

REGULAR MEETING
January 16, 2019
10:00 a.m.
Board Room
200 Kalmus Drive, Costa Mesa, CA

973

ORANGE COUNTY BOARD OF EDUCATION
AGENDA

WELCOME
CALL TO ORDER

STATEMENT OF PRESIDING OFFICER: For the benefit of the record, this Regular Meeting of the Orange County Board of Education is called to order.

INVOCATION

PLEDGE OF ALLEGIANCE

ROLL CALL

INTRODUCTIONS

(*)AGENDA Regular Meeting of January 16, 2019 - adoption

(*)MINUTES Regular Meeting of December 12, 2018 – approval

PUBLIC COMMENTS (30 minutes)

1. State Education Code 1621 C and Lawful Board Budgetary Oversight - Greg Rolen

CLOSED SESSION 1 CONFERENCE WITH LEGAL COUNSEL-ANTICIPATED LITIGATION
Potential Initiation of litigation pursuant to (d) (4) of Government Code Section 54956.9 (One case)

CLOSED SESSION 2 CONFERENCE WITH LEGAL COUNSEL-EXISTING LITIGATION
Anaheim Union High School District and Anaheim Elementary School District v. Orange County Board of Education and Orange County Department of Education, Case No. 30-2016-00891539-CU-PT-CJC
Government Code section 54956.9(a)

CONSENT CALENDAR

- (*) 2. Approve the granting of diplomas to the students listed from Alternative, Community, and Correctional Education Schools and Services, Alternative Education Division.

BOARD RECOMMENDATIONS

CHARTER SCHOOLS

3. Charter Submissions

- (*) 4. Public Hearing – ISAAC Charter School Appeal Submission – Teresa Johnson, Coordinator Charter Schools, will facilitate the public hearing.

Discussion Format:
ISAAC Charter School
District Response – Newport-Mesa Unified School District
Public Comments (30 minutes)
Board Questions

- (*) 5. Charter School Public Hearing Appeal Submission – Sycamore Creek Community Charter School – Aracely Chastain, Coordinator Charter Schools, will facilitate the public hearing.

Discussion Format:
Sycamore Creek Community Charter School
District Response – Ocean View School District
Public Comments (30 minutes)
Board Questions

6. Charter School Public Hearing Material Revision – Scholarship Prep Charter School – Aracely Chastain, Coordinator Charter Schools, will facilitate the public hearing.

Discussion Format:
Scholarship Prep Charter School
District Response – Santa Ana Unified School District
Public Comments (30 minutes)
Board Questions

STAFF RECOMMENDATIONS

- (*) 7. Approve the material revision request submitted by Scholarship Prep Charter School.

- (*) 8. Approve change of the March 2019 board date from March 13, 2019 to March 6, 2019.

- (*) 9. Receive Vavrinek, Trine, Day & Co., LLP, audit report for the Orange County Department of Education for fiscal year ending June 30, 2018.

INFORMATION ITEMS

BOARD DISCUSSION

ANNOUNCEMENTS

- Superintendent
- Associate Superintendent

Legislative Updates

- CSBA Update
- CCBE Update
- NSBA Update
- Capitol News Update
- School Services Update

BOARD MEMBER COMMENTS

EXECUTIVE COMMITTEE REPORT

PUBLIC COMMENTS (15 minutes)

ADJOURNMENT



Nina Boyd
Assistant Secretary, Board of Education

Next Special Board Meeting: Wednesday, February 13, 2019 at 10:00 a.m. The meeting will be in the Board Room at 200 Kalmus Drive, Costa Mesa, CA.

Individuals with disabilities in need of copies of the agenda and/or the agenda packet or in need of auxiliary aides and services may request assistance by contacting Darou Sisavath, Board Clerk at (714) 966.4012.

(*) Printed items included in materials mailed to Board Members



MINUTES
Regular Meeting
December 12, 2018

ORANGE COUNTY BOARD OF EDUCATION
MINUTES

CALL TO ORDER

The Regular Meeting of the Orange County Board of Education was called to order by Vice President Barke at 10:07 a.m., December 12, 2018 in the Board Room, 200 Kalmus Drive, Costa Mesa, California.

INVOCATION

Lisa Sparks, Ph.D., Board Member

PLEDGE OF ALLEGIANCE

Greg Rolen, Attorney

ROLL CALL

Present:

Lisa Sparks, Ph.D.
Mari Barke
Ken L. Williams, D.O.
Rebecca "Beckie" Gomez
John W. Bedell, Ph.D.

INTRODUCTION

Marsha Gardner, ACCESS Teacher
Marilyn Buchi, Fullerton Joint Union High School Board Member

AGENDA

Motion by Bedell, seconded by Sparks, and carried by a vote of 5-0, to approve the agenda of the December 12, 2018 Board meeting.

MINUTES

Motion by Barke, seconded by Williams, and carried by a vote of 5-0, to approve the minutes of the November 7, 2018 Board meeting with the following amendments:

-revise language at INTRODUCTION to read
"Acknowledgement of Service by Mr. Froehlich and Mrs. Mackey was made by Trustee Bedell."
-revise language on item #15 to reflect the board voted "4-0 (Williams absent)" to deny the appeal

1. Special Presentation – Holiday Musical Presentation
Concert Choir, Fullerton Union High School under the direction of Mr. Scott Hedgecock facilitated by Steve Venz.

Trustee Bedell acknowledged Mr. Hedgecock's achievements over his many years of teaching and his retirement the end of this year.

PUBLIC COMMENTS

- Cyndie Borcoman, General
- Catherine Creely-Hodges, General
- Virginia Carrillo, General
- Dennis Ashendorf, General
- Joyce McNabb, General
- Randy Karstin, General
- Linda Cone, General

Board recesses for closed sessions #1 and #2 from 11:04 a.m. to 12:36 p.m.

CLOSED SESSION 2

CONFERENCE WITH LEGAL COUNSEL-EXISTING LITIGATION

Anaheim Union High School District and Anaheim Elementary School District v. Orange County Board of Education and Orange County Department of Education, Case No. 30-2016-00891539-CU-PT-CJC
Government Code section 54956.9(a)

Board President Williams reported no decision was made in Closed Session #2 and direction was given to counsel.

CLOSED SESSION 1

CONFERENCE WITH LEGAL COUNSEL-ANTICIPATED LITIGATION

Potential Initiation of litigation pursuant to (d) (4) of Government Code Section 54956.9 (One case)

Mr. Brenner reported there were no resolutions made in Closed Session #1.

CONSENT CALENDAR

2. Motion by Bedell, seconded by Sparks, and carried by a vote of 5-0 to approve the granting of diplomas to the students listed from Alternative, Community, and Correctional Education Schools and Services, Alternative Education Division.

BOARD RECOMMENDATIONS

3. Motion by Barke, seconded by Sparks, and carried by a roll call vote of 3-2 (Sparks, Barke, and Williams voted Yes; Gomez and Bedell voted No) to approve Resolution #22-18: Legal Bills.

CHARTER SCHOOLS

4. Charter School Submissions – Aracely Chastain, Coordinator, Charter Schools Unit facilitated the submissions.
 - Sycamore Creek Community Charter- Amy Green-Bosinoff, President
 - ISAAC Charter- Patricia Gould, Lead Petitioner
5. Unity Middle College High School – Erin Craig, Ph.D. and Roy Kim provided an update to the Board.
6. National University Agreement- Nina provided an update to the Board.

STAFF RECOMMENDATIONS

7. Motion by Barke, seconded by Sparks, and carried by a vote of 5-0, to approve the material revision for College and Career Preparatory Academy to modify current locations and add a new location in Fullerton and approve updates to charter petition to comply with changes in law.
8. Motion by Bedell, seconded by Gomez, and carried by a vote of 5-0, to approve the 2018-19 First Interim Report, which has been certified as positive by the County Superintendent of Schools.

A subcommittee to work with staff on future budget reports was recommended. Trustee Gomez and Trustee Sparks volunteered to serve on the committee.

The board, without opposition, consented to have a legal update on State Education Code 1621 C and lawful board budgetary oversight at the January 16, 2019 board meeting, to be presented by special board counsel, Greg Rolen.

Trustee Bedell departed the meeting at 2:17 p.m.

9. Motion by Williams, seconded by Barke, and carried by a vote of 4-0 (Bedell absent), to confirm existing board dates for 2018-19 and approve new board dates for 2019-20.

It was noted March 13, 2019 conflicts with the Charter Association state conference. The Board will be polled for a new March date.

Trustee Gomez departed the meeting at 2:31 p.m.

INFORMATION ITEMS

BOARD DISCUSSION

- Oversight and Compliance for Charter Schools- Discussed
- MTSS Initiative Update- Superintendent Mijares provided information to the Board.

ANNOUNCEMENTS

Superintendent

- MTSS
- Sunburst Youth Academy Graduation- Trustee Gomez and Trustee Barke attended.
- OC Pathways Showcase- Dr. Hittenberger
- OC Pathways received an award at the OCBC Turning Red Tape into Red Carpet event

Associate Superintendent

- Next board meeting- January 16, 2019 at 10:00 a.m.; submission deadline is January 2nd
- Charter School Conference March 11th through March 14th
- NSBA Annual Conference in Philadelphia March 31st through April 1st
- Office Holiday hours- 8am to 4pm, closed on 12/24, 12/25, 12/31, and 1/1/19

ADJOURNMENT

On a motion duly made, and seconded, the Board meeting of December 12, 2018, adjourned at 2:54 p.m.



Nina Boyd
Assistant Secretary, Board of Education

Ken L. Williams, D.O.
President, Board of Education

Next Special Board Meeting, Wednesday, January 16, 2019, 10:00 a.m. - The meeting will be held in the Board Room at 200 Kalmus Drive, Costa Mesa, CA.

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ORANGE COUNTY BOARD OF EDUCATION

BOARD AGENDA ITEM

DATE: December 21, 2018

TO: Nina Boyd, Associate Superintendent

FROM: Laura Strachan, Assistant Superintendent Alternative Education
Byron Fairchild, Director Alternative Education

SUBJECT: Granting of Diplomas

The students listed on the attached pages have been certified for graduation by the Custodian of Records or their designee for the Division of Alternative Education of the Orange County Department of Education. These students have met the standards of proficiency in basic skills prescribed by the governing board in accordance with Education Code 51412. It is requested that the Board approve the granting of a diploma to these students.

RECOMMENDATION:

Approve granting of a diploma to the students listed from Alternative, Community, and Correctional Education Schools and Services, Alternative Education Division.

LS:sl

Pages 9-11 removed (CONFIDENTIAL STUDENT INFORMATION)

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ORANGE COUNTY BOARD OF EDUCATION

BOARD AGENDA ITEM

DATE: December 18, 2018

TO: Nina Boyd, Associate Superintendent

FROM: Kelly Gaughran, Director, Charter Schools
Teresa Johnson, Coordinator, Charter Schools

SUBJECT: International School for Science and Culture (ISSAC)- Petition Public Hearing

DESCRIPTION:

International School for Science and Culture is requesting to open a TK-8 grade charter school within the boundaries of the Newport-Mesa Unified School District in 2019-2020. The Newport-Mesa Unified School District governing board denied the charter petition on November 11, 2018.

On December 12, 2018, Orange County Board of Education accepted a submission to appeal the denial by Newport-Mesa Unified School District of the International School for Science and Culture petition. Per California Education Code, OCBE shall hold a public hearing on the provisions of the charter and to consider the level of support for the petition.

RECOMMENDATION:

Consider input on the provisions of the International School for Science and Culture petition during the Public Hearing scheduled for the January 16, 2019 board meeting.

ORANGE COUNTY BOARD OF

BOARD AGENDA ITEM



DATE: December 19, 2018

TO: Nina Boyd, Associate Superintendent

FROM: Kelly Gaughran, Administrator, Charter Schools
Aracely Chastain, Coordinator, Charter Schools

SUBJECT: Sycamore Creek Community Charter School – Public Hearing

DESCRIPTION:

Sycamore Creek Community Charter School is requesting to open a charter school within the boundaries of the Ocean View School District in 2019-2020. The Ocean View School District governing board denied the charter petition on November 27, 2018.

On December 12, 2018, Orange County Board of Education accepted a submission for an appeal of the denial of the Sycamore Creek Community Charter School petition. Per California Education Code, OCBE shall hold a public hearing on the provisions of the charter and to consider the level of support for the petition.

RECOMMENDATION:

Consider input on the provisions of the Sycamore Creek Community Charter School petition during the public hearing scheduled for the January 16, 2019 board meeting.

January 16, 2019

ORANGE COUNTY BOARD OF [X] Mailed [] Distributed at meeting

BOARD AGENDA IT. 47B

DATE: December 18, 2018
TO: Nina Boyd, Associate Superintendent
FROM: Aracely Chastain, Coordinator, Charter Schools
SUBJECT: Public Hearing & Decision: Scholarship Prep Charter School – Amended Bylaws

DESCRIPTION:

The administration of Scholarship Prep Charter School has requested a material revision to the schools governing board bylaws.

BACKGROUND:

Scholarship Prep Charter School is a countywide charter that began operation in 2016.

RECOMMENDATION:

1. Consider public input on the requested material revision for the Scholarship Prep Charter School governing board bylaws
2. Approve the material revision request regarding the Scholarship Prep Charter School governing board amended bylaws.

Enclosures: SPCS Material Revision Request 11.29.18
REVISED Bylaws REDLINE - SPCS



November 29, 2018

Orange County Department of Education
C/O Aracely Chastain
200 Kalmus Dr.
Costa Mesa, CA 92626

Re: Scholarship Prep Charter School Petition Material Revision

Dear Ms. Chastain:

On behalf of all the parties associated with Scholarship Prep Charter School ("Scholarship Prep"), attached is our official "Materially Revised" Charter School Bylaws ("Bylaws"). The included material revisions we are requesting are will bring our Bylaws into alignment with our current operations as a 501c3 Non-Profit, public charter school. The originally approved Bylaws were established to align to the Corporations Code. However, because we operate as a public charter school under the jurisdiction of the Orange County Department of Education, our Board deemed in necessary to ensure our Bylaws more adequately reflect our current operations. Amongst the requested changes to our Bylaws are the following sections:

- Section 6.2.1: Qualifications
- Section 6.7 – 6.10: (Brown Act alignment)
- Section 6.13: Meetings by Telephone or Similar Equipment (Brown Act alignment)
- Section 6.15: Minimum Vote Requirements for Valid Board Action (Brown Act alignment)
- Section 6.16: When a Greater Vote is Required for Valid Board Action (Conflict of Interest Code alignment)
- Section 6.17: Adjournment (Brown Act alignment)
- Section 6.19: Rights of Inspection (Brown Act alignment)
- Section 6.22 6.23: (Conflict of Interest Code alignment)
- Section 7.1: Committees of Directors (Conflict of Interest Code alignment)
- Section 7.2 – 7.4: (Brown Act alignment)
- Section 7.5.1 – 7.5.2: (Minor adjustments)
- Section 7.6: Advisory Committees (Brown Act alignment)
- Section 8.1: Officers (Update titles)
- Article IX: (Removal of "Transactions Between Corporation and Directors or Officers")
- Section 10.4 (a): (Removal of "Annual Report: Statement of Certain Transactions")

Reach higher. Dream bigger.

Sen. Gloria Romero (Ret.), Executive Director - **Jason Watts,** Chief Operations Officer

1010 W. 17th St., Santa Ana, CA 92706



- Section 14.5: Dissolution and Distribution of Corporation Assets (Alignment to Articles of Incorporation)

The attached, revised Scholarship Prep Charter School Bylaws are submitted to you for review and approval. We stand by ready and willing to answer any questions you may have regarding its contents.

Thank you in advance for your time and consideration.

Sincerely,

Sen. Gloria Romero (Ret.)
Executive Director

Jason Watts
Chief Operating Officer

Reach higher. Dream bigger.

Sen. Gloria Romero (Ret.), Executive Director - Jason Watts, Chief Operations Officer

1010 W. 17th St., Santa Ana, CA 92706

FIRST AMENDED BYLAWS OF
SCHOLARSHIP PREP
A CALIFORNIA NONPROFIT PUBLIC BENEFIT
CORPORATION

ARTICLE I

NAME

The name of this Corporation is Scholarship Prep (the "Corporation").

ARTICLE II

PURPOSES

Section 2.1 General Purpose

The Corporation is organized for the public and educational support purposes as specified in its Articles of Incorporation. It is not organized for private gain of any one individual person. It is organized under the Nonprofit Corporation Law of California ("California Nonprofit Corporation Law") for public purposes.

In the context of these general purposes, the corporation shall:

- (a) To support the charitable and educational mission of Scholarship Prep. (EIN: 47-3943780), a California non-profit, tax exempt corporation, and any and all California public charter schools that Scholarship Prep operates;
- (b) To undertake any and all additional activities as may be proper in connection with this corporation's specific purposes for which this corporation is formed and which are exclusively charitable and educational within the meaning of Section 501(c)(3) of the Internal Revenue Code of 1986.

Also, in the context of these purposes the corporation is organized exclusively for charitable and educational purposes within the meaning of Internal Revenue Code 501(c)(3) or the corresponding provision of any future United States internal revenue law. Despite any other provision in these articles, the corporation shall not, except to an insubstantial degree, engage in any activities or exercise any powers that do not further the purposes of this corporation, and the corporation shall not carry on any other activities not permitted to be carried on by (a) a corporation exempt from federal income tax under Internal Revenue Code §501(c)(3) or the corresponding provision of any future United States internal revenue law, or (b) a corporation, contributions to which are deductible under Internal Revenue Code §170(c)(2) or the corresponding provision of any future United States internal revenue law.

Section 2.2 Construction and Definitions

Construction: Definitions. Unless the context requires otherwise, the general provisions, rules of construction, and definitions in the California Nonprofit Corporation Law shall govern the construction of these bylaws. Without limiting the generality of the preceding sentence, the masculine gender includes the feminine and neuter, the singular includes the plural, the plural includes the singular, and the term "person" includes both a legal entity and a natural person.

ARTICLE III

OFFICES

Section 3.1 Principal Office.

The principal office for the transaction of the activities and affairs of this corporation is located at 1010 W. 17th St., Santa Ana, County of Orange, State of California. The board of directors may change the location of the principal office. Any such change of location must be noted by the secretary on these bylaws opposite this Section; alternatively, this Section may be amended to state the new location.

Section 3.2 Other Offices.

The board may at any time establish branch or subordinate offices at any place or places where this corporation is qualified to conduct its activities.

ARTICLE IV

DEDICATION OF ASSETS

Section 4.1 Property Dedicated to Nonprofit Purposes

The property of the Corporation is irrevocably dedicated to public benefit purposes, specifically to support the charitable and educational mission of Scholarship Prep., (EIN: 47-3943780), a California non-profit, tax exempt corporation, and any and all California public charter schools that Scholarship Prep., operates, as well to undertake any and all additional activities as may be proper in connection with this corporation's specific purposes for which this corporation is formed and which are exclusively charitable and educational within the meaning of Section 501(c)(3) of the Internal Revenue Code of 1986. No part of the net income or assets of the Corporation shall ever inure to the benefit of any of its Directors or Officers, or to the benefit of any private person, or individual, or to any director or officer of the corporation except that the Corporation is authorized and empowered to pay reasonable compensation for services rendered and to make payments and distributions in furtherance of the purposes set forth in Article II hereof.

Section 4.2 Distribution of Assets Upon Dissolution

Upon the liquidation, dissolution or winding up of the Corporation, all properties and assets remaining after payment, or provision for payment, of all debts and liabilities of the corporation shall be distributed as specified in the Corporation's Articles of Incorporation.

ARTICLE V

MEMBERSHIP

Section 5.1 No Members.

This Corporation shall have no statutory members, as the term "member" is defined in Section 5056 of the California Nonprofit Corporation Law. Any action, which would otherwise by law require approval by a majority of all members or approval by the members, shall require only approval of the Board. All rights, which would otherwise by law be vested in the members, shall rest in the Board.

Nothing in this Article shall be construed to limit the Corporation's right to refer to persons associated with it as "members" even though such persons are not members, and no such reference by the Corporation shall render anyone a member within the meaning of Section 5056 of the California Nonprofit Corporation Law, including honorary or donor members.

The Board may also, in its discretion, without establishing memberships, establish an advisory council or honorary board or such other auxiliary groups as it deems appropriate to advise and support the Corporation.

ARTICLE VI

BOARD OF DIRECTORS

Section 6.1 Powers.

Subject to the limitations of the California Nonprofit Public Benefit Corporation Law, the Corporation's Articles of Incorporation and these Bylaws, such local public agency laws as may be applicable to the Corporation, and any other applicable laws, the business, activities and affairs of the Corporation shall be managed and conducted and all corporate powers shall be exercised by or under the direction of the Board of Directors (the "Board"). The Board may delegate the management of the Corporation's activities to any person(s), management company or committees, however composed, provided that the activities and affairs of the Corporation shall be managed and all corporate powers shall be exercised under the ultimate direction of the Board. No assignment, referral or delegation of authority by the Board or anyone acting under such delegation shall preclude the Board from exercising full authority over the conduct of the Corporation's activities, and the Board may rescind any such assignment, referral or delegation at any time. Without prejudice to its general powers, but subject to the same limitations set forth above, the Board shall have the following powers in addition to any other powers enumerated in these Bylaws and permitted by law and not inconsistent with the Corporation's Articles of Incorporation or these Bylaws:

- To select and remove agents and employees of the Corporation;
- To remove officers of the Corporation as provided in these Bylaws;
- To prescribe powers and duties;
- To fix their compensation;
- To require security from them for faithful service;

- To conduct, manage and control the affairs and activities of the Corporation and to make such rules and regulations;
- To adopt, make and use a corporate seal and to alter the form of the seal from time to time;
- To borrow money and incur indebtedness for the purposes of the Corporation, and to cause to be executed and delivered therefore, in the corporate name, promissory notes, bonds, debentures, deeds of trust, mortgages, pledges, hypothecations and other evidences of debt and securities therefore;
- To carry on a business and apply any revenues in excess of expenses that result from the business activity to any activity in which it may lawfully engage;
- To act as Director under any trust incidental to the principal object of the Corporation, and receive, hold, administer, exchange and expend funds and property subject to such trust;
- To acquire by purchase, exchange, lease, gift, devise, bequest, or otherwise, and to hold, improve, lease, sublease, mortgage, transfer in trust, encumber, convey or otherwise dispose of real and personal property;
- To assume any obligations, enter into any contracts or other instruments, and do any and all other things incidental or expedient to the attainment of any corporate purpose; and
- To carry out such other duties as are described in the Articles of Incorporation.

Section 6.2 Number and Qualifications of Director

The authorized number of Directors of the Corporation ("Directors") Corporation shall not be less than 2 (2) and not more than seven (7); the exact authorized number to be fixed, within these limits, by resolution of the Board.

Section 6.2.1 Qualifications

The qualifications for Director are:

- A dedication to furthering the vision and mission of the Corporation;
- Willingness to volunteer for one or more Board committees and the ability to contribute appropriate time and energy necessary to follow through on assigned tasks;
- Ability to work within a team structure;
- The ability to attend board meetings;
- A willingness to actively support and promote the mission and vision of the Corporation;
- Knowledgeable regarding non-profit fundraising and management;
- Knowledgeable regarding the operations of charter schools or public ~~or private~~ K-12 education;
- ~~Knowledgeable regarding the operations of Scholarship Prep., or public or private K-12 education; and~~
- Knowledgeable about roles and responsibilities of being a governing board member;
- Expectation that all children can and will learn and realize high academic achievement; and
- Specific knowledge, experience and/or interest in at least one element of governance for the Corporation.

Section 6.3 Appointments, Terms of Office and Election of Successors.

Directors and Officers shall be initially and thereafter appointed by the Board of Directors of Scholarship Prep, (EIN: 4 7-3943780), a California non-profit, tax exempt corporation, and shall serve staggered terms as determined by the Board of Scholarship Prep at its first Board meeting. After initial terms, Directors of the Scholarship Prep shall hold office for staggered terms of either two (2) years and three (3) years, unless by resignation or removal the Director ceases to hold office prior to the completion of their term. The Board of Directors of Scholarship Prep., shall appoint successor Directors to the Board of Scholarship Prep as necessary.

Section 6.4 Resignation and Removal.

Section 6.4.1 Resignation

Subject to the provisions of Section 5226 of the California Nonprofit Public Benefit Corporation Law, any Director may resign by giving written notice to the President, the Secretary, or the Board. Such written resignation will be effective on the later of (i) the date it is delivered or (ii) the time specified in the written notice that the resignation is to become effective. No Director may resign if the Corporation would then be left without a duly elected Director or Directors in charge of its affairs, except upon notice to the California Attorney General (the "Attorney General").

Section 6.4.2 Removal

The Board may by resolution declare vacant the office of a Director who has been declared of unsound mind by an order of court, or convicted of a felony, or found by final order or judgment of any court to have breached a duty under California Nonprofit Corporation Law.

The Board may by resolution declare vacant the office of a Director who fails to attend three consecutive Board meetings during any calendar year.

The Board may, by a majority vote of the Directors who meet all of the required qualifications to be a Director set forth in this Article VI, declare vacant the office of any Director who fails or ceases to meet any required qualification that was in effect at the beginning of that Director's current term office.

Directors may be removed without cause by a majority of Directors then in office.

Directors may be removed without cause by a majority of the Board of Directors of Scholarship Prep., then in office.

Section 6.5 No Removal on Reduction of Number of Directors

No reduction of the authorized number of Directors shall have the effect of removing any Director before that Director's term of office expires unless the reduction also provides for the removal of that specified Director in accordance with these Bylaws and California Nonprofit Corporation Law.

Section 6.6 Vacancies.

A Board vacancy or vacancies shall be deemed to exist if any Director dies, resigns, or is removed, or if the authorized number of Director is increased. The Board may also declare vacant the office of any Director who has been convicted of a felony, or has been found to breach any duty arising under Article 3 of Chapter 2 of the California Nonprofit Public Benefit Corporation Law or deemed

to be of unsound mind by any court of competent jurisdiction. A vacancy on the Board shall be filled by resolution of the Board of Directors of Scholarship Prep. Each Director so elected, appointed, or designated shall hold office until the expiration of the term of the replaced Director and continue to hold office until a qualified successor has been elected, appointed, or designated. No reduction of the authorized number of Director shall have the effect of removing any Director prior to the expiration of the Director's term of office.

Section 6.7 Place of Meeting

So long as the Corporation operates charter schools in multiple counties, Board meetings will be physically hosted on a rotating basis between the current existing charter schools, with at least one meeting held at each charter school annually. For all meetings, there will be a live teleconference line and/or video broadcast available at each charter school. A charter school representative will be present at the charter school locations posted on the agenda to assist any parents or other members of the public who would like to participate in the meeting via the teleconference or video broadcast.

~~Regular and special meetings of the Board may be held at any place within or outside the state that has been designated in the notice of the meeting, or, if not stated in the notice, or, if there is no notice, designated by resolution of the Board. If the place of a regular or special meeting is not designated in the notice or fixed by a resolution of the Board, it shall be held at the principal office of the Corporation.~~

Section 6.8 Regular Meetings.

Each year, the Board shall hold at least one meeting, at a time and place fixed by the Board, for the purposes of election of Directors, appointment of Officers, review and approval of the corporate budget and transaction of other business. This meeting is sometimes referred to in these Bylaws as the "annual meeting." Other regular meetings of the Board may be held at such time and place as the Board may fix from time to time by resolution. In accordance with the Ralph M. Brown Act, agendas for regular meetings will be posted near the entrances of each charter school operated by the Corporation and on the school's website for public viewing at least 72 hours in advance of scheduled meetings.

Section 6.9 Special Meetings.

Special meetings of the Board for any purpose consistent with the Ralph M. Brown Act may be called at any time by the President or by a majority of the members of the legislative body. In accordance with the Ralph M. Brown Act, agendas for special meetings will be posted near the entrances of each charter school operated by the Corporation and on the school's website for public viewing at least 24 hours in advance of scheduled meetings.

Section 6.10 Notice of Meetings.

~~Except when the time and place of a regular meeting is set by the Board by Resolution in advance (as permitted by this Article VI), notice of the time and place~~The agenda of all regular and special meetings shall be given to each Director by one of the following methods:

- (a) Personal delivery ~~of oral or written notice;~~
- (b) First-class mail, postage paid;

- (c) ~~Telephone, including a voice messaging system or other technology designed to record and communicate messages; or~~
- (d) Facsimile, electronic mail ("e-mail") or other means of electronic transmission ~~if the recipient has consented to accept notices in this manner.~~

All such notices shall be given or sent to the Director's address, ~~phone number,~~ facsimile number or e-mail address as shown ~~on in~~ the records of the Corporation. ~~Any oral notice given personally or by telephone may be communicated directly to the Director or to a person who would reasonably be expected to promptly communicate such notice to the Director.~~ Notice of regular meetings may also be given in the form of a calendar or schedule that sets forth the date, time and place of more than one regular meeting. Pursuant to the Ralph M. Brown Act, written notice of a special meeting may be dispensed with as to any Director who at or prior to the time the meeting convenes files with the clerk or Secretary of the Corporation a written waiver of notice, or as to any Director who is actually present at the meeting at the time it convenes.

Section 6.11 Time Requirements

Notices sent by first-class mail shall be deposited into a United States mail box at least four days before the time set for the meeting. Notices given by personal delivery, telephone, voice messaging system or other system or technology designed to record and communicate messages, facsimile, e-mail or other electronic transmission shall be delivered at least forty-eight (48) hours before the time set for the meeting.

Section 6.12 Notice Contents

The notice shall state the time and place for the meeting, except that if the meeting is scheduled to be held at the principal office of the Corporation, the notice shall be valid even if no place is specified. The notice need not specify the purpose of the meeting unless required to elsewhere in these Bylaws.

Section 6.13 Meetings by Telephone or Similar Equipment

Any meeting may be held by conference telephone or other communications equipment permitted by California Nonprofit Corporation Law and the Ralph M. Brown Act, as long as all Directors participating in the meeting can communicate with one another and all other requirements of California Nonprofit Corporation Law ~~and section 54953 of~~ and the Ralph M. Brown Act are satisfied. All such Directors shall be deemed to be present in person at such meeting.

Section 6.14 Quorum.

A majority of the Directors then in office shall constitute a quorum for the transaction of business, except to adjourn as provided by this Article VI, Section 15. Every act or decision done or made by a majority of the Directors at a meeting duly held at which a quorum is present is an act of the Board. Directors may not vote by proxy.

Section 6.15 Minimum Vote Requirements for Valid Board Action

Every act taken or decision made by a vote of the majority of the Directors present at a meeting duly hold at which a quorum is present is the act of the Board, unless a greater number is expressly required by California Nonprofit Corporation Law, the Articles of Incorporation or these Bylaws. ~~A meeting at which a quorum is initially present may continue to transact business,~~

~~notwithstanding the withdrawal of Directors from the meeting, if any action taken is approved by at least a majority of the required quorum for that meeting.~~

Section 6.16 When a Greater Vote is Required for Valid Board Action

The following actions shall require a vote by a majority of all Directors then in office in order to be effective:

~~(a) — Approval of contracts or transactions in which a Director has a direct or indirect material financial interest as described in this Article VI (provided that the vote of any interested Director(s) is not counter);~~

~~(b)~~(a) Creation of, and appointment to, Committees (but not advisory committees) as described in this Article VII;

~~(c)~~(b) Removal of a Director without cause as described in this Article ~~IV~~VI; and

~~(d)~~(c) Indemnification of Directors as described in Article ~~VII~~IX.

Section 6.17 Waiver of Notice

~~The transactions of any meeting of the Board, however called and noticed or whenever held, shall be as valid as though taken at a meeting duly held after regular call and notice, if (i) a quorum is present, and (ii) either before or after the meeting, each of the Directors who is not present at the meeting signs a written waiver of notice, a consent to holding the meeting, or an approval of the minutes. The waiver of notice or consent does not need to specify the purpose of the meeting. All waivers, consents and approvals shall be filed with the corporate records or made a part of the minutes of the meeting. Also, notice of a meeting is not required to be given to any Director who attends the meeting without protesting before or at its commencement about the lack of adequate notice. Directors can protest the lack of notice only by presenting a written protest to the Secretary either in person, by first-class mail addressed to the Secretary at the principal office of the Corporation as contained on the records of the Corporation as of the date of the protest, or by facsimile addressed to the facsimile number of the Corporation as contained on the records of the Corporation of the date of the protest.~~

Section 6.18 Section 6.17 Adjournment.

A majority of the Director present, whether or not a quorum is present, may adjourn any Director meeting to another time or place. If a meeting is adjourned for more than twenty-four (24) hours, notice of such adjournment to another time or place shall be given, prior to the time schedule for the continuation of the meeting, to the Directors who were not present at the time of the adjournment.

Section 6.19 Section 6.18 Conduct of Meetings

Meetings of the Board shall be presided over by the President, or, if there is no President or the President is absent, the Vice President (if any), or in the absence of each of these persons, by a chairperson of the meeting, chosen by a majority of the Directors present at the meeting. The Secretary shall act as secretary of all meetings of the Board, provided that, if the Secretary is absent, the presiding officer shall appoint another person to act as secretary of the meeting. Meetings shall be governed by rules of procedure as may be determined by the Board from time

to time, insofar as such rules are not inconsistent with or in conflict with these Bylaws, with the Articles, or with any provisions of law applicable to the Corporation.

~~Section 6.20 Action Without Meeting~~

~~Any action required or permitted to be taken by the Board may be taken without a meeting, if all members of the Board, individually or collectively, consent in writing to the action. For the purposes of this Section 19 only, "all members of the Board" shall not include any "interested Director" as defined in section 5233 of the California Nonprofit Corporation Law. Such written consent shall have the same force and effect as a unanimous vote of the Board taken at a meeting. Such written consent or consents shall be filed with the minutes of the proceedings of the Board.~~

~~Written consent may be transmitted by first-class mail, messenger, courier, facsimile, email or any other reasonable method satisfactory to the President.~~

~~Section 6.21~~Section 6.19 Rights of Inspection.

Board members reserve the right to review, inspect and/or copy at any reasonable time books, records, and documents of every kind maintained by the Corporation, including confidential employee records in those limited situations in which they are pertinent to a matter before the Board, as well as inspect the physical properties of the Corporation. Such review is subject to any and all limitations of federal and state law and/or regulation in effect at the time such an inspection is requested.

~~Section 6.22~~Section 6.20 Fees and Compensation.

Directors and members of committees shall not receive any compensation for their services as Directors and committee members; however, the Board may approve reimbursement of a Director's actual and necessary expenses incurred in the conduct of the Corporation's business, such as food, lodging and mileage, in reasonable amounts as approved by the Board.

~~Section 6.23~~Section 6.21 Non-liability of Director.

No Director shall be personally liable for the debts, liabilities or other obligations of this Corporation.

~~Section 6.24 Interested Persons.~~

~~Section 6.25 Not more than forty-nine percent (49%) of the Director serving on the Board may be "interested persons." An "interested person" is (i) any person compensated by the Corporation for services rendered to it within the previous twelve (12) months whether as a full — or part-time employee, independent contractor, or otherwise, excluding any reasonable compensation paid to a Director as Director, and (ii) any brother, sister, ancestor, descendant, spouse, brother-in-law, sister-in-law, son-in-law, daughter-in-law, mother-in-law or father-in-law of any such person. However, any violation of the provisions of this Section shall not affect the validity or enforceability of any transaction entered into by the Corporation.~~

~~Section 6.26~~Section 6.22 Standard of Care.

A Director shall perform the duties of a Director, including duties as a member of any committee of the Board upon which the Director may serve, in good faith, in a manner such Director believes to be in the best interests of the Corporation and with such care, including reasonable inquiry, as

an ordinarily prudent person in a like position would use under similar circumstances. In performing the duties of a Director, a Director shall be entitled to rely on information, opinions, reports or statements, including financial statements and other financial data, in each case prepared or presented by:

- One or more officers or employees of the Corporation whom the Director believes to be reliable and competent in the matters presented;
- Counsel, independent accountants or other persons as to matters which the Director believes to be within such person's professional or expert competence; or
- A committee of the Board upon which the Director does not serve as to matters within its designated authority, provided the Director believes merits confidence and the Director acts in good faith, after reasonable inquiry when the need therefore is indicated by the circumstances and without knowledge that would cause such reliance to be unwarranted.

~~Section 6.27 Persons Liable and Extent of Liability.~~

~~If a self-dealing transaction has not been approved as required by law, the interested Director(s) may be required to do such things and pay such damages as a court may provide as an equitable and fair remedy to the Corporation, considering any benefit received by it and whether or not the interested Director(s) acted in good faith and with the intent to further the best interests of the Corporation.~~

~~Section 6.28~~Section 6.23 Corporate Loans and Advances.

The Corporation shall not make any loan of money or property to or guarantee the obligation of any Director or officer, unless approved by the Attorney General; provided, however, that the Corporation may advance money to a Director or officer of the Corporation or any subsidiary for expenses reasonably anticipated to be incurred in the performance of the duties of such officer or Director, if, in the absence of such advance, such Director or officer would be entitled to be reimbursed for such expenses by the Corporation, its parent or any subsidiary.

~~Section 6.29~~Section 6.24 Annual Report.

Pursuant to Section 6321 of the California Nonprofit Public Benefit Corporation Law, the chief financial officer shall cause an annual report to be prepared and sent to each Director not later than one hundred and twenty (120) days after the close of the fiscal year. Such annual report shall be prepared in conformity with the requirements of the California Nonprofit Public Benefit Corporation Law as it may be in effect from time to time.

~~Section 6.30~~Section 6.25 Annual Statement of Certain Transactions and Indemnifications.

Pursuant to Section 6322 of the California Nonprofit Public Benefit Corporation Law, the Corporation shall furnish an annual statement of certain transactions and indemnifications to each of the Director setting forth any transactions or indemnifications of a kind described in Cal. Corporations Code section 6322(d) or (e).

~~Section 6.31~~Section 6.26 Property Rights.

No Director shall have any right or interest in any of the Corporation's property or assets.

ARTICLE VII

COMMITTEES

Section 7.1 Committees of Directors.

The Board may, by resolution adopted by a majority of the Directors then in office, create one or more Board Committees ("Committees"), including an executive committee, each consisting of two or more Directors, to serve at the discretion of the Board. Any Committee, to the extent provided in the resolution of the Board, may be given the authority of the Board except that no Committee may:

- (a) approve any action for which the California Nonprofit Corporation Law also requires approval of the members or approval of a majority of all members;
- (b) fill vacancies on the Board or in any Committee which has the authority of the Board;
- ~~(e) — fix compensation of the Directors for serving on the Board or on any Committee;~~
- ~~(d)~~(c) amend or repeal Bylaws or adopt new Bylaws;
- ~~(e)~~(d) amend or repeal any resolution of the Board which by its express terms is not so amendable or repealable;
- ~~(f)~~(e) appoint any other Committees or the members of these Committees;
- ~~(g)~~(f) expend corporate funds to support a nominee for Director after more persons have been nominated than can be elected; or
- ~~(h)~~(g) approve any transaction (i) between the Corporation and one or more of its Directors or (ii) between the Corporation and any entity in which one or more of its Directors have a material financial interest.

Section 7.2 Meetings and Action of Board Committees

Meetings and action of standing Board Committees shall be governed by, and held and taken in accordance with, the provisions of the Ralph M. Brown Act and Article VI concerning meetings of Directors, with such changes in the context of Article VI as are necessary to substitute the Committee and its members for the Board and its members, except that the time for regular meetings of standing Board Committees may be determined by resolution of the Board, and special meetings of standing Board Committees may also be called by resolution of the Board. Minutes shall be kept of each meeting of any standing Board Committee and shall be filed with the corporate records. The standing Board Committee shall report to the Board from time to time as the Board may require. The Board may adopt rules for the governance of any standing Board Committee not inconsistent with the provisions ~~by of~~ these Bylaws and the Ralph M. Brown Act. In the absence of rules adopted by the Board, the standing Board Committee may adopt such rules.

Section 7.3 Quorum Rules for Board Committees

A majority of the standing Board Committee members shall constitute a quorum for the transaction of Committee business, except to adjourn. A majority of the Committee members present, whether

or not constituting a quorum, may adjourn any meeting to another time and place. Every act taken or decision made by a majority of the Committee members present at a meeting duly held at which a quorum is present shall be regarded as an act of the Committee, subject to the provisions of the California Nonprofit Corporation Law relating to actions that require a majority vote of the entire Board. ~~A meeting at which a quorum is initially present may continue to transact business, notwithstanding the withdrawal of Committee members, if any action taken is approved by at least a majority of the required quorum for that meeting.~~

Section 7.4 Revocation of Delegated Authority

The Board may, at any time, revoke or modify any or all of the authority that the Board has delegated to a Board Committee, increase or decrease (but not below two (2)) the number of members of a Board Committee, and fill vacancies in a Board Committee from the members of the Board.

Section 7.5 Nonprofit Integrity Act/Audit Committee

Section 7.5.1 Nonprofit Integrity Act.

In any fiscal year in which the Corporation receives or accrues gross revenues of two million dollars or more (excluding grants from, and contracts for services with, governmental entities for which the governmental entity requires an accounting of the funds received), and unless the Corporation is exempt, the Board shall (i) prepare annual financial statements using generally accepted accounting principles that are audited by an independent certified public accountant ("CPA") in conformity with generally accepted auditing standards; (ii) make the audit available to the Attorney General and to the public on the same basis that the Internal Revenue Service Form 990 is required to be made available; and (iii) appoint an Audit Committee.

Section 7.5.2 Audit Committee

If applicable, ~~t~~The Audit Committee shall not include paid or unpaid staff or employees of the Corporation, including, if staff members or employees, the President or chief executive officer or the Treasurer or chief financial officer (if any). If there is a finance committee, members of the finance committee shall constitute less than 50% of the membership of the Audit Committee and the chairperson of the Audit Committee shall not be a member of the finance committee. Subject to the supervision of the Board, the Audit Committee shall:

- (a) make recommendations to the Board on the hiring and firing of the CPA;
- (b) confer with the CPA to satisfy Audit Committee members that the financial affairs of the Corporation are in order;
- (c) approve non-audit services by the CPA and ensure such services conform to standards in the Yellow Book issued by the United States Comptroller General; and
- (d) if requested by the Board, negotiate the CPA's compensation on behalf of the Board

Section 7.6 Advisory Committees

The Board may create one or more advisory committees to serve at the pleasure of the Board. Appointments to such advisory committees need not, but may, be Directors. The Board shall appoint and discharge advisory committee members. All actions and recommendations of an

advisory committee shall require ratification by the Board before being given effect, and all standing advisory committees created by the Board shall comply with the provisions of the Ralph M. Brown Act. -

~~The President, subject to the limitations imposed by the Board, or the Board, may create other committees, either standing or special, to serve the Board which do not have the powers of the Board. The President, with the approval of the Board, shall appoint members to serve on such committees, and shall designate the committee chair. If a Director is on a committee, he or she shall be the chair. Each member of a committee shall continue as such until the next annual election of officers and until his or her successor is appointed, unless the member sooner resigns or is removed from the committee. The President, the chair of the committee or a majority of the committee's voting members may call meetings of a committee. Each committee shall meet as often as is necessary to perform its duties. A majority of the voting members of a committee shall constitute a quorum for the transaction of business at any meeting of the committee. Each committee may keep minutes of its proceedings and shall report periodically to the Board. A committee may take action by majority vote. Any member of a committee may resign at any time by giving written notice to the President. Such resignation, which may or may not be made contingent upon formal acceptance, shall take effect upon the date of receipt or at any later date if specified in the notice. The President may, with prior approval of the Board, remove any appointed member of a committee. The President, with the Board's approval, shall appoint a member to fill a vacancy in any committee or any position created by an increase in the membership for the unexpired portion of the term.~~

ARTICLE VIII

OFFICERS

Section 8.1 Officers.

The officers of this Corporation ("Officers") shall be a President, ~~or~~ a Chairperson, ~~or both~~, a Secretary, and a Treasurer or Chief Financial Officer or both. Other than the Chairperson, these persons may, but need not be, selected from among the Directors. The Board shall have the power to designate additional Officers, including a Vice President, who also need not be Directors, with such duties, powers, titles and privileges as the Board may fix, including such Officers as may be appointed in accordance with this Article VIII. Any number of offices may be held by the same person, except that the Secretary, the Treasurer and the Chief Financial Officer (if any) may not serve concurrently as ~~either the President or the Chairperson.~~

Section 8.2 Election or Appointment of Officers.

The Officers, except as otherwise specified in this Article, shall be elected by the Board at the annual meeting of the Corporation for a term of one year, and each shall serve at the discretion of the Board until his or her successor shall be elected and qualified, he or she shall resign, shall be removed or otherwise disqualified to serve. Officers may be elected for no more than four consecutive terms but Officers may be elected to serve multiple consecutive terms after a period of one year with no service.

Section 8.3 Subordinate Officers.

The Board may appoint and may empower the President to appoint such other officers as the business of the Corporation may require, each of whom shall hold office for such period, have such authority, and perform such duties as are provided in the Bylaws or as the Board may from time to time determine.

Section 8.4 President.

The President is the Chief Executive Office of the Corporation and has, subject to the control of the Board, general supervision, direction and control of the business and affairs of the Corporation. The President has the general management powers and duties usually vested in the office of president of a Corporation, as well as such other powers that the Board may prescribe from time to time. The President shall be an ex officio voting member of each Board committee.

Section 8.5 Vice President.

In the absence or disability of the President, the Vice President, if any (or if more than (1) Vice President is appointed, in order of their rank as fixed by the Board or if not ranked, the Vice President designated by the Board) shall perform all the duties of the President and when so acting shall have all the powers of, and be subject to all of the restrictions upon, the President. The Vice President(s) shall have such other powers and perform such other duties as the Board may prescribe from time to time.

Section 8.6 Secretary.

The Secretary shall keep or cause to be kept, at the principal office of the Corporation in the State of California, the original or a copy of the Corporation's Articles of Incorporation and Bylaws, as amended to date, and a register showing the names of all Director and their respective addresses. The Secretary shall keep the seal of the Corporation and shall affix or cause to be affixed the same on such papers and instruments as may be required in the regular course of business, but failure to affix it shall not affect the validity of any instrument. The Secretary also shall keep or cause to be kept at the principal office, or at such other place as the Board may order, a book of minutes of all meetings of the Board and its committees, with the time and place of holding; whether regular or special; if special how authorized; the notice thereof given; the names of those present and absent; and the proceedings thereof. The Secretary shall give or cause to be given notice of all the meetings of the Board required by these Bylaws or by law to be given; shall keep the seal of the Corporation in safe custody; shall see that all reports, statements and other documents required by law are properly kept or filed; and shall have such other powers and perform such other duties as may be prescribed from time to time by the Board.

Section 8.7 Treasurer (or Chief Financial Officer)

The Chief Financial Officer or Treasurer shall keep and maintain or cause to be kept and maintained adequate and correct accounts of the properties and business transactions of the Corporation, including accounts of its assets, liabilities, receipts, disbursements, gains and losses. The books of account shall at all times be open to inspection by any Director. The Chief Financial Officer shall deposit or cause to be deposited all monies and other valuables in the name and to the credit of the Corporation in such depositories as may be designated by the Board. The Chief Financial Officer shall disburse or cause to be disbursed the funds of the Corporation as shall be ordered by the Board, shall render or cause to be rendered to the President and the Director, upon request, an account of all transactions as Chief Financial Officer. The Chief Financial Officer shall

present or cause to be presented an operating statement and report, since the last preceding board meeting, to the Board at all regular meetings. The Chief Financial Officer shall have such other powers and perform such other duties as may be prescribed from time to time by the Board.

Section 8.8 Removal and Resignation.

Section 8.8.1 Removal

Subject to the rights, if any, of an Officer under any contract of employment, at any time may be removed either with or without cause, (i) by the Board, at any regular or special meeting of the Board, or at the annual meeting of the Corporation, or (ii) by an Officer on whom such power of removal may be conferred by the Board. In the case of an officer appointed by the President, the President shall also have the power of removal. Any officer may resign at any time by giving written notice to the Corporation, but without prejudice to the rights, if any, of the Corporation under any contract to which the officer is a party. Any such resignation shall take effect at the date of the receipt of such notice or at any later time specified therein, and, unless otherwise specified therein, the acceptance of such resignation shall not be necessary to make it effective.

Section 8.8.2 Resignation

Any Officer may resign at any time by giving written notice to the Corporation. Any resignation shall take effect at the date of the receipt of that notice or at any later time specified in that notice; and, unless otherwise specified in that notice, the acceptance of the resignation shall not be necessary to make it effective. Any resignation is without prejudice to the rights, if any of the Corporation under any contract to which the Officer is a party.

Section 8.9 Vacancies.

A vacancy in any office because of death, resignation, removal, disqualification, or any other cause, shall be filled in the manner prescribed in the Bylaws for regular election or appointment to such office, provided that such vacancies shall be filled as they occur and not on an annual basis. In the event of a vacancy in any office other than the President, such vacancy shall be filled temporarily by appointment by the President, or if none, by the Chairperson, and the appointee shall remain in office for 60 days, or until the next regular meeting of the Board, whichever comes first. Thereafter, the position can be filled only by action of the Board.

Section 8.10 Additional Officers

The Board may empower the Chairperson, President, or chief executive, to appoint or remove such other Officers as the business of the Corporation may require, each of whom shall hold office for such period, have such authority, and perform such duties as are provided in these Bylaws or as the Board from time to time may determine.

Section 8.10.1 Chief Executive

Subject to such supervisory powers as may be given by the Board to the Chairperson or President, the Board may hire a chief executive who shall be the general manager of the Corporation, and subject to the control of the Board, shall supervise, direct and control the Corporation's day-to-day activities, business and affairs. The chief executive (who may be referred to as the "chief executive officer" or "executive director") shall be empowered to hire, supervise and fire all of the employees of the Corporation, under such terms and having such job responsibilities as the chief executive shall determine in his or her sole discretion, subject to the rights, if any, of the employee under any

contract of employment. The chief executive may delegate his or her responsibilities and powers subject to the control of the Board. He or she shall have such other powers and duties as may be prescribed by the Board or these Bylaws. The Board may not appoint the chief executive as an Officer. The chief executive may be compensated at a salary fixed by the Board, so long as that salary is reasonable and given in return for services actually rendered for the Corporation which relate to the performance of the public benefit purposes of the Corporation. Should the chief executive or any employee of the Corporation receive compensation, the Board shall periodically review the fairness of compensation, including benefits, paid to every person, regardless of title, and (ii) upon any extension or renewal of such person's term of employment, and (iii) when such person's compensation is modified (unless all employees are subject to the same general modification of compensation).

Article IX

TRANSACTIONS BETWEEN CORPORATION AND DIRECTORS OR OFFICERS.

Section 9.1 Transactions with Directors and Officers

~~Section 9.1.1 Interested Party Transactions. Except as described in this Article IX and these Bylaws and the Corporation's Conflict of Interest Policy, the Corporation shall not be a party to any transaction:~~

- ~~(a) — in which one or more of its Directors or Officers has a material financial interest, or~~
- ~~(b) — with any corporation, firm, association, or other entity in which one or more Directors or Officers has a material financial interest.~~

Section 9.1.2 Requirements to Authorize Interested Party Transactions

~~The Corporation shall not be a party to any transaction described in this Article IX unless it conforms to the procedures described in the Corporation's Conflict of Interest Policy.~~

Section 9.2 Material Financial Interest

~~A Director or Officer shall not be deemed to have a "material financial interest" in a transaction as the term "financial interest" is defined in the Corporation's Conflict of Interest Policy.~~

Section 9.3 Loans to Directors and Officers

~~The Corporation shall not make any loan of money or property to or guarantee the obligation of any Director or Officer, unless approved by the Attorney General; except that, however, the Corporation may advance money to a Director or Officer for expenses reasonably anticipated to be incurred in the performance of duties of such Director or Officer, if in the absence of such advance, such Director or Officer would be entitled to be reimbursed for such expenses by the Corporation.~~

~~Section 9.4 Duty of Loyalty; Construction with Article X~~

~~Nothing in this Article IX shall be construed to derogate in any way from the absolute duty of loyalty that every Director and Officer owes to the Corporation. Furthermore, nothing in this Article IX shall be construed to override or amend the provisions of Article X. All conflicts between the two articles shall be resolved in favor of Article X.~~

Article XARTICLE IX

INDEMNIFICATION OF DIRECTORS, OFFICERS, EMPLOYEES AND AGENTS

~~Section 10.1~~Section 9.1 Definitions.

~~Section 10.1.1~~Section 9.1.1 Agent

For the purposes of this Article, "agent" means any person who is or was a Director, officer, or employee of this Corporation, or is or was serving at the request of the Corporation as a director, Director, officer, employee or agent of another foreign or domestic Corporation, partnership, joint venture, trust or other enterprise, or was a director, Director, officer, employee or agent of a foreign or domestic Corporation which was a predecessor Corporation of this Corporation or of another enterprise at the request of such predecessor Corporation.

~~Section 10.1.2~~Section 9.1.2 Proceeding

"Proceeding" means any threatened, pending completed action or proceeding, whether civil, criminal, administrative or investigative; and "expenses" includes, without limitation, attorneys' fees and any expenses of establishing a right to indemnification under Sections 4 or 5b of this Article.

~~Section 10.1.3~~Section 9.1.3 Expenses

"Expenses" includes, without limitation, all attorneys' fees, costs, and any other expenses reasonably incurred in the defense of any claims or proceedings against an Agent by reason of his or her position or relationship as Agent and all attorneys' fees, costs, and other expenses reasonably incurred in establishing a right to indemnification under this Article IX.

~~Section 10.2~~Section 9.2 Applicability of Indemnification Provisions

~~Section 10.2.1~~Section 9.2.1 Successful Defense by Agent

To the extent that an Agent has been successful on the merits in the defense of any proceeding referred to in this Article IX, or in the defense of any claim, issue, or matter therein, the Agent shall be indemnified against expenses actually and reasonably incurred by the Agent in connection with the claim.

~~Section 10.2.2~~Section 9.2.2 Settlement or Unsuccessful Defense by Agent

If an Agent either settles any proceeding referred to in this Article IX, or any claim, issue, or matter therein, or sustains a judgment rendered against him, then the provisions of Article IX shall determine whether the Agent is entitled to indemnification.

~~Section 10.2.3~~Section 9.2.3 Actions Brought by Persons Other than the Corporation

This Section applies to any proceeding other than an action "by or on behalf of the corporation" as defined in this Article IX. Such proceedings that are not brought by or on behalf of the Corporation are referred to in this Article IX as "Third Party proceedings."

~~Section 10.3~~Section 9.3 Indemnification in Actions by: Third Parties.

Subject to the required findings to be made pursuant to this Article IX, this Corporation may indemnify any person who was or is a party or is threatened to be made a party to any proceeding, or Third Party proceeding (other than an action by or in the right of this Corporation to procure a judgment in its favor, an action brought under Section 5233 of the California Nonprofit Public Benefit Corporation Law, or an action brought by the Attorney General or a person granted relater status by the Attorney General for any breach of duty relating to assets held in charitable trust) by reason of the fact that such person is or was an agent of this Corporation, against expenses, judgments, fines, settlements and other amounts actually and reasonably incurred in the connection with such proceeding.

~~Section 10.3.1~~Section 9.3.1 Required Standard of Conduct for Indemnification in Third Party Proceedings

Any indemnification granted to an Agent in this Section above is conditioned on the following: The Board must determine, in the manner provided in this Article IX that the Agent seeking reimbursement acted in Good Faith and in a manner such person reasonably believed to be in the best interests of this Corporation, and, in the case of a criminal proceeding, he or she must have had no reasonable cause to believe that his or her conduct was unlawful. The termination of any proceeding by judgment, order, settlement, conviction or upon a plea of nolo contendere or its equivalent shall not, of itself, create a presumption that the person did not act in good faith or in a manner he or she reasonably believed to be in the best interests of this Corporation or that he or she had reasonable cause to believe that the person's conduct was unlawful.

~~Section 10.4~~Section 9.4 Indemnification in Actions by, on behalf of or in the Right of the Corporation.

This Section applies to any proceeding brought (i) by, on behalf of or in the Right of the Corporation, or (ii) by any Officer, Director or person granted regulator status by the Attorney General, or by the Attorney General, on the ground that the defendant Director was or is engaging in self-dealing within the meaning Section 52 33 of the California Nonprofit Public Benefit Corporation Law, or (iii) brought by the Attorney General or a person granted regulator status by the Attorney General for breach of duty relating to assets held in charitable trust, (any such proceeding is referred to in these Bylaws as a proceeding "by, on behalf of the Corporation") to procure a judgment in its favor by reason of the fact that such person is or was an agent of the Corporation, against expenses actually and reasonably incurred by such person in connection with the defense or settlement of such action if such person acted in good faith, in a manner such person believed to be in the best interests of the Corporation and with such care, including reasonable inquiry, as an ordinarily prudent person in a like position would use under similar circumstances. No indemnification shall be made under this Section:

- In respect of any claim, issue or matter as to which such person shall have been adjudged to be liable to this Corporation in the performance of such person's duty to the Corporation, unless and only to the extent that the court in which such proceeding is or

was pending shall determine upon application that, in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnity for the expenses which such court shall determine;

- Of amounts paid in settling or otherwise disposing of a threatened or pending action, with or without court approval; or
- Of expenses incurred in defending a threatened or pending action, which is settled or otherwise disposed of without court approval, unless it is settled with the approval of the Attorney General.

Section 10.4.1 Section 9.4.1 Scope of Indemnification in Proceeding By or On Behalf Of the Corporation

Subject to the required findings to be made pursuant to this Article IX, and except as provided in this Article IX, the Corporation may indemnify any person who was or is a party, or is threatened to be made a party, to any proceeding by or on behalf of the Corporation, by reason of the fact that such person is or was an Agent, for all expenses actually and reasonably incurred in connection with the defense or settlement of such action.

Section 10.4.2 Section 9.4.2 Required Standard of Conduct for Indemnification in Proceeding By or On Behalf Of the Corporation

Any indemnification granted to an Agent in this Article IX is conditioned on the following. The Board must determine, in the manner provided in this Article IX, that the Agent seeking reimbursement acted in Good Faith, in a manner he or she believed to be in the best interest of the Corporation and with such care, including reasonable inquiry, as an ordinarily prudent person in a like position would use under similar circumstances.

Section 10.4.3 Section 9.4.3 Claims Settled Out of Court

If any Agent settles or otherwise disposes of a threatened or pending action brought by or on behalf of the Corporation, with or without court approval, the Agent shall receive no indemnification for amounts paid pursuant to the terms of the settlement or other disposition. Also, in cases settled or otherwise disposed of without court approval, the Agent shall receive no indemnification for expenses reasonably incurred in defending against the proceeding, unless the proceeding is settled with the approval of the Attorney General.

Section 10.4.4 Section 9.4.4 Claims and Suits Awarded Against Agent

If any Agent is adjudged to be liable to the Corporation in the performance of the Agent's duty to the Corporation, the Agent shall receive no indemnification for amounts paid pursuant to the judgment, and any indemnification of such Agent under this Article IX for expenses actually and reasonably incurred in connection with the defense of that action shall be made only if both of the following conditions are met:

a) The determination of good faith conduct required by this Article IX must be made in the manner provided for in this Article IX; and

(b) Upon application, the court in which the action was brought must determine that, in view of all of the circumstances of the case, the Agent is fairly and reasonably entitled to indemnity for the expenses incurred. If the Agent is found to be so entitled, the court shall determine the appropriate amount of expenses to be reimbursed.

Section 10.5 Section 9.5 Determination of Agent's Good Faith Conduct

The indemnification granted to an Agent under this Article IX is conditioned on the findings required by this Article IX being made by:

- (a) the Board by a majority vote of a quorum consisting of Directors who are not parties to the proceeding; or
- (b) the court in which the proceeding is or was pending. Such determination may be made on application brought by the Corporation or the Agent or the attorney or other person rendering a defense to the Agent, whether or not the application by the Agent, attorney, or other person is opposed by the Corporation.

Section 10.6 Section 9.6 Limitations

No indemnification or advance shall be made under this Article IX in any circumstances when it appears:

- (a) that the indemnification or advance would be inconsistent with a provision of the Articles of Incorporation, as amended, or an agreement in effect at the time of the accrual of the alleged cause of action asserted in the proceeding in which the expenses were incurred or other amounts were paid, which prohibits or otherwise limits indemnification; or
- (b) that the indemnification would be inconsistent with any condition expressly imposed by a court in approving a settlement.

Section 10.7 Section 9.7 Indemnification Against Expenses.

To the extent that an agent of this Corporation has been successful on the merits in defense of any proceeding referred to in this Article IX or in defense of any claim, issue or matter therein, the agent shall be indemnified against expenses actually and reasonably incurred by the agent in connection therewith.

Section 10.8 Section 9.8 Required Determinations.

Except as provided in this Article IX, any indemnification under this Article IX shall be made by this Corporation only if authorized in the specific case, upon a determination that indemnification of the agent is proper in the circumstances because the agent has met the applicable standard of conduct set forth in this Article IX by:

- A majority vote of a quorum consisting of Directors who are not parties to such proceeding; or
- The court in which such proceeding is or was pending upon application made by this Corporation or the agent or the attorney or other person rendering services in connection with the defense, whether or not such application by the agent, attorney or other person is opposed by this Corporation.

Section 10.9 Section 9.9 Advance of Expenses.

Expenses incurred in defending any proceeding may be advanced by this Corporation prior to the final disposition of such proceeding upon receipt of an undertaking by or on behalf of the agent to repay such amount unless it shall be determined ultimately that the agent is entitled to be indemnified as authorized in this Article IX.

~~Section 10.10~~ Section 9.10 Contractual Rights of Non-Directors and Non-Officers

Nothing contained in this Article IX shall affect any right to indemnification to which persons other than Directors and Officers of the Corporation, or any of its subsidiaries, may be entitled by contract or otherwise.

~~Section 10.11~~ Section 9.11 Other Indemnification.

No provision made by this Corporation to indemnify its or its subsidiary's directors, Directors or officers for the defense of any proceeding, whether contained in the Articles of Incorporation, Bylaws, a resolution of members or Directors, an agreement, or otherwise, shall be valid unless consistent with this Article IX. Nothing contained in this Article IX shall affect any right to indemnification to which: (i) persons other than such Directors and officers may be entitled by contract or under the provisions of the California Tort Claims Act; (ii) such Directors may be entitled under the provisions of the California Tort Claims Act; or (iii) either may otherwise be entitled. Nothing in this Article IX or these Bylaws shall limit or affect the Corporation's obligation and agreement to carry out its defense, hold harmless, and indemnity obligations as described in any approved charter or other agreement with the Corporation's charter authorizing entity or entities.

~~Section 10.12~~ Section 9.12 Forms of Indemnification Not Permitted.

No indemnification or advance shall be made under this Article in any circumstances where it appears:

- That it would be inconsistent with a provision of the Articles of Incorporation, these Bylaws, or an agreement in effect at the time of the accrual of the alleged cause of action asserted in the proceeding in which the expenses were incurred or other amounts were paid, which prohibits or otherwise limits indemnification; or
- That it would be inconsistent with any condition expressly imposed by a court in approving a settlement.

~~Section 10.13~~ Section 9.13 Insurance.

The Corporation shall have the power to purchase and maintain insurance on behalf of any agent of this Corporation against any liability asserted against or incurred by the agent in such capacity or arising out of the agent's status as such whether or not this Corporation would have the power to indemnify the agent against such liability under the provisions of this Article; provided, however, that this Corporation shall have no power to purchase and maintain such insurance to indemnify any agent of the Corporation for a violation of Section 5233 of the California Nonprofit Public Benefit Corporation Law.

~~Section 10.14~~ Section 9.14 Non-applicability to Fiduciaries of Employee Benefit Plans.

This Article does not apply to any proceeding against any Director, investment manager or other fiduciary of an employee benefit plan in such person's capacity as such, even though such person may also be an agent of the Corporation as defined in this Article IX. The Corporation shall have power to indemnify such Director, investment manager or other fiduciary to the extent permitted by subdivision (f) of Section 207 of the California General Corporation Law.

~~Section 10.15~~ Section 9.15 Indemnification and the California Tort Claims Act.

Notwithstanding any other provision of this Article ~~IX~~, the Corporation shall have the right and obligation to insure, defend, and indemnify the Corporation's employees, officers, and directors for all claims brought pursuant to the California Tort Claims Act (Government Code Section 810, et seq.) to the fullest extent allowed under said Act.

~~Article XI~~ ARTICLE X

CORPORATE RECORDS, REPORTS AND SEAL

~~Section 11.1~~ Section 10.1 Minute Book

The Corporation shall keep a minute book in written form which shall contain a record of all actions by the Board or any committee including (i) the time, date and place of each meeting; (ii) whether a meeting is regular or special and, if special, how called; (iii) the manner of giving notice of each meeting and a copy thereof; (iv) the names of those present at each meeting of the Board or any Committee thereof; (v) the minutes of all meetings; (vi) any written waivers of notice consents to the holding of a meeting or approvals of the minutes thereof; (vii) all written consents for action without a meeting; (viii) all protests concerning lack of notice; and (ix) formal dissents from Board actions.

~~Section 11.2~~ Section 10.2 Books and Records of Account

The Corporation shall keep adequate and correct books and records of account. "Correct books and records" includes, but is not necessarily limited to: accounts of properties and transactions, its assets, liabilities, receipts, disbursements, gains, and losses.

~~Section 11.3~~ Section 10.3 Articles of Incorporation and Bylaws

The Corporation shall keep at its principal office, the original or a copy of the Articles of Incorporation and Bylaws as amended to date.

~~Section 11.4~~ Section 10.4 Maintenance and Inspection of Federal Tax Exemption Application and Annual Information Returns.

The Corporation shall at all times keep at its principal office a copy of its federal tax exemption application and, for three years from their date of filing, its annual information returns. These documents shall be open to public inspection and copying to the extent required by the Code.

~~Section 11.5 Annual Report: Statement of Certain Transactions~~

~~The Board shall cause an annual report to be sent to each Director within 120 days after the close of the Corporation's fiscal year containing the following information:~~

- ~~(a) The assets and liabilities of the Corporation as of the end of the fiscal year;~~
- ~~(b) The principal changes in assets and liabilities, including trust funds, during the fiscal year;~~
- ~~(c) The revenue or receipts of the Corporation, both unrestricted and restricted to particular purposes, for this fiscal year;~~

~~(d) — The expenses or disbursements of the Corporation for both general and restricted purposes during the fiscal year;~~

~~(e) — A statement of any transaction (i) to which the Corporation, its parent, or its subsidiary was a party, (ii) which involved more than \$50,000 or which was one of a number of such transactions with the same person involving, in the aggregate, more than \$50,000, and (iii) in which either of the following interested persons had a direct or indirect material financial interest (a mere common directorship is not a financial interest):~~

~~(1) — Any Director or Officer of the Corporation, its parent, or its subsidiary;~~

~~(2) — Any holder of more than 10% of the voting power of the Corporation, its parent, or its subsidiary.~~

~~The statement shall include: (i) a brief description of the transaction; (ii) the names of interested persons involved; (iii) their relationship to the Corporation; (iv) the nature of their interest in the transaction, and; (v) when practicable, the amount of that interest, provided that, in the case of a partnership in which such person is a partner, only the interest of the partnership need be stated.~~

~~(f)(a) A brief description of the amounts and circumstances of any loans, guaranties, indemnifications, or advances aggregating more than \$10,000 paid during the fiscal year to any Officer or Director under Article X.~~

Article XHARTICLE XI

EXECUTION OF INSTRUMENTS, DEPOSITS AND FUNDS

Section 12.1Section 11.1 Execution of Instruments

The Board, except as otherwise provided in these Bylaws, may by resolution authorize any Officer or agent of the Corporation to enter into any contract or execute and deliver any instrument in the name of and on behalf of the Corporation, and such authority may be general or confined to specific instances. Unless so authorized, no Officer, agent, or employee shall have any power or authority to bind the Corporation by any contract or engagement or to pledge its credit or to render it liable monetarily for any purpose or in any amount.

Section 12.2Section 11.2 Checks and Notes

Except as otherwise specifically determined by resolution of the Board, or as otherwise required by law, checks, drafts, promissory notes, orders for the payment of money, and other evidence of indebtedness of the Corporation shall be signed by the Treasurer and countersigned by the President.

Section 12.3Section 11.3 Deposits

All funds of the Corporation shall be deposited from time to time to the credit of the Corporation in such banks, trust companies, or other depositories as the Board may select.

~~Section 12.4~~Section 11.4 Gifts

The Board may accept on behalf of the Corporation any contribution, gift, bequest, or devise for the charitable or public purposes of the Corporation.

~~Article XI~~ARTICLE XII

CONSTRUCTION AND DEFINITIONS

Unless the context requires otherwise, the general provisions, rules of construction, and definitions of California Nonprofit Corporation Law shall govern the construction of these Bylaws. Without limiting the generality of the above, the masculine gender includes the feminine and neuter, the singular number includes the plural, the plural number includes the singular, and the term "person" includes both the Corporation and a natural person. All references to statutes, regulations and laws shall include any future statutes, regulations and laws that replace those referenced.

~~Article XII~~ARTICLE XIII

AMENDMENTS

~~Section 14.1~~Section 13.1 Amendment by Directors

The Board may adopt, amend or repeal bylaws subject to the ratification of the Board of Directors of Scholarship Prep. Such power is subject to the following limitations:

- (a) Where any provision of these Bylaws requires the vote of a larger proportion of the Directors than otherwise is required by law, such provision may not be altered, amended or repealed except by the vote of such greater number.
- (b) No amendment may extend the term of a Director beyond that for which such Director was elected.
- (c) If bylaws are adopted, amended or repealed at a meeting of the Board, such action is authorized only at a duly called and held meeting for which written notice of such meeting, setting forth the proposed bylaw revisions with explanations therefor, is given in accordance with these Bylaws, unless such notice is waived in accordance with these Bylaws.

~~Article XIII~~ARTICLE XIV

MISCELLANEOUS

~~Section 15.1~~Section 14.1 Fiscal Year.

The fiscal year of the Corporation shall be a fiscal year ending June 30.

~~Section 15.2~~Section 14.2 Inspection of Corporate Records.

The books of account and minutes of the proceedings of members and Directors, and of any executive committee or other committees of the Directors, shall be open to inspection at any reasonable time upon the written demand of any member. Such inspection may be made in person or by an agent or attorney, and shall include the right to make photocopies and extracts.

~~Section 15.3~~Section 14.3 Checks, Drafts, Etc.

All checks, drafts or other orders for payment of money, notes or other evidences of indebtedness issued in the name of or payable to the Corporation and any and all securities owned by or held by the Corporation requiring signature for transfer shall be signed or endorsed by such person or persons and in such manner as from time to time shall be determined by the Board or the executive committee, if any, or by the president.

~~Section 15.4~~Section 14.4 Endorsement or Execution of Documents and Contracts.

Subject to the provisions of applicable law, any note, mortgage, evidence of indebtedness, contract, conveyance or other instrument in writing and any assignment or endorsement thereof executed or entered into between the Corporation and any other person, when signed by the chair of the Board, the president, certain designated vice-presidents, the secretary or the chief financial officer of the Corporation, shall be valid and binding on the Corporation in the absence of actual knowledge on the part of the other person that the signing officer(s) had no authority to execute the same. Additionally, by resolution of the Board, general signatory authority may be granted and delegated to other persons on behalf of the Corporation. Any such instruments may be signed by any other person or persons and in such manner as from time to time shall be determined by the Board or the president. Unless so authorized, no officer, agent or employee shall have any power or authority to bind the Corporation to any contract or engagement or to pledge its credit or to render it liable for any purpose or amount.

~~Section 15.5~~Section 14.5 Dissolution and Distribution of Corporation Assets.

The property of this Corporation is irrevocably dedicated to charitable, public-benefit purposes and no part of the net income or assets of this Corporation shall ever inure to the benefit of any director, officer, or member thereof or to the benefit of any private person. Upon the winding up and dissolution of the Corporation, after paying or adequately providing for the debts and obligations of the Corporation (including any obligations requiring the return of grant funds on the dissolution of the Corporation), all properties and assets remaining after payment, or provision for payment, of all debts and liabilities of the corporation shall be distributed as specified in the Corporation's Articles of Incorporation.

~~any capital assets, including facilities or property, purchased in whole or part with public funds will be distributed to a political subdivision of the state organized for educational purposes at the discretion of the Corporation's governing board. Any remaining assets of the Corporation shall be distributed to either (i) such organization organized and operated exclusively for educational purposes which has established its tax exempt status under Section 501(c)(3) of the Internal Revenue Code of 1986, as amended, (or the corresponding provision of any future United States Internal Revenue Law), or (ii) a state or political subdivision of a state of the United States to be used exclusively for public purposes.~~

Article XVIARTICLE XV

EFFECTIVE DATE

Section 16.1 Effective Date.

These Bylaws shall become effective immediately upon their adoption. Amendments to these Bylaws shall become effective immediately upon their adoption unless the Board directs otherwise.

CERTIFICATE OF ADOPTION OF FIRST AMENDED BYLAWS

I certify that I am the elected and acting President of the Scholarship Prep and that the foregoing First Amended Bylaws, comprising 27-22 pages not including this Certificate of Adoption, constitute the Bylaws of said corporation that were duly adopted by unanimous consent of the corporation's Board of Directors on March 27, 2017.

IN WITNESS WHEREOF, I have signed my name to this certificate on March 27, 2017.

Dr. Charles Friedrichs, Board President
Print

Signature



ORANGE COUNTY BOARD OF EDUCATION

BOARD AGENDA ITEM

DATE: January 16, 2019
TO: Nina Boyd, Associate Superintendent
FROM: Darou Sisavath, Recording Clerk
SUBJECT: Change Board Meeting Date- March 2019

RECOMMENDATION:

Approve change of the March 2019 board meeting date from Wednesday, March 13, 2019 to **Wednesday, March 6, 2019**.

January 16, 2019

☒ Mailed ☐ Distributed at meeting



ORANGE COUNTY BOARD OF EDUCATION

BOARD AGENDA ITEM

DATE: January 16, 2019

TO: Nina Boyd, Associate Superintendent, Governance, Leadership & Professional Partnerships

FROM: Renee Hendrick, Associate Superintendent, Administrative Services Division

SUBJECT: Orange County Department of Education Audit for the 2017-18 Fiscal Year

In accordance with State regulations, the audit report for the fiscal year ending June 30, 2018, has been completed by Vavrinek, Trine, Day & Co., LLP and may be received by the Board of Education.

RECOMMENDATION:

Receive Vavrinek, Trine, Day & Co., LLP, audit report for the Orange County Department of Education for fiscal year ending June 30, 2018.

RH:sh



**ORANGE COUNTY
DEPARTMENT OF EDUCATION**

ANNUAL FINANCIAL REPORT

JUNE 30, 2018

ORANGE COUNTY DEPARTMENT OF EDUCATION

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ORANGE COUNTY DEPARTMENT OF EDUCATION

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FINANCIAL SECTION



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

VALUE THE *difference*

INDEPENDENT AUDITOR'S REPORT

Superintendent of Schools
Orange County Department of Education
Costa Mesa, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Orange County Department of Education (the County) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the County's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *2017-2018 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

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

Emphasis of Matter - Change in Accounting Principles

As discussed in Note 1 and Note 16 to the financial statements, in 2018, the County adopted new accounting guidance, GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. In addition, the County implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 16, budgetary comparison schedules on pages 78 and 79, schedule of changes in the County's total OPEB liability and related ratios on page 80, schedule of the County's proportionate share of the net OPEB liability - MPP program on page 81, schedule of the County's proportionate share of the net pension liability on page 82, and the schedule of County contributions on page 83, 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's basic financial statements. The accompanying supplementary information such as the combining and individual non-major fund financial statements and Schedule of Expenditures of Federal Awards, as required by *Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)* and the other supplementary information as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 13, 2018, on our consideration of the Orange County Department of Education's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Orange County Department of Education's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Orange County Department of Education's internal control over financial reporting and compliance.

VAUGHN, TRINE, DAY & CO. LLP

Rancho Cucamonga, California
December 13, 2018



**ORANGE COUNTY
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OF EDUCATION**

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AL MIJARES, Ph.D.
County Superintendent
of Schools

**ORANGE COUNTY
BOARD OF EDUCATION**

MARI BARKE

JOHN W. BEDELL, PH.D.

REBECCA "BECKIE" GOMEZ

LISA SPARKS, PH.D.

KEN L. WILLIAMS, D.O.

This section of the Orange County Department of Education's (the County) annual financial report presents our discussion and analysis of the County's financial performance during the fiscal year that ended on June 30, 2018, with comparative information for the year ended June 30, 2017. Please read it in conjunction with the County's financial statements, which immediately follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Financial Statements

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

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

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

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

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

The *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.

The *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, 2018

FINANCIAL HIGHLIGHTS OF THE PAST YEAR

This is the fifth 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 will reach full implementation of the LCFF in 2018-2019, and County Offices of Education (COE) are considered fully funded, and will 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) decreased \$4.2 million. AB602 requires a transfer to Special Education of 36 percent of the total property tax received. Property tax increased by \$6.8 million which required a transfer totaling \$37.4 million to the Special Education Pass-Through Fund (SELPA). This was an increase of \$2.4 million to the SELPA and the remaining \$4.4 million remained in the County School Service Fund. Although the County continues to receive increases in local taxes, overall LCFF funding for 2017-2018 grew by \$4.8 million including \$185 thousand for the College & Career Preparatory Academy charter school. Federal funding increased \$9.2 million or four percent of the County School Service Fund revenues (and an increase of \$11.2 million or 3.7 percent of government-wide revenues) due to changes in various federal programs. Other State revenue experienced a net decrease of \$21.2 million or nine percent of the County School Service Fund revenues (and \$23 million or 7.6 percent of government-wide revenues). The decrease is largely due to a decrease of \$19 million in Multi-Tiered Support System funds, a decrease of \$1.3 million for California Career Pathways, a decrease of \$588 thousand for One-Time Discretionary funding, \$257 thousand for CalSTRS on behalf due to GASB 68 recognizing the State's contribution on behalf of the district and other state grants and entitlements. Finally, government-wide local revenue for 2017-2018 increased by \$2.8 million as a result of various increases in interagency fees and decreases in tuition fees.

Expenditures in the County School Service Fund (not including transfers to other funds) increased by \$24 million or 11.7 percent of expenditures. This includes the increase of GASB 68 CalSTRS on behalf of the district contribution of \$257 thousand and the rate increases of CalSTRS from 12.58 percent to 14.43 percent and CalPERS from 13.888 percent to 15.531 percent. In 2017-2018, all bargaining units received a two percent on-going salary increase and a two percent off schedule payment. In addition, the district contributed to the health and welfare benefits for the 2017-2018 year only with employees paying the increase in cost of health benefits for the PPO plan. The increase in salaries and the changes in the health benefits increased total expenditures for salaries and benefits by \$3.7 million, which include retirements and staff attrition and the GASB 68 CalSTRS on behalf of the district contribution. The LCAP called for increases in books, computers, and instructional materials of \$320 thousand and various other changes in services and contracts.

In 2017-2018, we had an overall decrease of 303 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.

ORANGE COUNTY DEPARTMENT OF EDUCATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

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, Career and Technical Education, Information Technology, Instructional Services, Legal Services, Community and Student Support 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 150 ADA, a 6 percent decline from last year. County-wide enrollment experienced a decrease of 1.07 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 2017-2018, 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, 2018

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, 2018

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, 2018

THE COUNTY AS A WHOLE

Net Position

The County's net position was \$145,493,049 for the fiscal year ended June 30, 2018. Of this amount, \$13,771,246 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	
	2018	(as restated) 2017
ASSETS		
Current and other assets	\$ 288,372,931	\$ 282,232,775
Capital assets	88,713,027	90,689,709
Total Assets	377,085,958	372,922,484
Deferred Outflows of Resources	54,337,932	37,143,199
LIABILITIES		
Current liabilities	50,718,086	45,664,791
Long-term obligations	25,653,921	18,953,158
Aggregate net pension liability	189,129,604	168,578,827
Total Liabilities	265,501,611	233,196,776
Deferred Inflows of Resources	20,429,230	18,013,570
NET POSITION		
Investment in capital assets	76,307,027	77,839,709
Restricted	55,414,776	67,384,137
Unrestricted	13,771,246	13,631,491
Total Net Position	\$ 145,493,049	\$ 158,855,337

The \$13,771,246 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, 2018

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	
	2018	2017
Revenues		
Program revenues:		
Charges for services	\$ 35,680,840	\$ 36,118,634
Operating grants and contributions	63,955,666	80,701,028
Capital grants and contributions	(2,813,364)	33,361
General revenues		
Federal and State aid not restricted	50,515,576	40,180,722
Property taxes	107,541,072	100,287,570
Other general revenues	49,896,528	47,645,184
Total Revenues	304,776,318	304,966,499
Expenses		
Instruction	181,821,818	159,920,685
Pupil services	19,988,956	19,205,744
Administration	31,595,573	22,995,643
Plant services	12,581,399	12,578,171
All other services	72,150,860	56,922,038
Total Expenses	318,138,606	271,622,281
Change in Net Position	\$ (13,362,288)	\$ 33,344,218

ORANGE COUNTY DEPARTMENT OF EDUCATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

Governmental Activities

As reported in the *Statement of Activities* on page 18, the cost of all of our governmental activities this year was \$318,138,606. However, the amount that our taxpayers ultimately financed for these activities through local taxes was only \$107,541,072 because the cost was paid by those who benefited from the programs (\$35,680,840) or by other governments and organizations who subsidized certain programs with grants and contributions (\$61,142,302). We paid for the remaining "public benefit" portion of our governmental activities with \$100,412,104 in unrestricted Federal and State funds and with other revenues, such as interest and general entitlements.

In Table 3, we have presented the cost of each of the County's largest functions which are instruction, instruction-related activities, pupil services, administration, plant services, 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	
	2018	2017	2018	2017
Instruction	\$ 181,821,818	\$ 159,920,685	\$ 123,836,853	\$ 81,983,726
Pupil services	19,988,956	19,205,744	13,231,663	11,633,278
Administration	31,595,573	22,995,643	25,965,714	17,285,079
Plant services	12,581,399	12,578,171	11,951,254	11,857,958
All other services	72,150,860	56,922,038	46,329,980	32,009,217
Total	\$ 318,138,606	\$ 271,622,281	\$ 221,315,464	\$ 154,769,258

ORANGE COUNTY DEPARTMENT OF EDUCATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

THE COUNTY'S FUNDS

As the County completed this year, our governmental funds reported a combined fund balance of \$233,017,022, which is an increase of \$598,561 from last year (Table 4).

Table 4

	Balances and Activities			
	July 1, 2017	Revenues and other financing sources	Expenditures and other financing uses	June 30, 2018
County School Service Fund	\$ 185,826,729	\$ 234,644,377	\$ 231,558,524	\$ 188,912,582
Special Education				
Pass-Through Fund	12,823,690	43,985,779	45,585,740	11,223,729
Child Development Fund	-	24,832,012	24,832,012	-
Deferred Maintenance Fund	25,146,402	1,326,145	280,880	26,191,667
County School Facilities Fund	4,151,733	(2,790,935)	8,472	1,352,326
Special Reserve Fund for				
Capital Outlay Projects	2,966,065	2,368,028	1,412,102	3,921,991
Debt Service Fund	1,503,842	813,785	902,900	1,414,727
Total	\$ 232,418,461	\$ 305,179,191	\$ 304,580,630	\$ 233,017,022

The County School Service Fund is our principal operating fund. The fund balance in the County School Service Fund increased to \$188.9 million, a \$3 million increase, due to further implementation of the Local Control Funding Formula LCFF 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 in March 14, 2018. (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 78).

ORANGE COUNTY DEPARTMENT OF EDUCATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2018, the County had \$88,713,027 in a broad range of capital assets, including land, buildings, and furniture and equipment, net of depreciation. This amount represents a net decrease (including additions, deductions, and depreciation) of \$1,976,682, or 2.2 percent, from last year (Table 5).

Table 5

	Governmental Activities	
	2018	2017
Land and construction in process	\$ 29,876,451	\$ 30,506,226
Buildings and improvements	55,009,674	56,540,459
Furniture and equipment	3,826,902	3,643,024
Total	\$ 88,713,027	\$ 90,689,709

The \$1.9 million decrease in capital assets was the result of a decrease of \$1.5 million in capital purchases and \$629 thousand of capital asset dispositions including \$183 thousand in equipment and related accumulated depreciation.

Long-Term Obligations

At the year-end, the County had \$25,653,921 in long-term obligations versus \$18,953,158 last year, an increase of \$6,700,763, or 35.4 percent. Those obligations consisted of:

	Governmental Activities	
	2018	(as restated) 2017
Certificates of participation (net of discount)	\$ 12,406,000	\$ 12,850,000
Compensated absences	1,785,228	1,879,280
Supplemental early retirement plan	7,332,855	-
Net other postemployment benefits (OPEB) liability	4,129,838	4,223,878
Total	\$ 25,653,921	\$ 18,953,158

Net Pension Liability (NPL)

At the year-end, the County had \$189,129,604 in net pension liability versus \$168,578,827 last year, an increase of \$20,550,777, or 12.2 percent.

ORANGE COUNTY DEPARTMENT OF EDUCATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

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 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. The CalSTRS rate is scheduled to increase every year until it nets to a total of 19.1 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:

2018-2019 is the fifth 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 continue successfully 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 has 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, an early retirement incentive was offered to certificated and classified non-management groups. We had 63 teachers participate and we will not replace 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.

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 are now required to bill school districts for students in community schools and special schools. We continue to bill school districts over \$30 million which does create cash flow consequences for our office. 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.

ORANGE COUNTY DEPARTMENT OF EDUCATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

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. 2017-2018 received the first Dashboard from California Department of Education that highlight districts that are in need of intervention and continuous improvement. We are now required to provide technical assistance for instructional programs and we will be looking at staffing expertise to assist the districts as needed. We have successfully completed the ninth 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, 2018

	Governmental Activities
ASSETS	
Deposits and investments	\$ 257,154,185
Receivables	31,218,746
Capital assets	
Land and construction in process	29,876,451
Other capital assets	100,961,082
Less: accumulated depreciation	<u>(42,124,506)</u>
Total Capital Assets	<u>88,713,027</u>
Total Assets	<u>377,085,958</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows of resources related to pensions	<u>54,337,932</u>
LIABILITIES	
Accounts payable	44,984,119
Accrued interest payable	36,429
Unearned revenue	5,446,768
Claims liability	250,770
Long-term obligations	
Current portion of long-term obligations other than pensions	3,433,142
Noncurrent portion of long-term obligations other than pensions	<u>22,220,779</u>
Total Long-Term Obligations	25,653,921
Aggregate net pension liability	<u>189,129,604</u>
Total Liabilities	<u>265,501,611</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows of resources related to pensions	<u>20,429,230</u>
NET POSITION	
Investment in capital assets	76,307,027
Restricted for:	
Debt service	2,617,507
Capital projects	4,035,108
Educational programs	32,864,180
Other activities	15,897,981
Unrestricted	<u>13,771,246</u>
Total Net Position	<u>\$ 145,493,049</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, 2018

Functions/Programs	Expenses	Program Revenues		Capital Grants and Contributions	Net (Expenses) Revenues and Changes in Net Position
		Charges for Services	Operating Grants and Contributions		
Governmental Activities:					
Instruction	\$ 92,642,896	\$ 9,915,817	\$ 22,785,790	\$ (2,813,364)	\$ (62,754,653)
Instruction-related activities:					
Supervision of instruction	73,900,650	4,430,828	22,012,236	-	(47,457,586)
Instructional library, media, and technology	1,060,079	12	9,400	-	(1,050,667)
School site administration	14,218,193	1,188,215	456,031	-	(12,573,947)
Pupil services:					
Home-to-school transportation	4,676,478	35,755	2,191	-	(4,638,532)
Food services	1,348,617	5,863	239,743	-	(1,103,011)
All other pupil services	13,963,861	3,700,914	2,772,827	-	(7,490,120)
Administration:					
Data processing	8,352,889	-	-	-	(8,352,889)
All other administration	23,242,684	1,840,759	3,789,100	-	(17,612,825)
Plant services	12,581,399	543,323	86,822	-	(11,951,254)
Interest on long-term obligations	462,804	-	-	-	(462,804)
Other outgo	71,688,056	14,019,354	11,801,526	-	(45,867,176)
Total Governmental Activities	\$ 318,138,606	\$ 35,680,840	\$ 63,955,666	\$ (2,813,364)	(221,315,464)
General revenues and subventions:					
Property taxes, levied for general purposes					104,942,972
Taxes levied for other specific purposes					2,598,100
Federal and State aid not restricted to specific purposes					50,515,576
Interest and investment earnings					2,976,071
Interagency revenues					7,851,976
Miscellaneous					39,068,481
Subtotal, General Revenues					207,953,176
Change in Net Position					(13,362,288)
Net Position - Beginning, as restated					158,855,337
Net Position - Ending					\$ 145,493,049

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

ORANGE COUNTY DEPARTMENT OF EDUCATION

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2018

	County School Service Fund	Special Education Pass-Through Fund	Non-Major Governmental Fund	Total Governmental Funds
ASSETS				
Deposits and investments	\$ 205,816,937	\$ 10,510,143	\$ 36,102,272	\$ 252,429,352
Receivables	25,679,706	3,641,405	1,891,640	31,212,751
Due from other funds	3,348,758	12,497,192	1,345,268	17,191,218
Total Assets	\$ 234,845,401	\$ 26,648,740	\$ 39,339,180	\$ 300,833,321
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 26,713,827	\$ 14,282,611	\$ 3,859,897	\$ 44,856,335
Due to other funds	14,156,650	1,142,400	2,214,146	17,513,196
Unearned revenue	5,062,342	-	384,426	5,446,768
Total Liabilities	45,932,819	15,425,011	6,458,469	67,816,299
Fund Balances:				
Nonspendable	70,000	-	-	70,000
Restricted	32,864,180	11,223,729	6,689,044	50,776,953
Committed	-	-	26,191,667	26,191,667
Assigned	69,256,119	-	-	69,256,119
Unassigned	86,722,283	-	-	86,722,283
Total Fund Balances	188,912,582	11,223,729	32,880,711	233,017,022
Total Liabilities and Fund Balances	\$ 234,845,401	\$ 26,648,740	\$ 39,339,180	\$ 300,833,321

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, 2018

Total Fund Balance - Governmental Funds **\$ 233,017,022**

**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	\$ 130,837,533	
Accumulated depreciation is	<u>(42,124,506)</u>	
Net Capital Assets		88,713,027

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. (36,429)

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. 4,674,252

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	15,589,185	
Difference between projected and actual earnings on pension plan investments	3,544,249	
Differences between expected and actual experience in the measurement of the total pension liability.	4,354,712	
Changes of assumptions	<u>30,849,786</u>	
Total Deferred Outflows of Resources Related to Pensions		54,337,932

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, 2018

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	\$ (13,809,640)	
Difference between projected and actual earnings on pension plan investments	(2,621,905)	
Differences between expected and actual experience in the measurement of the total pension liability	(2,669,249)	
Changes of assumptions	<u>(1,328,436)</u>	
Total Deferred Inflows of Resources Related to Pensions		\$ (20,429,230)

Net pension liability is not due and payable in the current period, and is not reported as a liability in the funds. (189,129,604)

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	(12,490,000)	
Discount on certificates of participation	84,000	
Compensated absences	(1,785,228)	
Supplemental early retirement plan	(7,332,855)	
Net other postemployment benefits (OPEB) liability	<u>(4,129,838)</u>	
Total Long-Term Obligations		<u>(25,653,921)</u>
Total Net Position - Governmental Activities		<u><u>\$ 145,493,049</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, 2018

	County School Service Fund	Special Education Pass-Through Fund	Non-Major Governmental Fund	Total Governmental Funds
REVENUES				
Local Control Funding Formula	\$ 96,130,328	\$ 32,573,859	\$ 1,022,520	\$ 129,726,707
Federal sources	32,145,060	7,425,545	9,156,886	48,727,491
Other State sources	17,864,158	2,707,921	12,210,351	32,782,430
Other local sources	88,504,831	1,278,454	3,060,983	92,844,268
Total Revenues	<u>234,644,377</u>	<u>43,985,779</u>	<u>25,450,740</u>	<u>304,080,896</u>
EXPENDITURES				
Current				
Instruction	68,854,255	-	16,646,218	85,500,473
Instruction-related activities:				
Supervision of instruction	68,031,519	-	6,012,134	74,043,653
Instructional library, media, and technology	1,020,261	-	-	1,020,261
School site administration	13,582,414	-	8,693	13,591,107
Pupil services:				
Home-to-school transportation	4,670,288	-	-	4,670,288
Food services	1,324,555	-	-	1,324,555
All other pupil services	13,084,727	-	-	13,084,727
Administration:				
Data processing	9,066,382	-	-	9,066,382
All other administration	13,639,911	-	2,118,462	15,758,373
Plant services	11,864,595	-	658,607	12,523,202
Other outgo	26,102,316	45,585,740	-	71,688,056
Facility acquisition and construction	19,006	-	289,352	308,358
Debt service				
Principal	-	-	450,000	450,000
Interest and other	-	-	452,900	452,900
Total Expenditures	<u>231,260,229</u>	<u>45,585,740</u>	<u>26,636,366</u>	<u>303,482,335</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>3,384,148</u>	<u>(1,599,961)</u>	<u>(1,185,626)</u>	<u>598,561</u>
Other Financing Sources (Uses)				
Transfers in	-	-	1,098,295	1,098,295
Transfers out	(298,295)	-	(800,000)	(1,098,295)
Net Financing Sources (Uses)	<u>(298,295)</u>	<u>-</u>	<u>298,295</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	<u>3,085,853</u>	<u>(1,599,961)</u>	<u>(887,331)</u>	<u>598,561</u>
Fund Balances - Beginning	<u>185,826,729</u>	<u>12,823,690</u>	<u>33,768,042</u>	<u>232,418,461</u>
Fund Balances - Ending	<u>\$ 188,912,582</u>	<u>\$ 11,223,729</u>	<u>\$ 32,880,711</u>	<u>\$ 233,017,022</u>

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 FOR THE YEAR ENDED JUNE 30, 2018

Total Net Change in Fund Balances - Governmental Funds	\$	598,561
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**Amounts Reported for Governmental Activities in the Statement
of Activities are Different Because:**

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

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

Depreciation expense	\$(3,592,937)	
Capital outlay	<u>1,651,689</u>	
Net Expense Adjustment		(1,941,248)

Loss on disposal of capital assets is reported in the government-wide Statement of Net Position, but is not recorded in the governmental funds.	(35,434)
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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 \$94,052. Special termination benefits added was more than the amount paid by \$7,332,855.	(7,238,803)
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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.	(5,771,704)
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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.	94,040
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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, 2018**

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	\$ 450,000
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Under the modified basis of accounting used in the governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the Statement of Activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. This adjustment combines the net changes of the following balances:

Amortization of debt discount	(6,000)
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Interest on long-term 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 increase in accrued interest on the certificates of participation by \$3,904.

	(3,904)
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An internal service fund is used by the County's management to charge the costs of the dental care program to the individual funds. The net revenue of the Internal Service Fund is reported with governmental activities.

	492,204
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Change in Net Position of Governmental Activities	<u>\$ (13,362,288)</u>
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The accompanying notes are an integral part of these financial statements.

ORANGE COUNTY DEPARTMENT OF EDUCATION

PROPRIETARY FUNDS STATEMENT OF NET POSITION JUNE 30, 2018

	Governmental Activities - Internal Service Fund Self-Insurance Fund
ASSETS	
Current Assets	
Deposits and investments	\$ 4,724,833
Receivables	5,995
Due from other funds	321,978
Total Current Assets	5,052,806
LIABILITIES	
Current Liabilities	
Accounts payable	127,784
Claim liability	250,770
Total Current Liabilities	378,554
NET ASSETS	
Restricted	\$ 4,674,252

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, 2018

	Governmental Activities - Internal Service Fund Self-Insurance Fund
OPERATING REVENUES	
Local and intermediate sources	\$ 1,947,156
OPERATING EXPENSES	
Claims payments	1,412,194
Other operating cost	96,517
Total Operating Expenses	1,508,711
Operating Income	438,445
NONOPERATING REVENUES	
Interest income	53,759
Change in Net Assets	492,204
Total Net Assets - Beginning	4,182,048
Total Net Assets - Ending	\$ 4,674,252

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

ORANGE COUNTY DEPARTMENT OF EDUCATION

PROPRIETARY FUNDS STATEMENT OF CASH FLOWS JUNE 30, 2018

	Governmental Activities - Internal Service Fund Self-Insurance Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash receipts from customers	\$ 1,796,627
Cash payments to other suppliers of goods or services	(1,526,389)
Other operating cash payments	(96,517)
Net Cash Provided by Operating Activities	<u>173,721</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	<u>51,464</u>
Net Increase in Cash and Cash Equivalents	225,185
Cash and Cash Equivalents - Beginning	4,499,648
Cash and Cash Equivalents - Ending	<u><u>\$ 4,724,833</u></u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating income	\$ 438,445
Changes in assets and liabilities:	
Due from other fund	(150,529)
Accounts payable	(21,773)
Claim liability	(92,422)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u><u>\$ 173,721</u></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, 2018

	<u>Agency Funds</u>
ASSETS	
Deposits and investments	<u>\$ 33,251,696</u>
LIABILITIES	
Due to other agencies	<u>\$ 33,251,696</u>

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

ORANGE COUNTY DEPARTMENT OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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 28 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, 2018

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, 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, and Unity Middle College High 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 \$24,893,032 in fund balance, and an increase in revenue of \$304,414.

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.

ORANGE COUNTY DEPARTMENT OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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.

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.

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, 2018

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, 2018

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.

ORANGE COUNTY DEPARTMENT OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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, 2018, with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost. Fair values of investments in 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.

ORANGE COUNTY DEPARTMENT OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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.

ORANGE COUNTY DEPARTMENT OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Deferred Outflows/Inflows of Resources

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

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, 2018, fund balances of the governmental funds are classified as follows:

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

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

Committed - amounts that can be used only for specific purposes determined by a formal action of the 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.

ORANGE COUNTY DEPARTMENT OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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, 2018. 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 \$55,414,776 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.

ORANGE COUNTY DEPARTMENT OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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 June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The primary objective of this Statement is to improve accounting and financial reporting by State and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by State and local governmental employers about financial support for OPEB that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

This Statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, establishes new accounting and financial reporting requirements for OPEB plans.

The County has implemented the provisions of this Statement as of June 30, 2018.

ORANGE COUNTY DEPARTMENT OF EDUCATION

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In March 2017, the GASB issued Statement No. 85, *Omnibus 2017*. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). Specifically, this Statement addresses the following topics:

- Blending a component unit in circumstances in which the primary government is a business-type activity that reports in a single column for financial statement presentation;
- Reporting amounts previously reported as goodwill and "negative" goodwill;
- Classifying real estate held by insurance entities;
- Measuring certain money market investments and participating interest-earning investment contracts at amortized cost;
- Timing of the measurement of pension or OPEB liabilities and expenditures recognized in financial statements prepared using the current financial resources measurement focus;
- Recognizing on behalf payments for pensions or OPEB in employer financial statements;
- Presenting payroll-related measures in required supplementary information for purposes of reporting by OPEB plans and employers that provide OPEB;
- Classifying employer-paid member contributions for OPEB;
- Simplifying certain aspects of the alternative measurement method for OPEB; and
- Accounting and financial reporting for OPEB provided through certain multiple-employer defined benefit OPEB plans.

The County has implemented the provisions of this Statement as of June 30, 2018.

In May 2017, the GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*. The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance.

The County has implemented the provisions of this Statement as of June 30, 2018.

New Accounting Pronouncements

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

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JUNE 30, 2018

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

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

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

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

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

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

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

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

ORANGE COUNTY DEPARTMENT OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

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

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

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

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

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

This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5–22 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the 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.

ORANGE COUNTY DEPARTMENT OF EDUCATION

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

NOTE 2 - DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2018, are classified in the accompanying financial statements as follows:

Governmental activities	\$ 257,154,185
Fiduciary funds	<u>33,251,696</u>
Total Deposits and Investments	<u>\$ 290,405,881</u>

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

Cash on hand and in banks	\$ 2,167,588
Cash in revolving	70,000
Investments	<u>288,168,293</u>
Total Deposits and Investments	<u>\$ 290,405,881</u>

Policies and Practices

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

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

ORANGE COUNTY DEPARTMENT OF EDUCATION

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

General Authorizations

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

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

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The County does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The County manages its exposure to interest rate risk by investing in the Orange County Treasury Investment Pool. The County maintains an investment of \$288,168,293 with the Orange County Treasury Investment Pool. This investment has an average weighted maturity of 302 days.

ORANGE COUNTY DEPARTMENT OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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, 2018, the County's bank balance \$1,856,162 was exposed to custodial credit risk because it was uninsured.

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.

ORANGE COUNTY DEPARTMENT OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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, 2018:

Investment Type	Reported Amount	Uncategorized
Orange County Treasury Investment Pool	<u>\$288,168,293</u>	<u>\$288,168,293</u>

NOTE 4 - RECEIVABLES

Receivables at June 30, 2018, consisted of intergovernmental grants, entitlements, interest, and other local sources. All receivables are considered collectible in full.

	County School Service Fund	Special Education Pass-Through Fund	Non-Major Governmental Fund	Internal Service Fund	Total Governmental Activities
Federal Government					
Categorical aid	\$ 2,167,041	\$ 2,314,039	\$ 350,033	\$ -	\$ 4,831,113
State Government					
Categorical aid	440,267	-	1,343,880	-	1,784,147
Lottery	375,237	-	-	-	375,237
Special education	-	556,486	-	-	556,486
Local Government					
Interest	290,610	12,961	49,538	5,995	359,104
Special education - SELPA	969,284	-	-	-	969,284
Educational agencies	17,047,508	757,657	-	-	17,805,165
Other Local Sources	4,389,759	262	148,189	-	4,538,210
Total	<u>\$ 25,679,706</u>	<u>\$ 3,641,405</u>	<u>\$ 1,891,640</u>	<u>\$ 5,995</u>	<u>\$ 31,218,746</u>

ORANGE COUNTY DEPARTMENT OF EDUCATION

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

NOTE 5 - CAPITAL ASSETS

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

	Balance July 1, 2017	Additions	Deductions	Balance June 30, 2018
Governmental Activities				
Capital Assets Not Being Depreciated				
Land	\$ 28,641,315	\$ -	\$ -	\$ 28,641,315
Construction in process	1,864,911	310,155	939,930	1,235,136
Total Capital Assets Not Being Depreciated	30,506,226	310,155	939,930	29,876,451
Capital Assets Being Depreciated				
Land improvements	4,511,925	-	-	4,511,925
Buildings and improvements	81,538,513	908,843	-	82,447,356
Furniture and equipment	12,741,477	1,372,621	112,297	14,001,801
Total Capital Assets Being Depreciated	98,791,915	2,281,464	112,297	100,961,082
Less Accumulated Depreciation				
Land improvements	2,977,949	185,771	-	3,163,720
Buildings and improvements	26,532,030	2,253,857	-	28,785,887
Furniture and equipment	9,098,453	1,153,309	76,863	10,174,899
Total Accumulated Depreciation	38,608,432	3,592,937	76,863	42,124,506
Governmental Activities Capital Assets, Net	<u>\$ 90,689,709</u>	<u>\$ (1,001,318)</u>	<u>\$ 975,364</u>	<u>\$ 88,713,027</u>

Depreciation expense was charged to governmental functions as follows:

Governmental Activities	
Instruction	\$ 3,233,643
Data processing	179,647
All other general administration	179,647
Total Depreciation Expenses Governmental Activities	<u>\$ 3,592,937</u>

ORANGE COUNTY DEPARTMENT OF EDUCATION

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

NOTE 6 - INTERFUND TRANSACTIONS

Interfund Receivables/Payables (Due To/Due From)

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

Due To	Due From			Total
	County School Service Fund	Special Education Pass-Through Fund	Non-Major Governmental Fund	
County School Service Fund	\$ -	\$ 1,142,400	\$ 2,206,358	\$ 3,348,758
Special Education Pass-Through Fund	12,497,192	-	-	12,497,192
Non-Major Governmental Funds	1,345,268	-	-	1,345,268
Self-Insurance Fund	314,190	-	7,788	321,978
Total	<u>\$ 14,156,650</u>	<u>\$ 1,142,400</u>	<u>\$ 2,214,146</u>	<u>\$ 17,513,196</u>

The balance of \$1,142,400 is due to the County School Service Fund from the Special Education Pass-Through Fund for the special education allocation.

The balance of \$2,206,358 is due to the County School Service Fund from the Child Development Non-Major Governmental Fund for indirect costs and reimbursement of operating costs.

The balance of \$12,497,192 is due to the Special Education Pass-Through Fund from the County School Service Fund for SELPA funding.

A balance of \$322,748 is due to the Child Development Non-Major Governmental Fund from the County School Service Fund for operating costs.

A balance of \$1,022,520 is due the Deferred Maintenance Non-Major Governmental Fund from the County School Service Fund for future deferred maintenance projects.

The balance of \$314,190 due to the Internal Service Fund from the County School Service Fund for insurance premiums.

The balance of \$7,788 due to the Internal Service Fund from the Child Development Non-Major Governmental Fund for insurance premiums.

ORANGE COUNTY DEPARTMENT OF EDUCATION

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

Operating Transfers

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

Transfer To	Transfer From		Total
	County School Service Fund	Non-Major Governmental Fund	
Non-Major Governmental Funds	\$ 298,295	\$ 800,000	\$ 1,098,295
The County School Service Fund transferred to the Child Development Non-Major Governmental Fund to cover excess costs of programs.			\$ 275,865
The County School Service Fund transferred to the County School Facilities Non-Major Governmental Fund for project costs.			22,430
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			\$ 1,098,295

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

NOTE 7 - ACCOUNTS PAYABLE

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

	County School Service Fund	Special Education Pass-Through Fund	Non-Major Governmental Fund	Internal Service Fund	Total Governmental Activities
Salaries and benefits	\$ 6,025,138	\$ -	\$ 199,284	\$ -	\$ 6,224,422
Excess property tax	1,858,716	-	-	-	1,858,716
Supplies	402,683	-	2,933	-	405,616
Services	4,854,051	-	3,112,907	127,784	8,094,742
Construction	320,245	-	278	-	320,523
Local educational agencies	12,628,487	14,282,611	332,000	-	27,243,098
Other	624,507	-	212,495	-	837,002
Total	\$ 26,713,827	\$ 14,282,611	\$ 3,859,897	\$ 127,784	\$ 44,984,119

ORANGE COUNTY DEPARTMENT OF EDUCATION

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

NOTE 8 - UNEARNED REVENUE

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

	County School Service Fund	Non-Major Governmental Funds	Total Governmental Activities
Federal financial assistance	\$ 494,589	\$ 120,414	\$ 615,003
State categorical aid	4,387,555	264,012	4,651,567
Other local	180,198	-	180,198
Total	<u>\$ 5,062,342</u>	<u>\$ 384,426</u>	<u>\$ 5,446,768</u>

NOTE 9 - LONG-TERM OBLIGATIONS

Summary

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

	(as restated) Balance July 1, 2017,	Additions	Deductions	Balance June 30, 2018	Due in One Year
Certificates of participation	\$ 12,940,000	\$ -	\$ 450,000	\$ 12,490,000	\$ 500,000
Unamortized discount	(90,000)	-	(6,000)	(84,000)	-
Compensated absences	1,879,280	-	94,052	1,785,228	-
Supplemental early retirement plan	-	7,332,855	-	7,332,855	2,933,142
Net other postemployment benefits (OPEB) liability	4,223,878	329,648	423,688	4,129,838	-
	<u>\$ 18,953,158</u>	<u>\$ 7,662,503</u>	<u>\$ 961,740</u>	<u>\$ 25,653,921</u>	<u>\$ 3,433,142</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 supplemental early retirement plan and net OPEB liability are made by the County School Service Fund.

ORANGE COUNTY DEPARTMENT OF EDUCATION

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

Certificates of Participation

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, 2018, the principal balance outstanding was \$12,490,000 and unamortized discount on issuance was \$84,000.

The certificates mature through 2032 as follows:

Year Ending June 30,	Principal	Interest	Total
2019	\$ 500,000	\$ 437,150	\$ 937,150
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
2024-2028	4,780,000	1,322,300	6,102,300
2029-2032	4,580,000	407,050	4,987,050
Total	<u>\$ 12,490,000</u>	<u>\$ 3,718,750</u>	<u>\$ 16,208,750</u>

Compensated Absences

The long-term portion of compensated absences (accumulated unpaid employee vacation) for the County at June 30, 2018 amounted to \$1,785,228.

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
2019	\$ 2,933,142
2020	1,466,571
2021	1,466,571
2022	1,466,571
Total	<u>\$ 7,332,855</u>

ORANGE COUNTY DEPARTMENT OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Net Other Postemployment Benefit (OPEB) Liability

For the fiscal year ended June 30, 2018, the County reported net OPEB liability and OPEB expense for the following plans:

OPEB Plan	Net OPEB Liability	OPEB Expense
County Plan	\$ 3,436,831	\$ 2,043
Medicare Premium Payment (MPP) Program	693,007	(96,083)
Total	<u>\$ 4,129,838</u>	<u>\$ (94,040)</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

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

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

Benefits Provided

The Plan provides medical and dental insurance benefits to eligible retirees and their spouses. Benefits are provided through a third-party insurer, and the full cost of benefits is covered by the Plan. The 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 2017-2018, the County paid \$327,605 in benefits.

ORANGE COUNTY DEPARTMENT OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Total OPEB Liability of the County

The County's total OPEB liability of \$3,436,831 was measured as of June 30, 2018. The total OPEB liability was determined by an actuarial valuation as of that date.

Actuarial Assumptions

The total OPEB liability in the June 30, 2018 actuarial valuation was determined using the following assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.75 percent
Salary increases	2.75 percent
Discount rate	3.80 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 actual 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.

Changes in the Total OPEB Liability

	Total OPEB Liability
Balance at June 30, 2017	\$ 3,434,788
Service cost	201,625
Interest	128,023
Benefit payments	(327,605)
Net change in total OPEB liability	2,043
Balance at June 30, 2018	<u>\$ 3,436,831</u>

ORANGE COUNTY DEPARTMENT OF EDUCATION

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

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 (2.8%)	\$ 3,622,069
Current discount rate (3.8%)	3,436,831
1% increase (4.8%)	3,261,760

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%)	\$ 3,300,057
Current healthcare cost trend rate (4.0%)	3,436,831
1% increase (5.0%)	3,552,820

OPEB Expense

For the year ended June 30, 2018, the County recognized OPEB expense of \$2,043.

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, 2016 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>.

ORANGE COUNTY DEPARTMENT OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

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Benefits Provided

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

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

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

Net OPEB Liability and OPEB Expense

At June 30, 2018, the County reported a liability of \$693,007 for its proportionate share of the net OPEB liability for the MPP Program. The net OPEB liability was measured as of June 30, 2016, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. 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, 2017 and June 30, 2016, respectively, was 0.1647 percent, and 0.1686 percent, resulting in a net decrease in the proportionate share of 0.0039 percent.

For the year ended June 30, 2018, the County recognized OPEB expense of \$(96,083).

ORANGE COUNTY DEPARTMENT OF EDUCATION

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

Actuarial Methods and Assumptions

The total OPEB liability for the MPP Program as of June 30, 2016, was determined based on a financial reporting actuarial valuation that used the June 30, 2016 assumptions presented in the table below. The June 30, 2017 total OPEB liability was determined by applying update procedures to the financial reporting actuarial valuation as of June 30, 2016, and rolling forward the total OPEB liability to June 30, 2017, using the assumptions listed in the following table:

Measurement Date	June 30, 2017	June 30, 2016
Valuation Date	June 30, 2016	June 30, 2016
Experience Study	July 1, 2010 through June 30, 2016	July 1, 2010 through June 30, 2015
Actuarial Cost Method	Entry age normal	Entry age normal
Investment Rate of Return	3.58%	2.85%
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, 2016, CalSTRS used custom mortality tables based on RP2000 Series tables issued by the Society of Actuaries, adjusted to fit CalSTRS specific experience through June 30, 2015. For the valuation as of June 30, 2017, CalSTRS changed the mortality assumptions based on the July 1, 2010 through June 30, 2015, experience study adopted by the board in February 2017. CalSTRS now 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 the members. The projection scale was set equal to 110 percent of the ultimate improvement factor from the Mortality Improvement Scale (MP-2016) table, issued by the Society of Actuaries.

Assumptions were made about future participation (enrollment) into the MPP Program because CalSTRS is unable to determine which members not currently participating meet all eligibility criteria for enrollment in the future. Assumed enrollment rates were derived based on past experience and are stratified by age with the probability of enrollment diminishing as the members' age increases. This estimated enrollment rate was then applied to the population of members who may meet criteria necessary for eligibility and are not currently enrolled in the MPP Program. Based on this, the estimated number of future enrollments used in the financial reporting valuation was 571 or an average of 0.32 percent of the potentially eligible population (177,763).

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, 2017 and 2016, 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.

ORANGE COUNTY DEPARTMENT OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Discount Rate

The discount rate used to measure the total OPEB liability as of June 30, 2017 and 2016 was 3.58 percent and 2.85 percent, respectively. 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 3.58 percent and 2.85 percent, which is the Bond Buyer 20-Bond GO Index from Bondbuyer.com as of June 30, 2017 and 2016, respectively, was applied to all periods of projected benefit payments to measure the total OPEB liability.

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 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 OPEB Liability
1% decrease (2.58%)	\$ 767,207
Current discount rate (3.58%)	693,007
1% increase (4.58%)	620,831

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 discount rate, as well as what the net pension 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)	\$ 626,238
Current Medicare costs trend rate (3.7% Part A and 4.1% Part B)	693,007
1% increase (4.7% Part A and 5.1% Part B)	759,109

ORANGE COUNTY DEPARTMENT OF EDUCATION

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

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	32,864,180	11,223,729	-	44,087,909
Capital projects	-	-	4,035,108	4,035,108
Debt services	-	-	2,653,936	2,653,936
Total Restricted	32,864,180	11,223,729	6,689,044	50,776,953
Committed				
Deferred maintenance program	-	-	26,191,667	26,191,667
Assigned				
ACCESS LCFF and LCAP priorities	14,504,840	-	-	14,504,840
Mandated costs	7,966,724	-	-	7,966,724
ACCESS	6,322,814	-	-	6,322,814
Reserve for classroom equipment upgrade	3,500,000	-	-	3,500,000
One-time discretionary funding	3,119,955	-	-	3,119,955
Reserve for new payroll project	3,000,000	-	-	3,000,000
OCDE Erate	2,958,203	-	-	2,958,203
Reserve for school sites tenant improvements	2,000,000	-	-	2,000,000
Medical administrative activities	1,642,582	-	-	1,642,582
Reserve for workstation improvements	1,200,000	-	-	1,200,000
EISS workshops	830,462	-	-	830,462
CTEp (ROP) tier II	812,324	-	-	812,324
Reserve designated for outdated checks	785,728	-	-	785,728
ACCESS tier III	657,938	-	-	657,938
One-time COE LCAP discretionary funding	651,487	-	-	651,487
Various workshops and trainings	645,888	-	-	645,888
Various other designated programs	600,719	-	-	600,719
Special education JPA	473,040	-	-	473,040
Special schools tier III	459,182	-	-	459,182
Time and attendance	441,598	-	-	441,598
Reserve for modernization of board room equipment	400,000	-	-	400,000
Information technology Bi-Tech	382,000	-	-	382,000
ACCESS-CHEP	371,100	-	-	371,100
Information technology imaging services	307,169	-	-	307,169
College & Career Readiness consortium workshops and trainings	133,272	-	-	133,272
Beginning teacher support tier III	119,468	-	-	119,468
Instructional materials lottery	10,273,397	-	-	10,273,397
CTEp (ROP) lottery	396,076	-	-	396,076
College & Career Preparatory Charter School	25,856	-	-	25,856
Other postemployment benefits	4,274,297	-	-	4,274,297
Total Assigned	69,256,119	-	-	69,256,119
Unassigned				
Reserve for economic uncertainties	86,722,283	-	-	86,722,283
Total	\$ 188,912,582	\$ 11,223,729	\$ 32,880,711	\$ 233,017,022

ORANGE COUNTY DEPARTMENT OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

NOTE 11 - LEASE REVENUES

The County has property held for lease with a combined estimated cost of \$10,078,223 and accumulated depreciation of \$3,325,813. 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
2019	\$ 1,665,940
2020	565,782
2021	314,504
2022	158,092
2023	71,880
Total	<u>\$ 2,776,198</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, 2018, 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

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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, 2018:

	Dental Care
Liability Balance, July 1, 2016	\$ 273,126
Claims and changes in estimates	1,635,015
Claims payments	(1,564,949)
Liability Balance, July 1, 2017	343,192
Claims and changes in estimates	1,412,193
Claims payments	(1,504,615)
Liability Balance, June 30, 2018	\$ 250,770
Assets available to pay claims at June 30, 2018	\$ 4,925,022

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, 2018, the County reported net pension liabilities, deferred outflows of resources, deferred inflows of resources, and pension expense for each of the above plans as follows:

Pension Plan	Collective Net Pension Liability	Collective Deferred Outflows of Resources	Collective Deferred Inflows of Resources	Collective Pension Expense
CalSTRS	\$ 84,144,083	\$ 22,900,671	\$ 13,926,273	\$ 6,253,295
CalPERS	102,455,197	30,768,350	4,798,249	15,533,825
OCERS	2,530,324	668,911	1,704,708	(426,231)
Total	\$ 189,129,604	\$ 54,337,932	\$ 20,429,230	\$ 21,360,889

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, 2016, annual actuarial valuation report, Defined Benefit Program Actuarial Valuation. This report and CalSTRS audited financial information are publicly available reports that can be found on the CalSTRS website under Publications at:
<http://www.calstrs.com/member-publications>.

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.

ORANGE COUNTY DEPARTMENT OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

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

	STRP Defined Benefit Program	
	On or before December 31, 2012	On or after January 1, 2013
Hire date		
Benefit formula	2% at 60	2% at 62
Benefit vesting schedule	5 Years of Service	5 Years of Service
Benefit payments	Monthly for Life	Monthly for Life
Retirement age	60	62
Monthly benefits as a percentage of eligible compensation	2.0% - 2.4%	2.0% - 2.4%
Required employee contribution rate	10.25%	9.205%
Required employer contribution rate	14.43%	14.43%
Required State contribution rate	9.328%	9.328%

Contributions

Required member 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, 2018, are presented above and the County's total contributions were \$7,000,824.

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

At June 30, 2018, 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	\$ 84,144,083
State's proportionate share of the net pension liability associated with the County	49,778,929
Total	<u>\$ 133,923,012</u>

The net pension liability was measured as of June 30, 2017. 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, 2017 and June 30, 2016, respectively, was 0.0910 percent and 0.0950 percent, resulting in a net decrease in the proportionate share of 0.0040 percent.

ORANGE COUNTY DEPARTMENT OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

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For the year ended June 30, 2018, the County recognized pension expense of \$6,253,295. In addition, the County recognized pension expense and revenue of \$5,010,727 for support provided by the State. At June 30, 2018, 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	\$ 7,000,824	\$ -
Net change in proportionate share of net pension liability	-	10,217,674
Difference between projected and actual earnings on pension plan investments	-	2,240,991
Differences between expected and actual experience in the measurement of the total pension liability	311,173	1,467,608
Changes of assumptions	15,588,674	-
Total	<u>\$ 22,900,671</u>	<u>\$ 13,926,273</u>

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

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

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2019	\$ (1,863,019)
2020	1,409,755
2021	203,278
2022	(1,991,005)
Total	<u>\$ (2,240,991)</u>

ORANGE COUNTY DEPARTMENT OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

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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 (EARS�) of all members that are provided benefits (active, inactive, and retirees) as of the beginning of the measurement period. The EARS� 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
2019	\$ 127,569
2020	127,569
2021	127,569
2022	127,570
2023	1,492,506
Thereafter	2,211,782
Total	<u>\$ 4,214,565</u>

Actuarial Methods and Assumptions

Total pension liability for STRP was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2016, and rolling forward the total pension liability to June 30, 2017. The financial reporting actuarial valuation as of June 30, 2016, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2016
Measurement date	June 30, 2017
Experience study	July 1, 2010 through June 30, 2015
Actuarial cost method	Entry age normal
Discount rate	7.10%
Investment rate of return	7.10%
Consumer price inflation	2.75%
Wage growth	3.50%

CalSTRS 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 JUNE 30, 2018

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, 2017, 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%)	\$ 123,550,227
Current discount rate (7.10%)	84,144,083
1% increase (8.10%)	52,163,326

ORANGE COUNTY DEPARTMENT OF EDUCATION

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, 2016 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, 2018, 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	7.000%	6.500%
Required employer contribution rate	15.531%	15.531%

ORANGE COUNTY DEPARTMENT OF EDUCATION

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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, 2018, are presented above and the total County contributions were \$8,588,361.

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

As of June 30, 2018, the County reported net pension liabilities for its proportionate share of the CalPERS net pension liability totaling \$102,455,197. The net pension liability was measured as of June 30, 2017. 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, 2017 and June 30, 2016, respectively, was 0.4292 percent and 0.4443 percent, resulting in a net decrease in the proportionate share of 0.0151 percent.

For the year ended June 30, 2018, the County recognized pension expense of \$15,533,825. At June 30, 2018, 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	\$ 8,588,361	\$ -
Net change in proportionate share of net pension liability	-	3,591,966
Difference between projected and actual earnings on pension plan investments	3,544,249	-
Differences between expected and actual experience in the measurement of the total pension liability	3,670,547	-
Changes of assumptions	14,965,193	1,206,283
Total	<u>\$ 30,768,350</u>	<u>\$ 4,798,249</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

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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
2019	\$ (96,037)
2020	4,089,295
2021	1,491,821
2022	(1,940,830)
Total	<u>\$ 3,544,249</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 (EARS�) of all members that are provided benefits (active, inactive, and retirees) as of the beginning of the measurement period. The EARS� for the measurement period is 3.9 years and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2019	\$ 3,833,695
2020	5,401,608
2021	4,602,188
Total	<u>\$ 13,837,491</u>

Actuarial Methods and Assumptions

Total pension liability for the SEP was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2016, and rolling forward the total pension liability to June 30, 2017. The financial reporting actuarial valuation as of June 30, 2016, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2016
Measurement date	June 30, 2017
Experience study	July 1, 1997 through June 30, 2011
Actuarial cost method	Entry age normal
Discount rate	7.15%
Investment rate of return	7.15%
Consumer price inflation	2.75%
Wage growth	Varies by entry age and service

The mortality table used was developed based on CalPERS-specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB.

ORANGE COUNTY DEPARTMENT OF EDUCATION

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

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	47%	5.38%
Global debt securities	19%	2.27%
Inflation assets	6%	1.39%
Private equity	12%	6.63%
Real estate	11%	5.21%
Infrastructure and Forestland	3%	5.36%
Liquidity	2%	-0.90%

Discount Rate

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

The following presents the 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%)	\$ 150,744,427
Current discount rate (7.15%)	102,455,197
1% increase (8.15%)	62,395,237

ORANGE COUNTY DEPARTMENT OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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 PEPPRA 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 10 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 benefit the member will receive is based upon age at retirement, final average compensation, years of retirement service credit and retirement plan and tier.

ORANGE COUNTY DEPARTMENT OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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

For members with membership dates before January 1, 2013 the maximum monthly retirement allowance is 100 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 2017-2018 were \$524,000, 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 2017-2018 vary by member based on age of entry. The range of contribution rates is as follows: plan M (2.0 percent at 55) – 7.19 percent to 13.92 percent.

ORANGE COUNTY DEPARTMENT OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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

As of June 30, 2018, the County reported a net pension liability for its proportionate share of the OCERS net pension liability of \$2,530,324. The collective net pension liability for the Plan was measured as of December 31, 2017. 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, 2016. 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, 2016. The County's proportionate share for the measurement period December 31, 2017 and December 31, 2016, respectively, was 0.051 percent and 0.085 percent, resulting in a net decrease of 0.034 percent.

For the year ended June 30, 2018, the County recognized pension expense of \$(426,231). At June 30, 2018, 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
Difference between projected and actual earnings on pension plan investments	\$ -	\$ 380,914
Differences between expected and actual experience in the measurement of the total pension liability	372,992	1,201,641
Changes of assumptions	295,919	122,153
Total	<u>\$ 668,911</u>	<u>\$ 1,704,708</u>

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

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2019	\$ (121,629)
2020	(114,333)
2021	(361,107)
2022	(290,872)
2023	(146,389)
2024	(1,467)
Total	<u>\$ (1,035,797)</u>

ORANGE COUNTY DEPARTMENT OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Actuarial Methods and Assumptions

The collective total pension liability as of December 31, 2017 was determined by rolling forward the total pension liability from the actuarial valuation as of December 31, 2016. The actuarial assumptions used were based on the results of an experience study for the period from January 1, 2011 through December 31, 2013. Following are the key methods and assumptions used for the total pension liability as of December 31, 2017.

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:

<i>Healthy:</i>	For General Members: RP-2000 Combined Healthy Mortality Table projected with Scale BB to 2020.
<i>Disabled:</i>	For General Members: RP-2000 Combined Healthy Mortality Table projected with Scale BB to 2020 with ages set forward six years for males and set forward three years for females.
<i>Beneficiaries:</i>	Beneficiaries are assumed to have the same mortality as a General Member of the opposite sex who is receiving a service (non-disability) retirement.

Discount Rate

The discount rate used to measure the total pension liability was 7.00% and 7.25% as of December 31, 2017 and 2016 respectively for the Plan. 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 the County's contributions will be made at rates equal to the actuarially determined contributions 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 pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability as of December 31, 2017 and 2016.

ORANGE COUNTY DEPARTMENT OF EDUCATION

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

The long-term expected rate of return of 7.00 percent 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 (approved by the Board of Retirement) and projected arithmetic real rates of return for each major asset class, after deducting inflation but before deducting investment expenses, used in the derivation of the long-term expected investment rate of return assumption are summarized in the following table:

Asset Class	Assumed Asset Allocation	Long-Term Expected Real Rate of Return
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:

Discount Rate	Net Pension Liability
1% decrease (6.15%)	\$ 4,388,612
Current discount rate (7.15%)	2,530,324
1% increase (8.15%)	1,020,696

ORANGE COUNTY DEPARTMENT OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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 \$115,064.

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 \$4,333,630 (9.328 percent of annual payroll). Contributions are no longer appropriated in the annual *Budget Act* for the legislatively mandated benefits to CalPERS. Therefore, there is no on behalf contribution rate for CalPERS. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, these amounts have been recorded in these financial statements.

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, 2018.

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, 2018

Construction Commitments

As of June 30, 2018, the County had the following commitments with respect to the unfinished capital projects:

Capital Projects	Remaining Construction Commitment	Expected Date of Completion
Kalmus doors and windows replacement	\$ 197,778	06/30/19

ORANGE COUNTY DEPARTMENT OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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:

Year Ending June 30,	Lease Payment
2019	\$ 5,566,879
2020	2,432,766
2021	1,595,883
2022	930,595
2023	149,391
Thereafter	149,391
Total	<u>\$ 10,824,905</u>

Lease payments for the year ended June 30, 2018, were approximately \$5,434,257.

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, 2018, the County made payments of \$1,983,410 and \$273,076 to WOCSSWCA and Alliance of Schools for Cooperative Insurance Programs Joint Powers Authority, respectively, for annual premium payments.

ORANGE COUNTY DEPARTMENT OF EDUCATION

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

NOTE 16 - RESTATEMENT OF PRIOR YEAR NET POSITION

The County adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, in the current year. In addition, the County adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, as it relates specifically to the Orange County Employees Retirement System (OCERS). As a result, the effect on the current fiscal year is as follows:

Government-Wide Financial Statements

Net Position - Beginning	\$ 162,797,270
Inclusion of net pension liability from the adoption of GASB Statement No. 68	(4,415,517)
Inclusion of deferred outflows of resources from the adoption of GASB Statement No. 68	829,657
Inclusion of deferred inflow of resources from the adoption of GASB Statement No. 68	(406,492)
Inclusion of net OPEB liability from the adoption of GASB Statement No. 75	50,419
Net Position - Beginning, as restated	<u>\$ 158,855,337</u>

REQUIRED SUPPLEMENTARY INFORMATION

ORANGE COUNTY DEPARTMENT OF EDUCATION

COUNTY SCHOOL SERVICE FUND BUDGETARY COMPARISON SCHEDULE FOR THE YEAR ENDED JUNE 30, 2018

	Budgeted Amounts		Actual	Variances - Positive (Negative)
	Original	Final	(GAAP Basis)	Final to Actual
REVENUES				
Local Control Funding Formula	\$ 91,912,585	\$ 96,824,422	\$ 96,130,328	\$ (694,094)
Federal sources	29,222,971	31,954,151	32,145,060	190,909
Other State sources	20,763,056	18,688,652	17,864,158	(824,494)
Other local sources	87,843,348	86,438,895	88,504,831	2,065,936
Total Revenues ¹	229,741,960	233,906,120	234,644,377	738,257
EXPENDITURES				
Current				
Certificated salaries	57,291,057	54,040,027	53,809,850	230,177
Classified salaries	56,508,210	55,686,112	54,863,957	822,155
Employee benefits	49,087,723	45,924,241	44,873,726	1,050,515
Books and supplies	13,282,050	6,468,784	5,555,308	913,476
Services and operating expenditures	47,742,081	50,335,947	46,780,086	3,555,861
Other outgo	15,949,627	22,224,932	23,983,854	(1,758,922)
Capital outlay	2,735,204	1,884,777	1,393,448	491,329
Total Expenditures ¹	242,595,952	236,564,820	231,260,229	5,304,591
Excess (Deficiency) of Revenues Over Expenditures	(12,853,992)	(2,658,700)	3,384,148	6,042,848
Other Financing Uses				
Transfers out	(1,346,952)	(1,226,824)	(298,295)	928,529
NET CHANGE IN FUND BALANCE	(14,200,944)	(3,885,524)	3,085,853	6,971,377
Fund Balance - Beginning	185,826,729	185,826,729	185,826,729	-
Fund Balance - Ending	\$ 171,625,785	\$ 181,941,205	\$ 188,912,582	\$ 6,971,377

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.

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, 2018

	Budgeted Amounts		Actual	Variances -
	Original	Final	(GAAP Basis)	Positive (Negative) Final to Actual
REVENUES				
Local Control Funding Formula	\$ 29,422,431	\$ 33,574,124	\$ 32,573,859	\$(1,000,265)
Federal sources	7,563,335	7,434,997	7,425,545	(9,452)
Other State sources	2,671,336	2,781,716	2,707,921	(73,795)
Other local sources	1,263,291	1,270,448	1,278,454	8,006
Total Revenues	40,920,393	45,061,285	43,985,779	(1,075,506)
EXPENDITURES				
Other outgo	39,718,601	46,330,431	45,585,740	744,691
NET CHANGE IN FUND BALANCES	1,201,792	(1,269,146)	(1,599,961)	(330,815)
Fund Balance - Beginning	12,823,690	12,823,690	12,823,690	-
Fund Balance - Ending	\$ 14,025,482	\$ 11,554,544	\$ 11,223,729	\$ (330,815)

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, 2018

	2018
Total OPEB Liability	
Service cost	\$ 201,625
Interest	128,023
Benefit payments	<u>(327,605)</u>
Net change in total OPEB liability	2,043
Total OPEB liability - beginning	<u>3,434,788</u>
Total OPEB liability - ending	<u><u>\$ 3,436,831</u></u>
 Covered payroll	 <u>N/A¹</u>
 County's total OPEB liability as a percentage of covered payroll	 <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, 2018**

Year ended June 30,	<u>2018</u>
County's proportion of the net OPEB liability	<u>0.1647%</u>
County's proportionate share of the net OPEB liability	<u>\$ 693,007</u>
County's covered-employee payroll	<u>N/A¹</u>
County's proportionate share of the net OPEB liability as a percentage of it's covered-employee payroll	<u>N/A¹</u>
Plan fiduciary net position as a percentage of the total OPEB liability	<u>0.01%</u>

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, 2018

	2018	2017
CalSTRS		
County's proportion of the net pension liability	0.0910%	0.0950%
County's proportionate share of the net pension liability	\$ 84,144,083	\$ 76,836,950
State's proportionate share of the net pension liability associated with the County	49,778,929	43,748,345
Total	<u>\$ 133,923,012</u>	<u>\$ 120,585,295</u>
County's covered - employee payroll	\$ 47,398,000	\$ 48,203,000
County's proportionate share of the net pension liability as a percentage of its covered - employee payroll	178%	159.40%
Plan fiduciary net position as a percentage of the total pension liability	69%	70%
CalPERS		
County's proportion of the net pension liability	0.4292%	0.4443%
County's proportionate share of the net pension liability	\$ 102,455,197	\$ 87,749,525
County's covered - employee payroll	\$ 54,825,000	\$ 53,475,000
County's proportionate share of the net pension liability as a percentage of its covered - employee payroll	187%	164.09%
Plan fiduciary net position as a percentage of the total pension liability	72%	74%
OCERS¹		
County's proportion of the net pension liability	0.0510%	
County's proportionate share of the net pension liability	\$ 2,530,324	
County's covered - employee payroll	N/A ²	
County's proportionate share of the net pension liability as a percentage of its covered - employee payroll	N/A ²	
Plan fiduciary net position as a percentage of the total pension liability	74.93%	

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.

<u>2016</u>	<u>2015</u>
<u>0.1040%</u>	<u>0.1110%</u>
\$ 70,016,960	\$ 64,865,070
<u>37,031,154</u>	<u>39,168,723</u>
<u>\$ 107,048,114</u>	<u>\$ 104,033,793</u>
<u>\$ 47,996,000</u>	<u>\$ 49,181,000</u>
<u>145.88%</u>	<u>131.89%</u>
<u>74%</u>	<u>77%</u>
<u>0.4474%</u>	<u>0.4904%</u>
\$ 65,947,202	\$ 55,672,340
\$ 49,525,000	\$ 49,734,000
<u>133.16%</u>	<u>111.94%</u>
<u>79%</u>	<u>83%</u>

ORANGE COUNTY DEPARTMENT OF EDUCATION

SCHEDULE OF THE COUNTY'S CONTRIBUTIONS FOR THE YEAR ENDED JUNE 30, 2018

	2018	2017
CalSTRS		
Contractually required contribution	\$ 7,000,824	\$ 6,030,647
Contributions in relation to the contractually required contribution	(7,000,824)	(6,030,647)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
County's covered - employee payroll	<u>\$ 48,515,759</u>	<u>\$ 47,398,000</u>
Contributions as a percentage of covered - employee payroll	<u>14.43%</u>	<u>12.58%</u>
CalPERS		
Contractually required contribution	\$ 8,588,361	\$ 7,614,077
Contributions in relation to the contractually required contribution	(8,588,361)	(7,614,077)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
County's covered - employee payroll	<u>\$ 55,298,184</u>	<u>\$ 54,825,000</u>
Contributions as a percentage of covered - employee payroll	<u>15.531%</u>	<u>13.888%</u>
OCERS¹		
Contractually required contribution	\$ 524,000	
Contributions in relation to the contractually required contribution	(524,000)	
Contribution deficiency (excess)	<u>\$ -</u>	
County's covered - employee payroll	<u>N/A²</u>	
Contributions as a percentage of covered - employee payroll	<u>N/A²</u>	

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.

2016	2015
\$ 5,172,158	\$ 4,262,028
(5,172,158)	(4,262,028)
<u>\$ -</u>	<u>\$ -</u>
 \$ 48,203,000	 \$ 47,996,000
 10.73%	 8.88%
 \$ 6,335,210	 \$ 5,829,589
(6,335,210)	(5,829,589)
<u>\$ -</u>	<u>\$ -</u>
 \$ 53,475,000	 \$ 49,525,000
 11.847%	 11.771%

ORANGE COUNTY DEPARTMENT OF EDUCATION

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION JUNE 30, 2018

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

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

This schedule presents information on the County's changes in the total OPEB liability, including beginning and ending balances. 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 – There were no changes in economic assumptions.

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, the plan's 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 2.85 percent to 3.58 percent since the previous valuation.

ORANGE COUNTY DEPARTMENT OF EDUCATION

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION JUNE 30, 2018

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 – The CalSTRS plan rate of investment return assumption was changed from 7.60 percent to 7.10 percent since the previous valuation. The CalPERS plan rate of investment return assumption was changed from 7.65 percent to 7.15 percent since the previous valuation. The OCERS plan rate of investment return assumption was changed from 7.25 percent to 7.00 percent since the previous valuation.

Schedule of County Contributions

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

SUPPLEMENTARY INFORMATION

ORANGE COUNTY DEPARTMENT OF EDUCATION

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

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):				
Individuals with Disabilities Education Act:				
Special Education (IDEA) Cluster:				
Basic Local Assistance Entitlement, Part B, Sec 611	84.027	13379	\$ 7,307,121	\$ 6,154,651
Local Assistance, Part B, Sec 611, Private School ISPs	84.027	10115	65,330	65,330
Preschool Grants, Part B, Sec 619	84.173	13430	224,772	150,396
Preschool Accountability Grants, Part B, Sec 619	84.173A	14688	8,365	-
Preschool Local Entitlement, Part B, Sec 611	84.027A	13682	572,735	536,968
Mental Health Allocation Plan, Part B, Sec 611	84.027A	15197	518,200	518,200
Preschool Staff Development, Part B, Sec 619	84.173A	13431	2,015	-
Alternate Dispute Resolution, Part B, Sec 611	84.173A	13007	13,560	-
Total Special Education (IDEA) Cluster			8,712,098	7,425,545
Early Intervention Grants, Part C	84.181	23761	382,322	-
English Language Acquisition State Grants:				
Title III, Immigrant Student Program	84.365	15146	34	-
Title III, English Learner Student Program	84.365	14346	257,813	-
Total English Language Acquisition State Grants			257,847	-
Title I, Migrant Ed Statewide PASS Project	84.011	14853	12,076	-
Title II, Part B, CA Mathematics and Science Partnerships	84.366	14512	113,245	-
Title IV, 21st Century Community Learning Centers				
Technical Assistance	84.287	14350	211,820	-
Subtitle B of Title VII of the McKinney-Vento Homeless Assistance Act	84.196	14332	241,032	-
Title I Grants to Local Educational Agencies:				
Title I, Part A, Basic Grants Low-Income and Neglected	84.010	14329	3,602,481	-
Title I, Part D, Local Delinquent Programs	84.010	14357	1,199,949	-
Passed through Imperial County Office of Education:				
Title I, Basic School Support, Statewide System of School Support	84.010	14416	459,743	-
Total Title I Grants to Local Educational Agencies			5,262,173	-
Passed through CDE:				
Supporting Effective Instruction State Grant:				
Title II, Part A, Supporting Effective Instruction	84.367	14341	70,621	-
Passed through The Regents of the University of California:				
Title II, Part A, Supporting Effective Instruction	84.367	ITQ-10-705	21,718	-
Total Title I Grants to Local Educational Agencies			92,339	-
Total U.S. Department of Education			15,284,952	7,425,545

See accompanying note to supplementary information.

ORANGE COUNTY DEPARTMENT OF EDUCATION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS, (Continued) FOR THE YEAR ENDED JUNE 30, 2018

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				
Passed through CDE:				
Child Care and Development Cluster:				
Quality Improvement Activities	93.575	14092	\$ 734,701	\$ -
Quality Improvement Activities	93.575	14990	285,680	-
Quality Improvement Activities	93.575	14130	473,585	-
Federal Alternative Payment	93.596	13694	2,453,529	-
Federal Alternative Payment	93.596	14153	2,434,792	-
Local Planning Councils	93.575	13946	72,623	-
Federal Alternative Payment, Stage 2	93.575	14178	1,857,806	-
Federal Alternative Payment, Stage 3	93.596	14985	228,144	-
Federal Alternative Payment, Stage 3	93.575	13881	1,370,820	-
Federal Alternative Payment, Stage 3	93.596	14040	13,815	-
Total Child Care and Development Cluster			9,925,495	-
Passed through California Department of Health Services:				
Medicaid Cluster:				
Medi-Cal Billing Option	93.778	10013	433,985	-
Medi-Cal Administrative Activities	93.778	10060	21,607,897	21,288,793
Total Medicaid Cluster			22,041,882	21,288,793
Passed through County of Orange:				
Block Grants for Prevention and Treatment of				
Alcohol and Other Drug Prevention Services Friday	93.959	[1]	400,000	-
Block Grant for Substance Abuse Prevention Services	93.959	[1]	330,000	-
Total Block Grants for Prevention and Treatment			730,000	-
Total U.S. Department of Health and Human Services			32,697,377	21,288,793
U.S. DEPARTMENT OF AGRICULTURE				
Passed through CDE:				
Child Nutrition Cluster:				
National School Lunch Program	10.555	13396	150,633	-
Basic School Breakfast Program	10.553	13390	25,854	-
Especially Needy Breakfast Program	10.553	13526	71,966	-
Commodities	10.555	13396	35,069	-
Total Child Nutrition Cluster			283,522	-
Forest Reserve Funds	10.665	13396	63,976	54,380
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program: The Nutrition Education and Obesity Prevention Program	10.561	[1]	283,324	-
Total U.S. Department of Agriculture			630,822	54,380
NATIONAL SCIENCE FOUNDATION				
Passed through The Regents of the University of California:				
ESCAPE: Equitable Science Curriculum Integrating Arts in Public Education	47.076	[1]	19,858	-
Total National Science Foundation			19,858	-
Total Federal Programs			\$ 48,633,009	\$ 28,768,718

[1] Pass-Through Entity Identifying Number not available.

See accompanying note to supplementary information.

ORANGE COUNTY DEPARTMENT OF EDUCATION

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE JUNE 30, 2018

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, five juvenile court schools program sites, one field program site, and 14 special education program sites. There were no boundary changes during the year.

The County provides professional and administrative assistance to 12 elementary school districts, three high school districts, 12 unified school districts, four community college districts, three regional occupation programs, and 28 charter schools, within Orange County.

The Board of Education and the County Administrators for the fiscal year ended June 30, 2018 is presented herein.

COUNTY BOARD OF EDUCATION

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Dr. John W. Bedell	President	2020
Mr. David L. Boyd	Vice President	2018
Ms. Linda Lindholm	Member	2018
Ms. Rebecca Gomez	Member	2020
Dr. Ken L. Williams	Member	2020

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, 2018

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	31.41	34.66
High School	433.43	424.99
Total Juvenile Halls, Homes, and Camps	464.84	459.65
Probation Referred, On Probation or Parole, Expelled		
Elementary	113.67	126.64
High School	1,681.11	1,723.78
Total Probation Referred, On Probation or Parole, Expelled	1,794.78	1,850.42
Total ADA	2,259.62	2,310.07

See accompanying note to supplementary information.

ORANGE COUNTY DEPARTMENT OF EDUCATION

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

DISTRICT FUNDED COUNTY PROGRAMS:

	Final Report	
	Second Period Report	Annual Report
County Community Schools		
Transitional kindergarten through third	197.75	175.60
Fourth through sixth	268.64	237.52
Seventh and eighth	205.57	193.66
Ninth through twelfth	2,476.75	2,219.21
Total County Community Schools	3,148.71	2,825.99
Special Education - Special Day Class		
Transitional kindergarten through third	51.78	53.39
Fourth through sixth	44.16	44.80
Seventh and eighth	45.59	47.36
Ninth through twelfth	194.11	193.22
Total Special Education Special Day Class	335.64	338.77
Extended Year Special Education		
Transitional kindergarten through third	5.02	5.02
Fourth through sixth	3.83	3.83
Seventh and eighth	4.35	4.35
Ninth through twelfth	22.26	22.26
Total Extended Year Special Education	35.46	35.46
Total ADA	3,519.81	3,200.22

CHARTER SCHOOL - COLLEGE AND CAREER PREPARATORY ACADEMY

Community Day School		
Ninth through twelfth	141.58	141.10

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, 2018

Summarized below are the fund balance reconciliations between the Unaudited Actual Financial Report and the audited financial statements.

	<u>Internal Service Fund</u>
NET ASSETS	
Balance, June 30, 2018, Unaudited Actuals	\$ 4,925,022
Increase in:	
Claims liability	<u>(250,770)</u>
Balance, June 30, 2018, Audited Financial Statement	<u>\$ 4,674,252</u>

See accompanying note to supplementary information.

ORANGE COUNTY DEPARTMENT OF EDUCATION

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

	(Budget) 2019 ¹	2018	2017	2016
COUNTY SCHOOL SERVICE FUND ³				
Revenues	\$ 233,330,611	\$ 234,339,963	\$ 238,573,560	\$ 222,533,482
Expenditures	222,732,244	231,260,229	206,930,450	192,929,162
Other uses	1,229,401	298,295	116,440	2,384,336
Total Expenditures and Other Uses	223,961,645	231,558,524	207,046,890	195,313,498
INCREASE IN FUND BALANCE	\$ 9,368,966	\$ 2,781,439	\$ 31,526,670	\$ 27,219,984
ENDING FUND BALANCE	\$ 173,388,516	\$ 164,019,550	\$ 161,238,111	\$ 129,711,441
AVAILABLE RESERVES ²	\$ 83,184,557	\$ 86,722,283	\$ 46,919,554	\$ 26,749,874
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO	37.1%	37.5%	22.7%	13.7%
LONG-TERM OBLIGATIONS ⁴	N/A	\$ 25,653,921	\$ 18,953,158	\$ 19,304,054
K-12 AVERAGE DAILY ATTENDANCE AT ANNUAL	2,067	2,310	2,471	2,754

The County School Service Fund balance has increased by \$34,308,109 over the past two years. The fiscal year 2018-2019 budget projects a further increase of \$9,368,966 (5.7 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 and anticipates incurring an operating surplus during the 2018-2019 fiscal year. Total long-term obligations have increased by \$6,349,867 over the past two years.

Average daily attendance has decreased by 444 over the past two years. An additional decline of 243 ADA is anticipated during fiscal year 2018-2019.

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

² Available reserves consist of all unassigned fund balances including all amounts reserved for economic uncertainties contained with the County School Service Fund 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 Long-term obligations have been restated as of June 30, 2017 due to the implementation of GASB Statement No. 75.

See accompanying note to supplementary information.

ORANGE COUNTY DEPARTMENT OF EDUCATION

SCHEDULE OF CHARTER SCHOOLS FOR THE YEAR ENDED JUNE 30, 2018

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

See accompanying note to supplementary information.

ORANGE COUNTY DEPARTMENT OF EDUCATION

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

	Child Development Fund	Deferred Maintenance Fund	County School Facilities Fund
ASSETS			
Deposits and investments	\$ 4,152,066	\$ 25,194,691	\$ 1,348,615
Receivables	1,701,945	33,003	3,989
Due from other funds	322,748	1,022,520	-
Total Assets	<u>\$ 6,176,759</u>	<u>\$ 26,250,214</u>	<u>\$ 1,352,604</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 3,578,187	\$ 58,547	\$ 278
Due to other funds	2,214,146	-	-
Unearned revenue	384,426	-	-
Total Liabilities	<u>6,176,759</u>	<u>58,547</u>	<u>278</u>
Fund Balances:			
Restricted	-	-	1,352,326
Committed	-	26,191,667	-
Total Fund Balance	<u>-</u>	<u>26,191,667</u>	<u>1,352,326</u>
Total Liabilities and Fund Balances	<u>\$ 6,176,759</u>	<u>\$ 26,250,214</u>	<u>\$ 1,352,604</u>

See accompanying note to supplementary information.

Special Reserve Fund for Capital Outlay Projects	Debt Service Fund	Total Non-Major Governmental Funds
\$ 3,993,151	\$ 1,413,749	\$ 36,102,272
151,725	978	1,891,640
-	-	1,345,268
<u>\$ 4,144,876</u>	<u>\$ 1,414,727</u>	<u>\$ 39,339,180</u>
\$ 222,885	\$ -	\$ 3,859,897
-	-	2,214,146
-	-	384,426
<u>222,885</u>	<u>-</u>	<u>6,458,469</u>
3,921,991	1,414,727	6,689,044
-	-	26,191,667
<u>3,921,991</u>	<u>1,414,727</u>	<u>32,880,711</u>
<u>\$ 4,144,876</u>	<u>\$ 1,414,727</u>	<u>\$ 39,339,180</u>

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, 2018

	Child Development Fund	Deferred Maintenance Fund	County School Facilities Fund
REVENUES			
Local Control Funding Formula	\$ -	\$ 1,022,520	\$ -
Federal sources	9,156,886	-	-
Other State sources	15,031,878	-	(2,821,527)
Other local sources	367,383	303,625	8,162
Total Revenues	<u>24,556,147</u>	<u>1,326,145</u>	<u>(2,813,365)</u>
EXPENDITURES			
Current			
Instruction	16,646,218	-	-
Instruction-related activities:			
Supervision of instruction	6,012,134	-	-
School site administration	8,693	-	-
Administration:			
All other administration	2,118,462	-	-
Plant services	46,505	-	-
Facility acquisition and construction	-	280,880	8,472
Debt service			
Principal	-	-	-
Interest and other	-	-	-
Total Expenditures	<u>24,832,012</u>	<u>280,880</u>	<u>8,472</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(275,865)</u>	<u>1,045,265</u>	<u>(2,821,837)</u>
Other Financing Sources (Uses)			
Transfers in	275,865	-	22,430
Transfers out	-	-	-
Net Financing Sources (Uses)	<u>275,865</u>	<u>-</u>	<u>22,430</u>
NET CHANGE IN FUND BALANCES	-	1,045,265	(2,799,407)
Fund Balances - Beginning	-	25,146,402	4,151,733
Fund Balances - Ending	<u>\$ -</u>	<u>\$ 26,191,667</u>	<u>\$ 1,352,326</u>

See accompanying note to supplementary information.

Special Reserve Fund for Capital Outlay Projects	Debt Service Fund	Total Non-Major Governmental Funds
\$ -	\$ -	\$ 1,022,520
-	-	9,156,886
-	-	12,210,351
2,368,028	13,785	3,060,983
2,368,028	13,785	25,450,740
-	-	16,646,218
-	-	6,012,134
-	-	8,693
-	-	2,118,462
612,102	-	658,607
-	-	289,352
-	450,000	450,000
-	452,900	452,900
612,102	902,900	26,636,366
1,755,926	(889,115)	(1,185,626)
-	800,000	1,098,295
(800,000)	-	(800,000)
(800,000)	800,000	298,295
955,926	(89,115)	(887,331)
2,966,065	1,503,842	33,768,042
\$ 3,921,991	\$ 1,414,727	\$ 32,880,711

ORANGE COUNTY DEPARTMENT OF EDUCATION

NOTE TO SUPPLEMENTARY INFORMATION

JUNE 30, 2018

NOTE 1 - PURPOSE OF SCHEDULES

Schedule of Expenditures of Federal Awards

The accompanying Schedule of Expenditures of Federal Awards includes the Federal grant activity of the 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, 2018. These unspent balances are reported as legally restricted ending balance within the County School Service Fund.

	CFDA Number	Amount
Total Federal Revenues From the Statement of Revenues, Expenditures, and Changes in Fund Balances:		\$ 48,727,491
Medi-Cal Billing Option	93.778	(94,482)
Total Schedule of Expenditures of Federal Awards		<u>\$ 48,633,009</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, 2018

Schedule of Financial Trends and Analysis

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

Schedule of Charter Schools

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

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

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

INDEPENDENT AUDITOR'S REPORTS



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

Superintendent of Schools
Orange County Department of Education
Costa Mesa, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Orange County Department of Education (the County) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Orange County Department of Education's basic financial statements, and have issued our report thereon dated December 13, 2018.

Emphasis of Matter - Change in Accounting Principles

As discussed in Note 1 and Note 16 to the financial statements, in 2018, the County adopted new accounting guidance, GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. In addition, the County implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. Our opinion is not modified with respect to this matter.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

We noted certain matters that we reported to management of Orange County Department of Education in a separate letter dated December 13, 2018.

Purpose of This Report

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

VAUGHN, TRINE, DAY & CO. LLP

Rancho Cucamonga, California
December 13, 2018



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

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

Superintendent of Schools
Orange County Department of Education
Costa Mesa, California

Report on Compliance for Each Major Federal Program

We have audited Orange County Department of Education's (the County) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Orange County Department of Education's major Federal programs for the year ended June 30, 2018. Orange County Department of Education's major Federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the Federal statutes, regulations, and the terms and conditions of its Federal awards applicable to its Federal programs.

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, Orange County Department of Education complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the year ended June 30, 2018.

Report on Internal Control Over Compliance

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

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

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

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

VAUGHN, TRINE, DAY & CO. LLP

Rancho Cucamonga, California
December 13, 2018



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INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Superintendent of Schools
Orange County Department of Education
Costa Mesa, California

Report on State Compliance

We have audited Orange County Department of Education's (the County) compliance with the types of compliance requirements as identified in the *2017-2018 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* that could have a direct and material effect on each of the Orange County Department of Education's State government programs as noted below for the year ended June 30, 2018.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance of each of the Orange County Department of Education's State programs based on our audit of the types of compliance requirements referred to above. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *2017-2018 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. These standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the applicable government programs noted below. An audit includes examining, on a test basis, evidence about Orange County Department of Education's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions. Our audit does not provide a legal determination of Orange County Department of Education's compliance with those requirements.

Unmodified Opinion

In our opinion, Orange County Department of Education complied, in all material respects, with the compliance requirements referred to above that are applicable to the government programs noted below that were audited for the year ended June 30, 2018.

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

	Procedures Performed
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
SCHOOL DISTRICTS, COUNTY OFFICES OF EDUCATION, AND CHARTER SCHOOLS	
Educator Effectiveness	Yes
California Clean Energy Jobs Act	Yes
After/Before School Education and Safety Program:	
General Requirements	No, see below
After School	No, see below
Before School	No, see below
Proper Expenditure of Education Protection Account Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control Accountability Plan	Yes
Independent Study - Course Based	No, see below
CHARTER SCHOOLS	
Attendance	Yes
Mode of Instruction	No, see below
Non Classroom-Based Instruction/Independent Study for Charter Schools	Yes
Determination of Funding for Non Classroom-Based Instruction	Yes
Annual Instruction Minutes Classroom-Based	No, see below
Charter School Facility Grant Program	No, see below

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

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

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

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

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

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

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

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

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

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

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

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

The County does not have any Classroom-Based Charter Schools; therefore, we did not perform procedures related to the Annual Instruction Minutes Classroom-Based.

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

VAUGHN, TRINE. My + Co. LP

Rancho Cucamonga, California
December 13, 2018

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

ORANGE COUNTY DEPARTMENT OF EDUCATION

SUMMARY OF AUDITOR'S RESULTS FOR THE YEAR ENDED JUNE 30, 2018

FINANCIAL STATEMENTS

Type of auditor's report issued:	<u>Unmodified</u>
Internal control over financial reporting:	
Material 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>93.778</u>	<u>Medicaid Cluster</u>

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 1,458,990</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, 2018**

None reported.

ORANGE COUNTY DEPARTMENT OF EDUCATION

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

None reported.

ORANGE COUNTY DEPARTMENT OF EDUCATION

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

None reported.

ORANGE COUNTY DEPARTMENT OF EDUCATION

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

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



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

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Governing Board
Orange County Department of Education
Costa Mesa, California

In planning and performing our audit of the financial statements of Orange County Department of Education (the County) for the year ended June 30, 2018 we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we noted matters that are opportunities for strengthening internal controls and operating efficiency. The following items represent conditions noted by our audit that we consider important enough to bring to your attention. This letter does not affect our report dated December 13, 2018, on the government-wide financial statements of the County.

INTERNAL CONTROLS

Non-Payroll Disbursements

Observation

It was noted that six of 40 disbursements selected for testing were not approved prior to the transaction taking place. This would indicate that the items/services were purchased prior to receiving an approval.

Recommendation

All disbursements should be pre-approved prior to the transaction taking place. Disbursements should go through multiple levels of approval. One of the most important approvals is by the business department. The business department is responsible for reviewing account coding and making sure that expenditures are limited by established budgets.

We will review the status of the current year comments during our next audit engagement.

VAVRINEK, TRINE, DAY & CO. LLP

Rancho Cucamonga, California
December 13, 2018