	14346	132,744	-
Title I, Migrant Ed Statewide PASS Project	84.011	14853	12,076	-
Title IV, 21st Century Community Learning Centers Technical Assistance	84.287	14350	147,496	-
Title IV, Part A, Student Support and Academic Enrichment Grants	84.424	15396	102,578	-
Title IV, Part A, Student Support and Academic Enrichment Grant Program (Competitive)	84.424	15391	324,679	-
Title IX, Part A, McKinney-Vento Homeless Assistance Grants	84.196	14332	276,173	-
Title II, Part A, Supporting Effective Instruction	84.367	14341	46,329	-
Title I, Part A, Basic Grants Low-Income and Neglected	84.010	14329	3,059,046	-
Title I, Part D, Local Delinquent Programs	84.010	14357	1,670,446	-
School Improvement Funding for COEs	84.010	15439	51,130	-
Total U.S. Department of Education			15,004,075	7,631,234
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES				
Passed through CDE:				
Child Care and Development Fund Cluster:				
Quality Improvement Activities	93.575	14092	886,469	-
Quality Improvement Activities	93.575	14871	18,111	-
Quality Improvement Activities	93.575	14872	179,544	-
Quality Improvement Activities	93.575	14990	285,680	-
Quality Improvement Activities	93.575	14130	476,460	-
Federal Alternative Payment	93.596	13694	2,714,627	-
Federal Alternative Payment	93.596	14153	2,693,896	-
Local Planning Councils	93.575	13946	72,623	-
Federal Alternative Payment, Stage 2	93.575	14178	1,831,265	-
Federal Alternative Payment, Stage 3	93.596	14985	28,804	-
Federal Alternative Payment, Stage 3	93.575	13881	1,466,911	-
Federal Alternative Payment, Stage 3	93.575	14984	3,108	-
Federal Alternative Payment, Stage 3	93.596	14040	10,311	-
Total Child Care and Development Fund Cluster			10,667,809	-

See accompanying note to supplementary information.

ORANGE COUNTY DEPARTMENT OF EDUCATION

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

Federal Grantor/Pass-Through Grantor/Program	CFDA Number	Pass-Through Entity Identifying Number	Program Expenditures	Amounts Passed Through to Subrecipients
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES - CONTINUED				
Passed through California Department of Health Services:				
Medicaid Cluster:				
Medi-Cal Billing Option	93.778	10013	\$ 467,739	\$ -
Medi-Cal Administrative Activities	93.778	10060	36,620,011	36,081,698
Total Medicaid Cluster			<u>37,087,750</u>	<u>36,081,698</u>
Passed through County of Orange:				
Block Grants for Prevention and Treatment of				
Alcohol and Other Drug Prevention Services Friday				
Night Live	93.959	[1]	400,000	-
Block Grant for Substance Abuse Prevention Services	93.959	[1]	333,500	-
Foster Youth Services Coordinating Programs	93.658	[1]	383,173	-
Total Block Grants for Prevention and Treatment			<u>1,116,673</u>	<u>-</u>
Total U.S. Department of Health and Human Services			<u>48,872,232</u>	<u>36,081,698</u>
U.S. DEPARTMENT OF AGRICULTURE				
Passed through CDE:				
Child Nutrition Cluster:				
National School Lunch Program	10.555	13396	181,047	-
Basic School Breakfast Program	10.553	13390	28,152	-
Especially Needy Breakfast Program	10.553	13526	95,181	-
Commodities	10.555	13396	15,855	-
Total Forest Service Schools and Roads Cluster			<u>320,235</u>	<u>-</u>
Child Nutrition Cluster:				
Forest Reserve Funds	10.665	10044	28,093	23,879
Total Forest Service Schools and Roads Cluster			<u>28,093</u>	<u>23,879</u>
Total U.S. Department of Agriculture			<u>348,328</u>	<u>23,879</u>
Total Federal Programs			<u>\$ 64,224,635</u>	<u>\$ 43,736,811</u>

See accompanying note to supplementary information.

ORANGE COUNTY DEPARTMENT OF EDUCATION

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE JUNE 30, 2019

ORGANIZATION

The Orange County Department of Education was established and consists of an area comprising approximately 782 square miles. The County operates four community home education sites, one homeless outreach program site, 41 community schools/independent study program sites, four juvenile court schools program sites, one field program site, and 15 special education program sites. There were no boundary changes during the year.

The County provides professional and administrative assistance to 12 elementary school districts, three high school districts, 12 unified school districts, four community college districts, three regional occupation programs, and 31 charter schools, within Orange County.

The Board of Education and the County Administrators for the fiscal year ended June 30, 2019 is presented herein.

COUNTY BOARD OF EDUCATION

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Dr. Ken L. Williams	President	2020
Ms. Mari Barke	Vice President	2022
Dr. John W. Bedell	Member	2020
Ms. Rebecca Gomez	Member	2020
Dr. Lisa Sparks	Member	2022

ADMINISTRATION

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

See accompanying note to supplementary information.

ORANGE COUNTY DEPARTMENT OF EDUCATION

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

ORANGE COUNTY DEPARTMENT OF EDUCATION REPORT OF SCHOOLS AND CLASSES:

	Final Report	
	Second Period Report	Annual Report
COUNTY OFFICE OF EDUCATION		
Juvenile Halls, Homes, and Camps		
Elementary	35.06	35.96
High School	375.97	364.93
Total Juvenile Halls, Homes, and Camps	411.03	400.89
Probation Referred, On Probation or Parole, Expelled		
Elementary	99.86	117.82
High School	1,348.93	1,328.20
Total Probation Referred, On Probation or Parole, Expelled	1,448.79	1,446.02
Total ADA	1,859.82	1,846.91

See accompanying note to supplementary information.

ORANGE COUNTY DEPARTMENT OF EDUCATION

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

DISTRICT FUNDED COUNTY PROGRAMS:

	Final Report	
	Second Period Report	Annual Report
County Community Schools		
Transitional kindergarten through third	129.81	117.45
Fourth through sixth	168.66	153.03
Seventh and eighth	166.85	157.70
Ninth through twelfth	2,323.95	1,955.33
Total County Community Schools	<u>2,789.27</u>	<u>2,383.51</u>
Special Education - Special Day Class		
Transitional kindergarten through third	51.08	53.26
Fourth through sixth	48.07	47.90
Seventh and eighth	59.17	59.65
Ninth through twelfth	189.42	186.94
Total Special Education Special Day Class	<u>347.74</u>	<u>347.75</u>
Extended Year Special Education		
Transitional kindergarten through third	5.32	5.32
Fourth through sixth	4.60	4.60
Seventh and eighth	5.14	5.14
Ninth through twelfth	23.18	23.18
Total Extended Year Special Education	<u>38.24</u>	<u>38.24</u>
Total ADA	<u>3,175.25</u>	<u>2,769.50</u>

CHARTER SCHOOL - COLLEGE AND CAREER PREPARATORY ACADEMY

Community Day School		
Ninth through twelfth	<u>178.59</u>	<u>179.18</u>

Note: All Charter School ADA is generated through non-classroom based instruction.

See accompanying note to supplementary information.

ORANGE COUNTY DEPARTMENT OF EDUCATION

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

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

See accompanying note to supplementary information.

ORANGE COUNTY DEPARTMENT OF EDUCATION

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

	(Budget) 2020 ¹	2019	2018	2017
COUNTY SCHOOL SERVICE FUND³				
Revenues	\$ 256,498,819	\$ 279,744,668	\$ 234,339,963	\$ 238,573,560
Other sources and transfers in	-	21,049	-	-
Total Revenues and Other Sources	<u>256,498,819</u>	<u>279,765,717</u>	<u>234,339,963</u>	<u>238,573,560</u>
Expenditures	257,520,022	246,802,762	231,260,229	206,930,450
Other uses	1,836,878	1,493,127	298,295	116,440
Total Expenditures and Other Uses	<u>259,356,900</u>	<u>248,295,889</u>	<u>231,558,524</u>	<u>207,046,890</u>
INCREASE (DECREASE) IN FUND BALANCE	<u>\$ (2,858,081)</u>	<u>\$ 31,469,828</u>	<u>\$ 2,781,439</u>	<u>\$ 31,526,670</u>
ENDING FUND BALANCE	<u>\$ 192,631,297</u>	<u>\$ 195,489,378</u>	<u>\$ 164,019,550</u>	<u>\$ 161,238,111</u>
AVAILABLE RESERVES²	<u>\$ 106,076,868</u>	<u>\$ 107,738,426</u>	<u>\$ 86,722,283</u>	<u>\$ 46,919,554</u>
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO⁴	<u>40.9%</u>	<u>44.6%</u>	<u>37.5%</u>	<u>22.7%</u>
LONG-TERM OBLIGATIONS	<u>N/A</u>	<u>\$ 21,935,832</u>	<u>\$ 25,653,921</u>	<u>\$ 18,953,158</u>
K-12 AVERAGE DAILY ATTENDANCE AT ANNUAL	<u>1,631</u>	<u>1,847</u>	<u>2,310</u>	<u>2,471</u>

The County School Service Fund balance has increased by \$34,251,267 over the past two years. The fiscal year 2019-2020 budget projects a decrease of \$2,858,081 (1.5 percent). For a County this size, the State recommends available reserves of at least three percent of total County School Service Fund expenditures, transfers out, and other uses (total outgo).

The County has incurred operating surpluses for of the past three years; however, the County anticipates incurring an operating deficit during the 2019-2020 fiscal year. Total long-term obligations have increased by \$2,982,674 over the past two years.

Average daily attendance has decreased by 624 over the past two years. An additional decline of 216 ADA is anticipated during fiscal year 2019-2020.

¹ Budget 2020 is included for analytical purposes only and has not been subjected to audit. As of the audit date, the budget for fiscal year 2019-2020 was not adopted.

² 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.

³ 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.

⁴ On behalf payments of \$6,832,626, relating to Senate Bill 90, have been excluded from the calculation of available reserve for the fiscal year ending June 30, 2019.

See accompanying note to supplementary information.

ORANGE COUNTY DEPARTMENT OF EDUCATION

**SCHEDULE OF CHARTER SCHOOLS
FOR THE YEAR ENDED JUNE 30, 2019**

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

See accompanying note to supplementary information.

ORANGE COUNTY DEPARTMENT OF EDUCATION

**NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2019**

	Deferred Maintenance Fund	County School Facilities Fund	Special Reserve Fund for Capital Outlay Projects	Debt Service Fund	Total Non-Major Governmental Funds
ASSETS					
Deposits and investments	\$ 27,556,218	\$ 1,248,677	\$ 5,094,011	\$ 1,294,895	\$ 35,193,801
Receivables	52,559	2,459	206,111	1,219	262,348
Due from other funds	1,177,939	1,218,907	-	-	2,396,846
Total Assets	\$ 28,786,716	\$ 2,470,043	\$ 5,300,122	\$ 1,296,114	\$ 37,852,995
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 71,745	\$ 16,715	\$ 225,013	\$ -	\$ 313,473
Due to other funds	-	-	1,218,907	-	1,218,907
Total Liabilities	71,745	16,715	1,443,920	-	1,532,380
Fund Balances:					
Restricted	-	2,453,328	3,856,202	1,296,114	7,605,644
Committed	28,714,971	-	-	-	28,714,971
Total Fund Balance	28,714,971	2,453,328	3,856,202	1,296,114	36,320,615
Total Liabilities and Fund Balances	\$ 28,786,716	\$ 2,470,043	\$ 5,300,122	\$ 1,296,114	\$ 37,852,995

See accompanying note to supplementary information.

ORANGE COUNTY DEPARTMENT OF EDUCATION

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

	Deferred Maintenance Fund	County School Facilities Fund	Special Reserve Fund for Capital Outlay Projects	Debt Service Fund	Total Non-Major Governmental Funds
REVENUES					
Local Control Funding Formula	\$ 1,022,520	\$ -	\$ -	\$ -	\$ 1,022,520
Other local sources	536,503	27,921	2,527,997	18,537	3,110,958
Total Revenues	1,559,023	27,921	2,527,997	18,537	4,133,478
EXPENDITURES					
Current					
Plant services	-	-	574,879	-	574,879
Facility acquisition and construction	213,658	145,826	-	-	359,484
Debt service					
Principal	-	-	-	500,000	500,000
Interest and other	-	-	-	437,150	437,150
Total Expenditures	213,658	145,826	574,879	937,150	1,871,513
Excess (Deficiency) of Revenues Over Expenditures	1,345,365	(117,905)	1,953,118	(918,613)	2,261,965
Other Financing Sources (Uses)					
Transfers in	1,177,939	1,218,907	-	800,000	3,196,846
Transfers out	-	-	(2,018,907)	-	(2,018,907)
Net Financing Sources (Uses)	1,177,939	1,218,907	(2,018,907)	800,000	1,177,939
NET CHANGE IN FUND BALANCE	2,523,304	1,101,002	(65,789)	(118,613)	3,439,904
Fund Balances - Beginning	26,191,667	1,352,326	3,921,991	1,414,727	32,880,711
Fund Balances - Ending	\$ 28,714,971	\$ 2,453,328	\$ 3,856,202	\$ 1,296,114	\$ 36,320,615

See accompanying note to supplementary information.

ORANGE COUNTY DEPARTMENT OF EDUCATION

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2019

NOTE 1 - PURPOSE OF SCHEDULES

Schedule of Expenditures of Federal Awards

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

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

	<u>CFDA Number</u>	<u>Amount</u>
Total Federal Revenues From the Statement of Revenues, Expenditures, and Changes in Fund Balances:		\$ 64,418,106
Medi-Cal Billing Option	93.778	(193,471)
Total Schedule of Expenditures of Federal Awards		<u>\$ 64,224,635</u>

Local Education Agency Organization Structure

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

Schedule of Average Daily Attendance (ADA)

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

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.

ORANGE COUNTY DEPARTMENT OF EDUCATION

NOTE TO SUPPLEMENTARY INFORMATION

JUNE 30, 2019

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.

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

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

ORANGE COUNTY DEPARTMENT OF EDUCATION

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

FINANCIAL STATEMENTS

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

FEDERAL AWARDS

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

Identification of major Federal programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
<u>84.027, 84.027A, 84.173, and 84.173A</u>	<u>Special Education (IDEA) Cluster</u>
<u>93.575 and 93.596</u>	<u>Child Care and Development Fund Cluster</u>
<u>93.778</u>	<u>Medicaid Cluster</u>

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 1,926,739</u>
Auditee qualified as low-risk auditee?	<u>No</u>

STATE AWARDS

Type of auditor's report issued on compliance for State programs:	<u>Unmodified</u>
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ORANGE COUNTY DEPARTMENT OF EDUCATION

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

None reported.

ORANGE COUNTY DEPARTMENT OF EDUCATION

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

None reported.

ORANGE COUNTY DEPARTMENT OF EDUCATION

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

None reported.

ORANGE COUNTY DEPARTMENT OF EDUCATION

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

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

