



March 19, 2021

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

We have audited the financial statements of Orange County Department of Education (the County) as of and for the year ended June 30, 2020 and have issued our report thereon dated March 19, 2021. Professional standards require that we advise you of the following matters relating to our audit.

**Our Responsibility in Relation to the Financial Statement Audit under Generally Accepted Auditing Standards and *Government Auditing Standards* and our Compliance Audit under the Uniform Guidance**

As communicated in our engagement letter dated March 31, 2020, our responsibility, as described by professional standards, is to form and express an opinion about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America and to express an opinion on whether the County complied with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the County's major federal programs. Our audit of the financial statements and major program compliance does not relieve you or management of its respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, as part of our audit, we considered the internal control of the County solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

Our responsibility, as prescribed by professional standards as it relates to the audit of County's major federal program compliance, is to express an opinion on the compliance for each of the County's major federal programs based on our audit of the types of compliance requirements referred to above. An audit of major program compliance includes consideration of internal control over compliance with the types of compliance requirements referred to above as a basis for designing audit procedures that are appropriate in the circumstances 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, as a part of our major program compliance audit, we considered internal control over compliance for these purposes and not to provide any assurance on the effectiveness of the County's internal control over compliance.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

We have provided our comments regarding internal controls during our audit in our 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* dated March 19, 2021. We have also provided our comments regarding compliance with the types of compliance requirements referred to above and internal controls over compliance during our audit in our Independent Auditor's Report on Compliance with Each Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance dated March 19, 2021.

### **Planned Scope and Timing of the Audit**

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

### **Compliance with All Ethics Requirements Regarding Independence**

The engagement team, others in our firm, as appropriate, and our firm, have complied with all relevant ethical requirements regarding independence.

### **Qualitative Aspects of the Entity's Significant Accounting Practices**

#### *Significant Accounting Policies*

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by County is included in Note 1 to the financial statements. There have been no initial selection of accounting policies and no changes in significant accounting policies or their application during the the year ended June 30, 2020. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

#### *Significant Accounting Estimates*

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments.

The most sensitive accounting estimates affecting the financial statements are:

Governmental Accounting Standards Board (GASB) requires the County to calculate, recognize, and report the costs and obligations associated with pensions in their financial statements. These amounts were all determined based on the County's proportionate share of the California State Teachers' Retirement System (CalSTRS) and the California Public Employees' Retirement System (CalPERS) estimated net pension liability, deferred outflows of resources, deferred inflows of resources, and pension expense, which utilized projections of future contributions and future earnings, actuarial assumptions such as inflation, salary increases, mortality rates, and investment rate of return and discount rates in the determination of the final balances reported in the CalSTRS and CalPERS audited financial statements. The County's proportionate share was determined by calculating the County's share of contributions to the pension plan relative to the contributions of all participating entities in the plan.

Management's estimate of the Net OPEB liability, related deferred outflows of resources, and OPEB expense are based on a calculation of actuarially determined contributions for health insurance benefits.

#### *Financial Statement Disclosures*

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting County's financial statements relate to Net Other Postemployment Benefits (OPEB) Liability (Note 9), and the Employee Retirement Systems (Note 13).

#### **Significant Difficulties Encountered during the Audit**

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

#### **Uncorrected and Corrected Misstatements**

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole.

There were no corrected misstatements of the financial statements.

The following summarizes uncorrected financial statement misstatements whose effects in the current and prior periods, as determined by management, are immaterial, both individually and in the aggregate, to the financial statements taken as a whole:

a. County School Service Fund:

(1) To adjust cash in county value to fair market value		
Fair value adjustment to cash in county treasury	\$1,935,469	
Net increase in the fair value of investments		\$1,935,469

b. Special Education Pass-Thru Fund:			
(1) To adjust cash in county value to fair market value			
	Fair value adjustment to cash in county treasury	\$59,330	
	Net increase in the fair value of investments		\$59,330
c. Aggregate Remaining Funds			
(1) To adjust cash in county value to fair market value			
	Fair value adjustment to cash in county treasury	\$563,436	
	Net increase in the fair value of investments		\$563,436
(2) To decrease claims liability			
	Claims liability	\$57,558	
	Expenditure		\$57,558
(3) To decrease cash with fiscal agent			
	Expenditure	\$96,117	
	Cash with fiscal agent		\$96,117

The effect of these uncorrected misstatements as of and for the year ended June 30, 2020, is an understatement of change in fund balance and fund balance of \$1,935,469 for the County School Service Fund, an understatement of \$59,330 of change in fund balance and fund balance for the Special Education Pass-Thru Fund, an understatement of \$524,877 of change in fund balance and fund balance for the aggregate remaining funds, and an overstatement of change in net position and net position of \$2,519,676 of the Government-wide Statement of Net Position.

**Disagreements with Management**

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to the financial statements or the auditor’s report. No such disagreements arose during the course of the audit.

**Representations Requested from Management**

We have requested certain written representations from management which are included in the management representation letter dated March 19, 2021.

**Management’s Consultations with Other Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

**Other Significant Matters, Findings, or Issues**

In the normal course of our professional association with County, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, operating conditions affecting the entity, and operating plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as County’s auditors.

***Other Information in Documents Containing Audited Financial Statements***

Pursuant to professional standards, our responsibility as auditors for other information in documents containing Orange County Department of Education's audited financial statements does not extend beyond the financial information identified in the audit report, and we are not required to perform any procedures to corroborate such other information.

However, in accordance with such standards, we will review the information inputted into the data collection form and will consider whether such information, or the manner of its presentation, is materially consistent with the financial statements.

This report is intended solely for the information and use of the Governing Board and management of the County and is not intended to be, and should not be, used by anyone other than these specified parties.

*Eide Bailly LLP*

Rancho Cucamonga, California



Financial Statements  
June 30, 2020

# Orange County Department of Education

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## Independent Auditor's Report

To the County Board of Education and  
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 Orange County Department of Education (the County) as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the County's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

### **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Orange County Department of Education, as of June 30, 2020, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Other Matters**

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 15, budgetary comparison information on pages 81 through 83, schedule of changes in the County's total OPEB liability and related ratios on page 84, schedule of the County's proportionate share of the net OPEB liability – MPP program on page 85, schedule of the County's proportionate share of the net pension liability on page 86, and the schedule of County contributions on page 88, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Orange County Department of Education's financial statements. The combining and individual nonmajor fund financial statements, Schedule of Expenditures of Federal Awards as required by the audit requirements of *Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), and other supplementary information listed in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements.

The combining and individual nonmajor fund financial statements, the schedule of expenditures of federal awards, and the other supplementary information listed in the table of contents are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial

statements, the schedule of expenditures of federal awards, and the other supplementary information listed in the table of contents are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued a report dated March 19, 2021 on our consideration of Orange County Department of Education’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Orange County Department of Education’s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Orange County Department of Education’s internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Eide Sallly LLP".

Rancho Cucamonga, California  
March 19, 2021



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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

REBECCA "BECKIE" GOMEZ

TIM SHAW

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, 2020, with comparative information for the year ended June 30, 2019. 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 and deferred outflows of resources of the County as well as all liabilities and deferred inflows of resources (including long-term liabilities). Additionally, certain eliminations have occurred as prescribed by the statement in regards to interfund activity, payables, and receivables.

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

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

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

The Primary unit of the government is the Orange County Department of Education.

### Financial Highlights of the Past Year

This is the seventh year of the Local Control Funding Formula (LCFF). In 2013-2014, the State budget saw the biggest change in education funding in over forty years with the implementation of the LCFF, and the Local Control Accountability Plan (LCAP). School Districts reached full implementation of the LCFF in 2018-2019, and County Offices of Education (COE) have been fully funded since 2014-2015 and will continue to only receive cost of living increases to their base grant in future years. One of the complex calculations specific to COE LCFF is subject to changes in county property taxes in conjunction with Average Daily Attendance (ADA). When county property taxes increase and ADA decreases, COE's move into a category called minimum state aid. We continue to be a County that 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 by \$4 million. AB602 requires a transfer to Special Education of 36 percent of the total property tax received. Property tax increased by \$4.8 million which required a transfer totaling \$41.2 million to the Special Education Pass-Through Fund (SELPA). This was an increase of \$1.7 million to the SELPA and the remaining \$3.1 million remained in the County School Service Fund. Although the County continues to receive increases in local taxes, overall LCFF funding for 2019-20 grew by \$3.5 million, \$3 million for Alternative Education programs and \$425 thousand for the College & Career Preparatory Academy charter school. Federal funding decreased \$11.3 million or 4.2 percent of the County School Service Fund revenues (and an increase of \$962 thousand or 0.3 percent of government-wide revenues). The decrease is mostly due to a decrease of \$14 million in the Medi-Cal Administrative Activities program and changes in various other federal programs. Other State revenue decreased \$12.3 million or 4.6 percent of the County School Service Fund revenues (and a decrease of \$13 million or 3.6 percent of government-wide revenues). The decrease is largely due to a decrease of \$13 million in School Climate Multi-Tiered Support System funds, a decrease of \$1 million for Career Technical Education Incentive Grant, a decrease of \$1 million for One-Time Discretionary funding, \$1.4 million increase for CalSTRS on behalf due to GASB 68 recognizing the State's contribution on behalf of the district, an increase of \$523 thousand for Tobacco Use Prevention Education, an increase of \$300 thousand for California Complete Counts Census, a one-time increase of \$118 thousand for SB117 COVID-19 Response, and other state grants and entitlements. Finally, government-wide local revenue for 2019-2020 increased by \$16 million as a result of various increases in interagency fees and decreases in tuition fees.

The expenditures in the County School Service Fund (not including transfers to other funds) decreased by \$9.5 million or 2.9 percent of expenditures. This includes the increase of GASB 68 CalSTRS on behalf of the district contribution of \$1.4 million and the rate increases of CalSTRS from 16.28 percent to 17.10 percent and CalPERS from 18.062 percent to 19.721 percent. In 2019-2020, all bargaining units received a three percent on-going salary increase. In addition, the district contributed to the health and welfare benefits for the 2019-2020 for all groups. Due to plan changes adopted by Classified & Management employees they did not have an employee increase for the PPO plan. Certificated employees did not adopt plan changes so the Department contributed 50 percent of the increase for the PPO plan. Salaries and benefits increased by \$2.6 million, which include a decrease for retirements and staff attrition and an increase for the GASB 68 CalSTRS on behalf of the district contribution. The LCAP called for increases in books, computers, and instructional materials of \$646 thousand and various other changes in services and contracts.

Due to COVID-19 CDE changed the calculation for Average Daily Attendance which shows a temporary increase of 770 average daily attendance (ADA).

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

### **Vision**

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

### **Mission**

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

OCDE is a public education organization offering support to 27 school districts and more than 600 schools and 20,000 educators serving more than 500,000 students in Orange County.

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

### **Values**

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

### **Enrollment**

A primary source of revenue for the County is generated by ADA of students in the County programs. The changes of ADA can have significant impact on the financial stability of the office. The County operated student programs increased by 770 ADA, a 38 percent increase from last year. The increase is due to a change in the state calculation and is a one-time adjustment. County-wide enrollment experienced a decrease of one 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 2019-2020, we met our goal with a minimum three percent Reserve for Economic Uncertainties.

## Reporting the County as A Whole

### The Statement of Net Position and the Statement of Activities

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

The relationship between revenues and expenses is the County's *operating results*. Since the 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.

## Reporting the County's Most Significant Funds

### Fund Financial Statements

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

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

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

### The County as Trustee

#### Reporting the County's Fiduciary Responsibilities

The County is the trustee, or *fiduciary*, for funds held on behalf of others, such as funds for payroll withholding accounts. The County's fiduciary activities are reported in the *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.



**The County as A Whole**

**Net Position**

The County's net position was \$205,502,849 for the fiscal year ended June 30, 2020. Of this amount, \$57,494,030 was unrestricted. Restricted net position is reported separately to show legal constraints from debt covenants, grantors, constitutional provisions, and is enabling legislation that limit the governing board's ability to use the net position for day-to-day operations. Our analysis below, in summary form, focuses on the net position (Table 1) and change in net position (Table 2) of the County's governmental activities.

	Governmental Activities	
	2020	2019
Assets		
Current and other assets	\$ 355,550,957	\$ 322,033,619
Capital assets	90,984,038	88,723,439
Total assets	<u>446,534,995</u>	<u>410,757,058</u>
Deferred outflows of resources	<u>43,391,677</u>	<u>50,868,301</u>
Liabilities		
Current liabilities	45,752,835	49,760,518
Long-term liabilities other than OPEB and Pension	15,597,231	17,830,648
Other postemployment benefits (OPEB) liability	3,910,547	4,105,184
Aggregate net pension liability	<u>194,736,975</u>	<u>199,320,841</u>
Total liabilities	<u>259,997,588</u>	<u>271,017,191</u>
Deferred inflows of resources	<u>24,426,235</u>	<u>16,096,633</u>
Net Position		
Investment in capital assets	80,271,038	76,811,439
Restricted	67,737,781	66,712,313
Unrestricted	<u>57,494,030</u>	<u>30,987,783</u>
Total net position	<u><u>\$ 205,502,849</u></u>	<u><u>\$ 174,511,535</u></u>

The \$57,494,030 in unrestricted net position of governmental activities represents the *accumulated* results of all past years' operations.

**Changes in Net Position**

The results of this year's operations for the County as a whole are reported in the *Statement of Activities* on page 17. Table 2 takes the information from the Statement, rounds off the numbers, and rearranges them slightly so you can see our total revenues for the year.

Table 2

	Governmental Activities	
	2020	2019
Revenues		
Program revenues		
Charges for services	\$ 49,598,479	\$ 39,177,668
Operating grants and contributions	78,147,030	81,125,515
Capital grants and contributions	35,539	27,921
General revenues		
Federal and State aid not restricted	52,765,522	67,921,561
Property taxes	118,829,589	113,594,439
Other general revenues	60,709,119	55,492,138
Total revenues	360,085,278	357,339,242
Expenses		
Instruction	193,864,941	170,743,525
Pupil services	20,673,249	20,755,650
Administration	31,382,846	27,270,941
Plant services	13,423,214	12,186,514
All other services	69,749,714	97,364,126
Total expenses	329,093,964	328,320,756
Change in net position	\$ 30,991,314	\$ 29,018,486

**Governmental Activities**

As reported in the *Statement of Activities* on page 17, the cost of all of our governmental activities this year was \$329,093,964. However, the amount that our taxpayers ultimately financed for these activities through local taxes was only \$118,829,589 because the cost was paid by those who benefited from the programs (\$49,598,479) or by other governments and organizations who subsidized certain programs with grants and contributions (\$78,182,569). We paid for the remaining "public benefit" portion of our governmental activities with \$113,474,641 in unrestricted Federal and State funds and with other revenues, such as interest and general entitlements.

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

Table 3

	Total Cost of Services		Net Cost of Services	
	2020	2019	2020	2019
Instruction	\$ 193,864,941	\$ 170,743,525	\$ (105,751,187)	\$ (93,108,561)
Pupil services	20,673,249	20,755,650	(14,714,992)	(13,523,731)
Administration	31,382,846	27,270,941	(23,645,925)	(19,954,074)
Plant services	13,423,214	12,186,514	(12,775,140)	(11,428,054)
All other services	69,749,714	97,364,126	(44,425,672)	(69,975,232)
<b>Total</b>	<b>\$ 329,093,964</b>	<b>\$ 328,320,756</b>	<b>\$ (201,312,916)</b>	<b>\$ (207,989,652)</b>

### The County's Funds

As the County completed this year, our governmental funds reported a combined fund balance of \$303,792,882, which is an increase of \$36,747,448, or 13.8 percent from last year (Table 4).

Table 4

	Balances and Activities			
	July 1, 2019	Revenues	Expenditures	June 30, 2020
		and other	and other	
	financing sources	financing uses		
County School Service Fund	\$ 220,894,241	\$ 268,701,474	\$ 231,282,777	\$ 258,312,938
Special Education				
Pass-Through Fund	9,830,578	46,857,649	47,571,903	9,116,324
Child Development Fund	-	40,910,321	40,910,321	-
Deferred Maintenance Fund	28,714,971	2,533,967	1,050,211	30,198,727
County School Facilities Fund	2,453,328	35,539	168,623	2,320,244
Special Reserve Fund for				
Capital Outlay Projects	3,856,202	2,090,361	3,412,236	2,534,327
Debt Service Fund	1,296,114	1,599,291	1,585,083	1,310,322
<b>Total</b>	<b>\$ 267,045,434</b>	<b>\$ 362,728,602</b>	<b>\$ 325,981,154</b>	<b>\$ 303,792,882</b>

The County School Service Fund is our principal operating fund. The fund balance in the County School Service Fund increased to \$258 million, a \$3.5 million increase due to a temporary change in the average daily attendance and the impact on the Local Control Funding Formula (LCFF), \$929 thousand increase for Title I programs, \$739 thousand increase for California Quality Counts, \$356 thousand for Every Student Succeed Act, School Improvement programs, and staff reductions.

**County School Service Fund Budgetary Highlights**

Over the course of the year, the County revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. The final amendment to the budget was adopted on March 4, 2020. (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 81).

**Capital Asset and Debt Administration**

**Capital Assets**

At June 30, 2020, the County had \$90,984,038 in a broad range of capital assets, including land, buildings, and furniture and equipment, net of depreciation. This amount represents a net increase (including additions, deductions, and depreciation) of \$2,260,599, or 2.5 percent, from last year (Table 5).

Table 5

	Governmental Activities	
	2020	2019
Land and construction in process	\$ 32,322,534	\$ 30,831,406
Buildings and improvements	52,568,168	53,879,250
Furniture and equipment	6,093,336	4,012,783
Total	\$ 90,984,038	\$ 88,723,439

The \$2.3 million increase in capital assets was the result of a decrease of \$1.3 million in capital purchases and an increase of \$1.4 million of capital asset acquisitions including \$2 million in equipment and related accumulated depreciation.

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

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

At the year-end, the County had \$15,597,231 in long-term liabilities other than OPEB and pension versus \$17,830,648 last year, a decrease of \$2,233,417, or 12.5 percent. Those liabilities consisted of:

Table 6

	Governmental Activities	
	2020	2019
Certificates of participation (net of discount)	\$ 10,713,000	\$ 11,912,000
Supplemental early retirement plan	2,933,142	4,399,713
Compensated absences	1,951,089	1,518,935
Total	\$ 15,597,231	\$ 17,830,648

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

**OPEB and Pension Liabilities**

At year-end, the County had \$3,910,547 in OPEB liability versus \$4,105,184 last year, a decrease of \$194,637, or 4.7 percent.

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

At the year-end, the County had \$194,736,975 in net pension liability versus \$199,320,841 last year, a decrease of \$4,583,866, or 2.3 percent.

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

**Economic Factors and Next Year's Budgets and Rates**

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

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

Items specifically addressed in the budget are as follows:

2019-2020 is the seventh year of our Local Control Accountability Plan (LCAP) and the need to address increased and improved services to our students. We have seen great progress and look forward to successfully continue providing: (1) Counselors, Teachers on Special Assignments, and Academic Support Assistants that are providing a greater level of support to students and staff through individualized interactions, direct services, and the sharing of best practices, (2) continue providing more opportunities for parents and guardians to increase family engagement in their students educational experience, (3) to fully complete the upgrade of the bandwidth and site connectivity that has increased the number of devices for student usage and provided offsite internet connection to students, and greater collaboration between the Special Education and Alternative Education divisions. We continue to receive students in our program with more significant attendance, academic, behavioral, and emotional needs that impact attendance rates negatively. Our plan is to address these needs by conducting student intervention meetings, utilizing the support of the District Attorney, and the Student Attendance Board. In addition, we will continue to expand opportunities for career technical activities to better engage students in their learning. As we prepare and revise our Budget Reports, our ADA continues to project a decline. The district will continue to evaluate vacancies and anticipate not replacing most positions not related to Special Education. We continue to monitor ADA and to establish better control over staffing ratios at each site.

The LCFF changed how students are recorded and COEs are only to 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, students referred by school districts are credited to the district of residence and then CDE transfers the funding back to the COE who provides the services. This has created a more favorable impact on our districts cash flow. We will continue to monitor our expenditures and will concentrate on evaluating our multi-year projections to ensure that we have fiscal stability for future years.

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

#### **Contacting the County's Financial Management**

This financial report is designed to provide our citizens, taxpayers, students, and teachers with a general overview of the County's finances and to show the County's accountability for the money it receives. If you have questions about this report or need any additional financial information, contact Renee Hendrick, Associate Superintendent of Administrative Services, at the Orange County Department of Education, 200 Kalmus Drive, Costa Mesa, California, 92626, or e-mail at [rhendrick@ocde.us](mailto:rhendrick@ocde.us).

Orange County Department of Education

Statement of Net Position

June 30, 2020

	<u>Governmental Activities</u>
Assets	
Deposits and investments	\$ 302,523,301
Receivables	53,027,656
Capital assets not depreciated	32,322,534
Capital assets, net of accumulated depreciation	<u>58,661,504</u>
Total assets	<u>446,534,995</u>
Deferred Outflows of Resources	
Deferred outflows of resources related to net other postemployment benefits (OPEB) liability	131,336
Deferred outflows of resources related to pensions	<u>43,260,341</u>
Total deferred outflows of resources	<u>43,391,677</u>
Liabilities	
Accounts payable	40,499,300
Accrued interest payable	25,525
Unearned revenue	4,978,014
Claims liability	249,996
Long-term liabilities	
Long-term liabilities other than OPEB and pensions due within one year	2,536,571
Long-term liabilities other than OPEB and pensions due in more than one year	13,060,660
Other postemployment benefits (OPEB) liability	3,910,547
Aggregate net pension liability	<u>194,736,975</u>
Total liabilities	<u>259,997,588</u>
Deferred Inflows of Resources	
Deferred inflows of resources related to net other postemployment benefits (OPEB) liability	210,400
Deferred inflows of resources related to pensions	<u>24,215,835</u>
Total Deferred Inflows of Resources	<u>24,426,235</u>
Net Position	
Investment in capital assets	80,271,038
Restricted for	
Debt service	2,487,568
Capital projects	3,651,800
Educational programs	46,451,324
Other activities	15,147,089
Unrestricted	<u>57,494,030</u>
Total net position	<u>\$ 205,502,849</u>



Orange County Department of Education  
Statement of Activities  
Year Ended June 30, 2020

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
<b>Governmental Activities</b>					
Instruction	\$ 104,132,358	\$ 11,539,722	\$ 35,684,320	\$ 35,539	\$ (56,872,777)
Instruction-related activities					
Supervision of instruction	77,405,258	14,970,900	24,231,954	-	(38,202,404)
Instructional library, media, and technology	1,117,395	10	14,284	-	(1,103,101)
School site administration	11,209,930	1,261,869	375,156	-	(9,572,905)
Pupil services					
Home-to-school transportation	5,483,651	20,696	360	-	(5,462,595)
Food services	1,366,669	740	202,884	-	(1,163,045)
All other pupil services	13,822,929	3,344,988	2,388,589	-	(8,089,352)
Administration					
Data processing	10,736,989	-	3,186	-	(10,733,803)
All other administration	20,645,857	2,542,646	5,191,089	-	(12,912,122)
Plant services	13,423,214	585,529	62,545	-	(12,775,140)
Interest on long-term liabilities	376,637	-	-	-	(376,637)
Other outgo	69,373,077	15,331,379	9,992,663	-	(44,049,035)
<b>Total governmental activities</b>	<b>\$ 329,093,964</b>	<b>\$ 49,598,479</b>	<b>\$ 78,147,030</b>	<b>\$ 35,539</b>	<b>(201,312,916)</b>
<b>General Revenues and Subventions</b>					
Property taxes, levied for general purposes					115,473,789
Taxes levied for other specific purposes					3,355,800
Federal and State aid not restricted to specific purposes					52,765,522
Interest and investment earnings					5,503,261
Interagency revenues					10,118,928
Miscellaneous					45,086,930
<b>Subtotal, general revenues</b>					<b>232,304,230</b>
<b>Change in Net Position</b>					<b>30,991,314</b>
<b>Net Position - Beginning</b>					<b>174,511,535</b>
<b>Net Position - Ending</b>					<b>\$ 205,502,849</b>

Orange County Department of Education

Balance Sheet – Governmental Funds

June 30, 2020

	County School Service Fund	Special Education Pass-Through Fund	Child Development Fund	Non-Major Governmental Fund	Total Governmental Funds
<b>Assets</b>					
Deposits and investments	\$ 251,465,442	\$ 7,705,263	\$ 1,163,855	\$ 35,836,350	\$ 296,170,910
Receivables	29,527,632	10,411,166	12,909,286	173,894	53,021,978
Due from other funds	2,600,393	188,517	573,870	1,022,520	4,385,300
<b>Total assets</b>	<b>\$ 283,593,467</b>	<b>\$ 18,304,946</b>	<b>\$ 14,647,011</b>	<b>\$ 37,032,764</b>	<b>\$ 353,578,188</b>
<b>Liabilities and Fund Balances</b>					
<b>Liabilities</b>					
Accounts payable	\$ 18,517,608	\$ 9,037,723	\$ 12,197,517	\$ 669,144	\$ 40,421,992
Due to other funds	1,784,907	150,899	2,449,494	-	4,385,300
Unearned revenue	4,978,014	-	-	-	4,978,014
<b>Total liabilities</b>	<b>25,280,529</b>	<b>9,188,622</b>	<b>14,647,011</b>	<b>669,144</b>	<b>49,785,306</b>
<b>Fund Balances</b>					
Nonspendable	70,000	-	-	-	70,000
Restricted	46,451,324	9,116,324	-	6,164,893	61,732,541
Committed	-	-	-	30,198,727	30,198,727
Assigned	88,382,558	-	-	-	88,382,558
Unassigned	123,409,056	-	-	-	123,409,056
<b>Total fund balances</b>	<b>258,312,938</b>	<b>9,116,324</b>	<b>-</b>	<b>36,363,620</b>	<b>303,792,882</b>
<b>Total liabilities and fund balances</b>	<b>\$ 283,593,467</b>	<b>\$ 18,304,946</b>	<b>\$ 14,647,011</b>	<b>\$ 37,032,764</b>	<b>\$ 353,578,188</b>

Orange County Department of Education  
 Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position  
 June 30, 2020

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Total Fund Balance - Governmental Funds \$ 303,792,882

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	\$ 139,276,924
Accumulated depreciation is	<u>(48,292,886)</u>

Net capital assets	90,984,038
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In governmental funds, unmatured interest on long-term liabilities is recognized in the period when it is due. On the government-wide financial statements, unmatured interest on long-term liabilities is recognized when it is incurred. (25,525)

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. 6,030,765

Deferred outflows of resources represent a consumption of net position in a future period and is not reported in the governmental funds.

Deferred outflows of resources amounted to and related to:	
Other postemployment benefits (OPEB) liability	131,336
Net pension liability	<u>43,260,341</u>

Total deferred outflows of resources	43,391,677
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Deferred inflows of resources represent an acquisition of net position that applies to a future period and is not reported in the governmental funds. Deferred inflows of resources amount to and related to:

Other postemployment benefits (OPEB) liability	(210,400)
Net pension liability	<u>(24,215,835)</u>

Total deferred inflows of resources	(24,426,235)
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Orange County Department of Education  
 Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position  
 June 30, 2020

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Net pension liability is not due and payable in the current period, and is not reported as a liability in the funds.		\$ (194,736,975)
The District's OPEB liability is not due and payable in the current period, and is not reported as a liability in the funds.		(3,910,547)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Long-term liabilities at year-end consist of		
Certificates of participation	\$ (10,785,000)	
Discount on certificates of participation	72,000	
Supplemental early retirement plan	(2,933,142)	
Compensated absences	<u>(1,951,089)</u>	
Total long-term liabilities		<u>(15,597,231)</u>
Total net position - governmental activities		<u><u>\$ 205,502,849</u></u>

Orange County Department of Education  
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds  
Year Ended June 30, 2020

	County School Service Fund	Special Education Pass-Through Fund	Child Development Fund
<b>Revenues</b>			
Local Control Funding Formula	\$ 105,505,818	\$ 36,420,839	\$ -
Federal sources	12,796,613	7,642,938	23,351,104
Other State sources	16,516,503	2,607,269	16,137,734
Other local sources	133,882,540	186,603	942,960
Total revenues	<u>268,701,474</u>	<u>46,857,649</u>	<u>40,431,798</u>
<b>Expenditures</b>			
<b>Current</b>			
Instruction	66,752,412	-	30,264,659
Instruction-related activities			
Supervision of instruction	67,521,122	-	7,109,511
Instructional library, media, and technology	1,046,366	-	-
School site administration	10,523,457	-	-
Pupil services			
Home-to-school transportation	5,470,100	-	-
Food services	1,342,142	-	-
All other pupil services	12,776,279	-	-
Administration			
Data processing	12,588,746	-	-
All other administration	17,308,843	-	3,484,899
Plant services	12,563,849	-	51,252
Other outgo	21,801,174	47,571,903	-
Facility acquisition and construction	129,029	-	-
Debt Service			
Principal	-	-	-
Interest and other	-	-	-
Total expenditures	<u>229,823,519</u>	<u>47,571,903</u>	<u>40,910,321</u>
Excess (Deficiency) of Revenues over Expenditures	<u>38,877,955</u>	<u>(714,254)</u>	<u>(478,523)</u>
<b>Other Financing Sources (Uses)</b>			
Transfers in	-	-	478,523
Transfers out	<u>(1,459,258)</u>	-	-
Net financing sources (uses)	<u>(1,459,258)</u>	-	<u>478,523</u>
Net Change in Fund Balances	37,418,697	(714,254)	-
Fund Balances - Beginning	<u>220,894,241</u>	<u>9,830,578</u>	-
Fund Balances - Ending	<u>\$ 258,312,938</u>	<u>\$ 9,116,324</u>	<u>\$ -</u>

Orange County Department of Education  
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds  
Year Ended June 30, 2020

	<u>Non-Major Governmental Fund</u>	<u>Total Governmental Funds</u>
<b>Revenues</b>		
Local Control Funding Formula	\$ 1,022,520	\$ 142,949,177
Federal sources	-	43,790,655
Other State sources	-	35,261,506
Other local sources	<u>2,670,820</u>	<u>137,682,923</u>
Total revenues	<u>3,693,340</u>	<u>359,684,261</u>
<b>Expenditures</b>		
Current		
Instruction	-	97,017,071
Instruction-related activities		
Supervision of instruction	-	74,630,633
Instructional library, media, and technology	-	1,046,366
School site administration	-	10,523,457
Pupil services		
Home-to-school transportation	-	5,470,100
Food services	-	1,342,142
All other pupil services	-	12,776,279
Administration		
Data processing	-	12,588,746
All other administration	-	20,793,742
Plant services	821,592	13,436,693
Other outgo	-	69,373,077
Facility acquisition and construction	2,224,395	2,353,424
Debt Service		
Principal	1,205,000	1,205,000
Interest and other	<u>380,083</u>	<u>380,083</u>
Total expenditures	<u>4,631,070</u>	<u>322,936,813</u>
Excess (Deficiency) of Revenues over Expenditures	<u>(937,730)</u>	<u>36,747,448</u>
<b>Other Financing Sources (Uses)</b>		
Transfers in	2,565,818	3,044,341
Transfers out	<u>(1,585,083)</u>	<u>(3,044,341)</u>
Net financing sources (uses)	<u>980,735</u>	<u>-</u>
Net Change in Fund Balances	43,005	36,747,448
Fund Balances - Beginning	<u>36,320,615</u>	<u>267,045,434</u>
Fund Balances - Ending	<u>\$ 36,363,620</u>	<u>\$ 303,792,882</u>

## Orange County Department of Education

### Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2020

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Total Net Change in Fund Balances - Governmental Funds \$ 36,747,448

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

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

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

Capital outlay	\$ 5,707,964	
Depreciation expense	<u>(3,371,031)</u>	

Net expense adjustment		2,336,933
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Loss on disposal of capital assets is reported in the government-wide Statement of Net Position, but is not recorded in the governmental funds. (76,334)

In the Statement of Activities, certain operating expenses - compensated absences (vacations) and special termination benefits (supplemental early retirement plan) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). Vacation used was less than the amounts earned by \$432,154. Special termination benefits added was less than the amount paid by \$1,466,571. 1,034,417

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. (11,085,020)

## Orange County Department of Education

### Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2020

<p>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.</p>	\$ 57,297
<p>Repayment of debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Position and does not affect the Statement of Activities:</p> <p style="padding-left: 20px;">Certificates of participation</p>	1,205,000
<p>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</p> <p style="padding-left: 20px;">Amortization of debt discount</p>	(6,000)
<p>Interest on long-term liabilities in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. The additional interest reported in the Statement of Activities is the result of the decrease in accrued interest on the certificates of participation by \$9,446.</p>	9,446
<p>An internal service fund is used by the County's management to charge the costs of the dental care program to the individual funds. The net revenue of the Internal Service Fund is reported with governmental activities.</p>	<u>768,127</u>
<p style="padding-left: 40px;">Change in net position of governmental activities</p>	<u><u>\$ 30,991,314</u></u>



Orange County Department of Education  
Statement of Net Position – Proprietary Funds  
June 30, 2020

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	Governmental Activities - Internal Service Fund <hr/> Self-Insurance Fund <hr/>
Assets	
Current Assets	
Deposits and investments	\$ 6,352,391
Receivables	<u>5,678</u>
Total current assets	<u>6,358,069</u>
Liabilities	
Current Liabilities	
Accounts payable	77,308
Claim liability	<u>249,996</u>
Total current liabilities	<u>327,304</u>
Net Assets	
Restricted	<u><u>\$ 6,030,765</u></u>

Orange County Department of Education  
Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Funds  
Year Ended June 30, 2020

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	Governmental Activities - Internal Service Fund <hr/> Self-Insurance Fund <hr/>
Operating Revenues	
Local and intermediate sources	<u>\$ 1,902,266</u>
Operating Expenses	
Claims payments	1,162,693
Other operating cost	<u>75,591</u>
Total operating expenses	<u>1,238,284</u>
Operating income	<u>663,982</u>
Nonoperating Revenues	
Interest income	<u>104,145</u>
Change in Net Assets	768,127
Total Net Assets - Beginning	<u>5,262,638</u>
Total Net Assets - Ending	<u><u>\$ 6,030,765</u></u>

Orange County Department of Education  
Statement of Cash Flows – Proprietary Funds  
Year Ended June 30, 2020

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	Governmental Activities - Internal Service Fund <u>Self-Insurance Fund</u>
Cash Flows from Operating Activities	
Cash receipts from customers	\$ 1,902,266
Cash payments to other suppliers of goods or services	(1,189,898)
Other operating cash payments	<u>(75,591)</u>
Net cash provided by operating activities	<u>636,777</u>
Cash Flows from Investing Activities	
Interest on investments	<u>108,746</u>
Net Increase in Cash and Cash Equivalents	745,523
Cash and Cash Equivalents - Beginning	<u>5,606,868</u>
Cash and Cash Equivalents - Ending	<u><u>\$ 6,352,391</u></u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating income	\$ 663,982
Changes in assets and liabilities	
Accounts payable	(277,201)
Claim liability	<u>249,996</u>
Net Cash Provided by Operating Activities	<u><u>\$ 636,777</u></u>

Orange County Department of Education  
Statement of Net Position – Fiduciary Funds  
June 30, 2020

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	<u>Agency Funds</u>
Assets	
Deposits and investments	<u>\$ 33,067,019</u>
Liabilities	
Due to other agencies	<u>\$ 33,067,019</u>

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

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

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

**Component Units**

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

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

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

**Other Related Entities**

**Charter School** The County has approved Samueli Academy, Vista Heritage Global Academy, Citrus Springs Charter, Ednovate – Legacy College Prep., Orange County Academy of Sciences and Arts, Scholarship Prep Charter, Orange County Workforce Innovation High, EPIC Charter, Oxford Preparatory Academy, Unity Middle College High, Vista Condor Global Academy, Tomorrow’s Leadership Collaborative (TLC) Charter, Suncoast Preparatory Academy, Sycamore Creek Community Charter, International School for Science and Culture, College and Career Preparatory Academy, and OCSA (effective July 1, 2020) pursuant to *Education Code* Section 47605. The Samueli Academy, Vista Heritage Global Academy, Citrus Springs Charter, Ednovate – Legacy College Prep., Orange County Academy of Sciences and Arts, Scholarship Prep Charter, Orange County Workforce Innovation High, EPIC Charter, Oxford Preparatory Academy, Unity Middle College High, Vista Condor Global Academy, Tomorrow’s Leadership Collaborative (TLC) Charter, Suncoast Preparatory Academy, Sycamore Creek Community Charter, International School for Science and Culture, and OCSA (effective July 1, 2020) are direct-funded and are not considered component units of the County. The Charter Schools are independent of the County, but subject to periodic charter renewal by the County. The College and Career Preparatory Academy is operated by the County, and its financial activity is presented in the County School Service Fund.

**Basis of Presentation - Fund Accounting**

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

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

**Major Governmental Funds**

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

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

As a result, the County School Service Fund reflects an increase of \$25,884,658 in fund balance, and an increase in revenue of \$479,795.

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

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

#### **Non-Major Governmental Fund**

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

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

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

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

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

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

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

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

**Fiduciary Funds** Fiduciary funds are used to account for 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.



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

- **Governmental Funds** All governmental funds are accounted for using the flow of current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures, and changes in fund balances reports on the sources (revenues and other financing sources) and uses (expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements, therefore, include reconciliations with brief explanations to better identify the relationship between the government-wide financial statements, prepared using the economic resources measurement focus and the accrual basis of accounting, and the governmental fund financial statements, prepared using the flow of current financial resources measurement focus and the modified accrual basis of accounting.
- **Proprietary Funds** Proprietary funds are accounted for using the flow of economic resources measurement focus and the accrual basis of accounting. All assets and all liabilities associated with the operation of this fund are included in the statement of net position. The statement of changes in fund net position presents increases (revenues) and decreases (expenses) in net total assets. The statement of cash flows provides information about how the County finances and meets the cash flow needs of its proprietary fund.
- **Fiduciary Funds** Fiduciary funds are accounted for using the flow of economic resources measurement focus and the accrual basis of accounting. Fiduciary funds are excluded from the government-wide financial statements because they do not represent resources of the County.

**Revenues – Exchange and Non-Exchange Transactions** Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter, to be used to pay liabilities of the current fiscal year. The County considers revenues to be available if they are collected within one year after year-end, except for property taxes, which are considered available if collected within 60 days. The following revenue sources are considered to be both measurable and available at fiscal year-end: State apportionments, interest, certain grants, and other local sources.

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

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

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

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

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

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

#### **Investments**

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

#### **Capital Assets and Depreciation**

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

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

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

**Interfund Balances**

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

**Compensated Absences**

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

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

**Accrued Liabilities and Long-Term Liabilities**

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

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

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

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

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

### **Deferred Outflows/Inflows of Resources**

In addition to assets, the Statement of Net Position also reports deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The County reports deferred outflows of resources for pension related items and for OPEB related items. The deferred amounts related to pension and OPEB relate to contributions subsequent to measurement date, differences between expected and actual experiences in the measurement of total pension liability, and changes of assumptions.

In addition to liabilities, the Statement of Net Position reports a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The County reports deferred inflows of resources for pension related items and for OPEB related items. The deferred amounts related to pension and OPEB relate to differences between contributions and the County's proportionate share of contributions, differences between expected and actual experiences in the measurement of the OPEB liability, differences between projected and actual earnings on pension plan investments, change of assumptions, and differences between expected and actual experiences in the measurement of total pension liability.

### **Pensions**

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

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

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

**Fund Balances - Governmental Funds**

As of June 30, 2020, fund balances of the governmental funds are classified as follows:

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

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

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

**Assigned** - amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. Under the County's adopted policy, only the governing board or 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 deferred outflows of resources, and liabilities and deferred inflows of resources. Net position investment in capital assets, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. The County has no related debt outstanding as of June 30, 2020. 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 \$67,737,781 of restricted net position.

**Operating Revenues and Expenses**

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

**Interfund Activity**

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

**Estimates**

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

**Property Tax**

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

**Change in Accounting Principles**

In May 2020, the GASB issued Statement No. 95, Postponement of the Effective Dates of Certain Authoritative Guidance. The primary objective of this Statement is to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic. That objective is accomplished by postponing the effective dates of certain provisions in Statements and Implementation Guides that first became effective or are scheduled to become effective for periods beginning after June 15, 2018, and later.

The effective dates of certain provisions contained in the following pronouncements are postponed by one year:

- Statement No. 83, Certain Asset Retirement Obligations
- Statement No. 84, Fiduciary Activities
- Statement No. 88, Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements
- Statement No. 89, Accounting for Interest Cost Incurred before the End of a Construction Period
- Statement No. 90, Majority Equity Interests
- Statement No. 91, Conduit Debt Obligations
- Statement No. 92, Omnibus 2020
- Statement No. 93, Replacement of Interbank Offered Rates
- Implementation Guide No. 2017-3, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (and Certain Issues Related to OPEB Plan Reporting)
- Implementation Guide No. 2018-1, Implementation Guidance Update—2018
- Implementation Guide No. 2019-1, Implementation Guidance Update—2019
- Implementation Guide No. 2019-2, Fiduciary Activities.

The effective dates of the following pronouncements are postponed by 18 months:

- Statement No. 87, Leases
- Implementation Guide No. 2019-3, Leases.

The provisions of this Statement have been implemented as of June 30, 2020.

**New Accounting Pronouncements**

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

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

As a result of the implementation of GASB Statement No. 95, the requirements of this Statement are effective for the reporting periods beginning after December 15, 2019. Early implementation is encouraged. The effects of this change on the County's financial statements have not yet been determined.

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.

As a result of the implementation of GASB Statement No. 95, the requirements of this Statement are effective for the reporting periods beginning after June 15, 2021. Early implementation is encouraged. The effects of this change on the County's financial statements have not yet been determined.

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.

As a result of the implementation of GASB Statement No. 95, the requirements of this Statement are effective for reporting periods beginning after December 15, 2020. Earlier application is encouraged. The requirements of this Statement should be applied prospectively. The effects of this change on the County's financial statements have not yet been determined.



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

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

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

As a result of the implementation of GASB Statement No. 95, 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. The effects of this change on the County's financial statements have not yet been determined.

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

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

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

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

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

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

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

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

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

As a result of the implementation of GASB Statement No. 95, the requirements of this Statement are effective for the reporting periods beginning after December 15, 2021. Early implementation is encouraged. The effects of this change on the County's financial statements have not yet been determined.

In January 2020, the GASB issued Statement No. 92, Omnibus 2020. The objectives of this statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics and includes specific provisions about the following:

- The effective date of Statement No. 87, Leases, and Implementation Guide No. 2019-3, Leases, for interim financial reporting
- Reporting of intra-entity transfers of assets between a primary government employer and a component unit defined benefit pension plan or defined benefit other postemployment benefit (OPEB) plan
- The applicability of Statement No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements 67 and 68, as amended, No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, as amended, to reporting assets accumulated for postemployment benefits
- The applicability of certain requirements of Statement No. 84, Fiduciary Activities, to postemployment benefit arrangements
- Measurement of liabilities (and assets, if any) related to asset retirement obligations (AROs) in a government acquisition
- Reporting by public entity risk pools for amounts that are recoverable from reinsurers or excess insurers
- Reference to nonrecurring fair value measurements of assets or liabilities in authoritative literature
- Terminology used to refer to derivative instruments

As a result of the implementation of GASB Statement No. 95, the requirements of this Statement are effective as follows:

- The requirements related to the effective date of Statement 87 and Implementation Guide 2019-3, reinsurance recoveries, and terminology used to refer to derivative instruments are effective upon issuance.
- The requirements related to intra-entity transfers of assets and those related to the applicability of Statements 73 and 74 are effective for fiscal years beginning after June 15, 2021.
- The requirements related to application of Statement 84 to postemployment benefit arrangements and those related to nonrecurring fair value measurements of assets or liabilities are effective for reporting periods beginning after June 15, 2021.
- The requirements related to the measurement of liabilities (and assets, if any) associated with AROs in a government acquisition are effective for government acquisitions occurring in reporting periods beginning after June 15, 2021.

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

In March 2020, the GASB issued Statement No. 93, Replacement of Interbank Offered Rates. The objective of this Statement is to address those and other accounting and financial reporting implications that result from the replacement of an IBOR (Interbank Offered Rate). This Statement achieves that objective by:

- Providing exceptions for certain hedging derivative instruments to the hedge accounting termination provisions when an IBOR is replaced as the reference rate of the hedging derivative instrument's variable payment
- Clarifying the hedge accounting termination provisions when a hedged item is amended to replace the reference rate
- Clarifying that the uncertainty related to the continued availability of IBORs does not, by itself, affect the assessment of whether the occurrence of a hedged expected transaction is probable
- Removing LIBOR as an appropriate benchmark interest rate for the qualitative evaluation of the effectiveness of an interest rate swap
- Identifying a Secured Overnight Financing Rate and the Effective Federal Funds Rate as appropriate benchmark interest rates for the qualitative evaluation of the effectiveness of an interest rate swap
- Clarifying the definition of reference rate, as it is used in Statement 53, as amended
- Providing an exception to the lease modifications guidance in Statement 87, as amended, for certain lease contracts that are amended solely to replace an IBOR as the rate upon which variable payments depend.

As a result of the implementation of GASB Statement No. 95, the removal of LIBOR as an appropriate benchmark interest rate (paragraph 11b) is effective for reporting periods ending after December 31, 2021. Paragraph 13 and 14 related to lease modifications is effective for reporting periods beginning after June 15, 2021. All other requirements of this Statement are effective for reporting periods beginning after June 15, 2020. Early implementation is encouraged. The effects of this change on the County's financial statements have not yet been determined.

In March 2020, the GASB issued Statement No. 94, Public-Private and Public-Public Partnerships and Availability Payment Arrangements. The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). As used in this Statement, a PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. Some PPPs meet the definition of a service concession arrangement (SCA), which the Board defines in this Statement as a PPP in which (1) the operator collects and is compensated by fees from third parties; (2) the transferor determines or has the ability to modify or approve which services the operator is required to provide, to whom the operator is required to provide the services, and the prices or rates that can be charged for the services; and (3) the transferor is entitled to significant residual interest in the service utility of the underlying PPP asset at the end of the arrangement.

This Statement also provides guidance for accounting and financial reporting for availability payment arrangements (APAs). As defined in this Statement, an APA is an arrangement in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction.

The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged. The effects of this change on the County's financial statements have not yet been determined.

In May 2020, the GASB issued Statement No. 96, Subscription-Based Information Technology Arrangements. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, Leases, as amended.

A SBITA is defined as a contract that conveys control of the right to use another party's (a SBITA vendor's) information technology (IT) software, alone or in combination with tangible capital assets (the underlying IT assets), as specified in the contract for a period of time in an exchange or exchange-like transaction. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged. The effects of this change on the County's financial statements have not yet been determined.

In June 2020, the GASB issued Statement No. 97, Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32. The primary objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans.

The requirements of this Statement that (1) exempt primary governments that perform the duties that a governing board typically performs from treating the absence of a governing board the same as the appointment of a voting majority of a governing board in determining whether they are financially accountable for defined contribution pension plans, defined contribution OPEB plans, or other employee benefit plans and (2) limit the applicability of the financial burden criterion in paragraph 7 of Statement 84 to defined benefit pension plans and defined benefit OPEB plans that are administered through trusts that meet the criteria in paragraph 3 of Statement 67 or paragraph 3 of Statement 74, respectively, are effective immediately.

The requirements of this Statement that are related to the accounting and financial reporting for Section 457 plans are effective for fiscal years beginning after June 15, 2021. For purposes of determining whether a primary government is financially accountable for a potential component unit, the requirements of this Statement that provide that for all other arrangements, the absence of a governing board be treated the same as the appointment of a voting majority of a governing board if the primary government performs the duties that a governing board typically would perform, are effective for reporting periods beginning after June 15, 2021. Earlier application of those requirements is encouraged and permitted by requirement as specified within this Statement.

The Board considered the effective dates for the requirements of this Statement in light of the COVID-19 pandemic and in concert with Statement No. 95, Postponement of the Effective Dates of Certain Authoritative Guidance. The effects of this change on the County’s financial statements have not yet been determined.

**Note 2 - Deposits and Investments**

**Summary of Deposits and Investments**

Deposits and investments as of June 30, 2020, are classified in the accompanying financial statements as follows:

Governmental activities	\$ 302,523,301
Fiduciary funds	<u>33,067,019</u>
Total deposits and investments	<u><u>\$ 335,590,320</u></u>

Deposits and investments as of June 30, 2020, consist of the following:

Cash on hand and in banks	\$ 237,955
Cash in revolving	70,000
Investments	<u>335,282,365</u>
Total deposits and investments	<u><u>\$ 335,590,320</u></u>

**Policies and Practices**

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

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

### General Authorizations

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

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

### Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The County does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The County manages its exposure to interest rate risk by investing in the Orange County Treasury Investment Pool. The County maintains an investment of \$333,406,921 with the Orange County Treasury Investment Pool. This investment has an average weighted maturity of 266 days. In addition, the County maintains an investment of \$1,875,444 with US Bank Money Market Account.

**Credit Risk**

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The investment with the Orange County Treasury Investment Pool and US Bank Money Market Account are not required to be rated nor have they been rated.

**Custodial Credit Risk - Deposits**

This is the risk that in the event of a bank failure, the County's deposits may not be returned to it. The County does not have a policy for custodial credit risk for deposits. However, the California *Government Code* requires that a financial institution secure deposits made by State or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under State law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 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, 2020, the County's bank balance \$1,640,743 was exposed to custodial credit risk because it was uninsured.

**Note 3 - Receivables**

Receivables at June 30, 2020, consisted of intergovernmental grants, entitlements, interest, and other local sources. All receivables are considered collectible in full.

	County School Service Fund	Special Education Pass-Through Fund	Child Development Fund	Non-Major Governmental Fund	Internal Service Fund	Total Governmental Activities
Federal Government						
Categorical aid	\$ 3,037,520	\$ 7,642,938	\$ 9,738,815	\$ -	\$ -	\$ 20,419,273
State Government						
LCFF apportionment	4,145,920	-	-	-	-	4,145,920
Categorical aid	4,457,647	-	3,166,868	-	-	7,624,515
Lottery	272,628	-	-	-	-	272,628
Special education	-	821,877	-	-	-	821,877
Local Government						
Interest	312,542	-	3,603	31,908	5,678	353,731
Special education - SELPA	8,822,464	-	-	-	-	8,822,464
Educational agencies	4,624,031	1,946,351	-	-	-	6,570,382
Other Local Sources	3,854,880	-	-	141,986	-	3,996,866
<b>Total</b>	<b>\$ 29,527,632</b>	<b>\$ 10,411,166</b>	<b>\$ 12,909,286</b>	<b>\$ 173,894</b>	<b>\$ 5,678</b>	<b>\$ 53,027,656</b>



**Note 4 - Capital Assets**

Capital asset activity for the fiscal year ended June 30, 2020, was as follows:

	Balance July 1, 2019	Additions	Deductions	Balance June 30, 2020
<b>Governmental Activities</b>				
Capital assets not being depreciated				
Land	\$ 28,641,315	\$ -	\$ -	\$ 28,641,315
Construction in process	2,190,091	2,276,983	(785,855)	3,681,219
	<u>30,831,406</u>	<u>2,276,983</u>	<u>(785,855)</u>	<u>32,322,534</u>
Total capital assets not being depreciated				
Capital assets being depreciated				
Land improvements	4,511,925	-	-	4,511,925
Buildings and improvements	83,426,143	860,682	-	84,286,825
Furniture and equipment	15,393,274	3,356,154	(593,788)	18,155,640
	<u>103,331,342</u>	<u>4,216,836</u>	<u>(593,788)</u>	<u>106,954,390</u>
Total capital assets being depreciated				
Less accumulated depreciation				
Land improvements	(3,349,491)	(185,771)	-	(3,535,262)
Buildings and improvements	(30,709,327)	(1,985,993)	-	(32,695,320)
Furniture and equipment	(11,380,491)	(1,199,267)	517,454	(12,062,304)
	<u>(45,439,309)</u>	<u>(3,371,031)</u>	<u>517,454</u>	<u>(48,292,886)</u>
Total accumulated depreciation				
Governmental activities capital assets, net	<u>\$ 88,723,439</u>	<u>\$ 3,122,788</u>	<u>\$ (862,189)</u>	<u>\$ 90,984,038</u>

Depreciation expense was charged to governmental functions as follows:

<b>Governmental Activities</b>	
Instruction	\$ 3,033,927
Data processing	168,552
All other general administration	168,552
Total depreciation expenses governmental activities	<u>\$ 3,371,031</u>

**Note 5 - Interfund Transactions**

**Interfund Receivables/Payables (Due To/Due From)**

Interfund receivable and payable balances arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed. Interfund receivable and payable balances at June 30, 2020, between major and non-major governmental funds are as follows:

Due To	Due From			Total
	County School Service Fund	Special Education Pass-Through Fund	Child Development Fund	
County School Service Fund	\$ -	\$ 150,899	\$ 2,449,494	\$ 2,600,393
Special Education Pass-Through Fund	188,517	-	-	188,517
Child Development Fund	573,870	-	-	573,870
Non-Major Governmental Funds	1,022,520	-	-	1,022,520
Total	<u>\$ 1,784,907</u>	<u>\$ 150,899</u>	<u>\$ 2,449,494</u>	<u>\$ 4,385,300</u>

The balance of \$150,899 is due to the County School Service Fund from the Special Education Pass-Through Fund for the special education allocation.

The balance of \$2,449,494 is due to the County School Service Fund from the Child Development Fund for indirect costs and reimbursement of operating costs.

The balance of \$188,517 is due to the Special Education Pass-Through Fund from the County School Service Fund for SELPA funding.

The balance of \$573,870 is due to the Child Development Fund from the County School Service Fund for operating costs.

The 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.

**Operating Transfers**

Interfund transfers for the year ended June 30, 2020, consisted of the following:

Transfer To	County School Service Fund	Transfer From Non-Major Governmental Fund	Total
Child Development Fund	\$ 478,523	\$ -	\$ 478,523
Non-Major Governmental Funds	980,735	1,585,083	2,565,818
Total	\$ 1,459,258	\$ 1,585,083	\$ 3,044,341

The County School Service Fund transferred to the Child Development Fund to cover excess costs of programs. \$ 478,523

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

The Special Reserve Non-Major Governmental Fund for Capital Outlay Projects transferred to the Debt Service Non-Major Governmental Fund for debt service payments for the certificates of participation. 1,585,083

Total \$ 3,044,341

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

**Note 6 - Accounts Payable**

Accounts payable at June 30, 2020, consisted of the following:

	County School Service Fund	Special Education Pass-Through Fund	Child Development Fund	Non-Major Governmental Fund	Internal Service Fund	Total Governmental Activities
Salaries and benefits	\$ 6,079,000	\$ -	\$ 289,233	\$ -	\$ -	\$ 6,368,233
LCFF apportionment	188,000	-	-	-	-	188,000
Excess property tax	441,111	-	-	-	-	441,111
Supplies	1,298,959	-	20,239	-	-	1,319,198
Services	6,454,951	-	1,006,257	243,157	77,308	7,781,673
Construction	377,838	-	-	199,221	-	577,059
Local educational agencies	2,842,060	9,037,723	10,880,900	37,140	-	22,797,823
Other	835,689	-	888	189,626	-	1,026,203
<b>Total</b>	<b>\$ 18,517,608</b>	<b>\$ 9,037,723</b>	<b>\$ 12,197,517</b>	<b>\$ 669,144</b>	<b>\$ 77,308</b>	<b>\$ 40,499,300</b>

**Note 7 - Unearned Revenue**

Unearned revenue at June 30, 2020, consists of the following:

	County School Service Fund
Federal financial assistance	\$ 1,768,665
State categorical aid	3,108,724
Other local	100,625
<b>Total</b>	<b>\$ 4,978,014</b>

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

**Summary**

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

	Balance July 1, 2019	Additions	Deductions	Balance June 30, 2020	Due in One Year
Certificates of participation	\$ 11,990,000	\$ -	\$ (1,205,000)	\$ 10,785,000	\$ 1,070,000
Unamortized discount	(78,000)	-	6,000	(72,000)	-
Supplemental early retirement plan	4,399,713	-	(1,466,571)	2,933,142	1,466,571
Compensated absences	1,518,935	432,154	-	1,951,089	-
<b>Total</b>	<u>\$ 17,830,648</u>	<u>\$ 432,154</u>	<u>\$ (2,665,571)</u>	<u>\$ 15,597,231</u>	<u>\$ 2,536,571</u>

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

**Certificates of Participation (Private Placement)**

In June 2002, the Orange County Department of Education Facilities Corporation issued Certificates of Participation in the amount of \$20,000,000 with weekly variable interest rates. In February 2012, the Certificates of Participation were restricted. As of June 30, 2020, the principal balance outstanding was \$10,785,000 and unamortized discount on issuance was \$72,000.

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

Year Ending June 30,	Principal	Interest	Total
2021	\$ 1,070,000	\$ 306,294	\$ 1,376,294
2022	1,100,000	275,906	1,375,906
2023	1,130,000	244,666	1,374,666
2024	1,160,000	212,574	1,372,574
2025	1,195,000	179,630	1,374,630
2026-2029	5,130,000	369,200	5,499,200
<b>Total</b>	<u>\$ 10,785,000</u>	<u>\$ 1,588,270</u>	<u>\$ 12,373,270</u>

**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
2021	\$ 1,466,571
2022	1,466,571
	<u>\$ 2,933,142</u>

**Compensated Absences**

Compensated absences (unpaid employee vacation) for the County at June 30, 2020 amounted to \$1,951,089.

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

For the fiscal year ended June 30, 2020, the County reported net OPEB liability, deferred outflows of resources, and OPEB expense for the following plans:

OPEB Plan	OPEB Liability	Deferred Outflows of Resources	Deferred Inflows of Resources	OPEB Expense
County Plan	\$ 3,381,489	\$ 131,336	\$ 210,400	\$ 639,623
Medicare Premium Payment (MPP) Program	529,058	-	-	(91,538)
Total	<u>\$ 3,910,547</u>	<u>\$ 131,336</u>	<u>\$ 210,400</u>	<u>\$ 548,085</u>

The details of each plan are as follows:

**County Plan**

**Plan Administration**

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

**Plan Membership**

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

Inactive employees or beneficiaries currently receiving benefits payments	51
Active employees	994
	1,045
	1,045

**Benefits Provided**

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

The benefit payment requirements of the Plan members and the County are established and may be amended by the County, the Orange County Schools Educators Association (OCSEA), the local California Service Employees Association (CSEA), and unrepresented groups. The benefits payment is based on projected pay-as-you-go financing requirements as determined annually through the agreements with the County, OCSEA, CSEA, and the unrepresented groups. For the measurement period of June 30, 2020, the County paid \$302,691 in benefits.

**Total OPEB Liability of the County**

The County's total OPEB liability of \$3,381,489 was measured as of June 30, 2020. The total OPEB liability was determined by an actuarial valuation as of June 30, 2020.

**Actuarial Assumptions**

The total OPEB liability in the June 30, 2020 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	2.20	percent
Healthcare cost trend rates	4.00	percent

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

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

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

**Changes in the Total OPEB Liability**

	Total OPEB Liability
Balance at June 30, 2019	\$ 3,484,588
Service cost	223,211
Interest	120,570
Differences between expected and actual experience in the measurement of the total OPEB liability	(229,356)
Changes of assumptions	85,167
Benefit payments	(302,691)
Net change in total OPEB liability	(103,099)
Balance at June 30, 2020	\$ 3,381,489

Change of assumptions reflect a change in the discount rate from 3.50 percent in 2019 to 2.20 percent to 2020.

**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 (1.20%)	\$ 3,570,473
Current discount rate (2.20%)	3,381,489
1% increase (3.20%)	3,196,779



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

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

<u>Healthcare Cost Trend Rates</u>	<u>Total OPEB Liability</u>
1% decrease (3.00%)	\$ 3,064,680
Current healthcare cost trend rate (4.00%)	3,381,489
1% increase (5.00%)	3,747,546

**OPEB Expense and Deferred Outflows of Resources**

For the year ended June 30, 2020, the County recognized OPEB expense of \$639,623. At June 30, 2020, the County reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience in the measurement of the total OPEB liability	\$ -	\$ 210,400
Changes of assumptions	131,336	-
Total	<u>\$ 131,336</u>	<u>\$ 210,400</u>

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

<u>Year Ended June 30,</u>	<u>Deferred Outflows/(Inflows) of Resources</u>
2021	\$ (6,849)
2022	(6,849)
2022	(6,849)
2024	(6,849)
2025	(6,849)
Thereafter	(44,819)
	<u>\$ (79,064)</u>

**Medicare Premium Payment (MPP) Program****Plan Description**

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

A full description of the MPP Program regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2018 annual actuarial valuation report, Medicare Premium Payment Program Actuarial Valuation. This report and CalSTRS audited financial information are publicly available reports that can be found on the CalSTRS website under Publications at: <http://www.calstrs.com/member-publications>.

**Benefits Provided**

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

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

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

**Net OPEB Liability and OPEB Expense**

At June 30, 2020, the County reported a liability of \$529,058 for its proportionate share of the net OPEB liability for the MPP Program. The net OPEB liability was measured as of June 30, 2019, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2018. 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, 2019 and June 30, 2018, respectively was 0.1421 percent, and 0.1621 percent, resulting in a net decrease in the proportionate share of 0.0200 percent.

For the year ended June 30, 2020, the County recognized OPEB expense of \$(91,538).

**Actuarial Methods and Assumptions**

The June 30, 2019 total OPEB liability was determined by applying update procedures to the financial reporting actuarial valuation as of June 30, 2018, and rolling forward the total OPEB liability to June 30, 2019, using the assumptions listed in the following table:

Measurement Date	June 30, 2019	June 30, 2018
Valuation Date	June 30, 2018	June 30, 2017
Experience Study	July 1, 2010 through June 30, 2015	July 1, 2010 through June 30, 2015
Actuarial Cost Method	Entry age normal	Entry age normal
Investment Rate of Return	3.50%	3.87%
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, 2018, CalSTRS uses a generational mortality assumption, which involves the use of a base mortality table and projection scales to reflect expected annual reductions in mortality rates at each age, resulting in increases in life expectancies each year into the future. The base mortality tables are CalSTRS custom tables derived to best fit the patterns of mortality among our members. The projection scale was set equal to 110 percent of the ultimate improvement factor from the Mortality Improvement Scale (MP-2016) table, issued by the Society of Actuaries.

Assumptions were made about future participation (enrollment) into the MPP Program because CalSTRS is unable to determine which members not currently participating meet all eligibility criteria for enrollment in the future. Assumed enrollment rates were derived based on past experience and are stratified by age with the probability of enrollment diminishing as the members' age increases. This estimated enrollment rate was then applied to the population of members who may meet criteria necessary for eligibility and are not currently enrolled in the MPP Program. Based on this, the estimated number of future enrollments used in the financial reporting valuation was 380 or an average of 0.23 percent of the potentially eligible population (165,422).

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, 2019, were to manage differences between estimated and actual amounts to be paid and were invested in the Surplus Money Investment Fund, which is a pooled investment program administered by the State Treasurer.

**Discount Rate**

The discount rate used to measure the total OPEB liability as of June 30, 2019, is 3.50 percent. As the MPP Program is funded on a pay-as-you-go basis as previously noted, the OPEB Plan's fiduciary net position was not projected to be sufficient to make projected future benefit payments. Therefore, a discount rate of 3.50 percent, which is the Bond Buyer 20-Bond GO Index from Bondbuyer.com as of June 30, 2019, was applied to all periods of projected benefit payments to measure the total OPEB liability. The discount rate decreased 0.37 percent from 3.87 percent as of June 30, 2018.

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

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

<u>Discount Rate</u>	<u>Net OPEB Liability</u>
1% decrease (2.50%)	\$ 577,323
Current discount rate (3.50%)	529,058
1% increase (4.50%)	484,681

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

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

<u>Medicare Costs Trend Rate</u>	<u>Net OPEB Liability</u>
1% decrease (2.70% Part A and 3.10% Part B)	\$ 495,885
Current Medicare costs trend rate (3.70% Part A and 4.10% Part B)	529,058
1% increase (4.70% Part A and 5.10% Part B)	595,319

**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	46,451,324	9,116,324	-	55,567,648
Capital projects	-	-	3,651,800	3,651,800
Debt services	-	-	2,513,093	2,513,093
Total restricted	<u>46,451,324</u>	<u>9,116,324</u>	<u>6,164,893</u>	<u>61,732,541</u>
Committed				
Deferred maintenance program	-	-	30,198,727	30,198,727
Assigned				
ACCESS LCFF/LCAP priorities	32,050,294	-	-	32,050,294
Mandated costs	12,408,620	-	-	12,408,620
Medical Administrative Activities (MAA)	3,896,862	-	-	3,896,862
COE LCAP support and approval	3,885,996	-	-	3,885,996
Reserve for classroom equipment upgrade	3,500,000	-	-	3,500,000
Reserve for workstation improvements	3,500,000	-	-	3,500,000
Reserve for new payroll project	3,000,000	-	-	3,000,000
OCDE E-Rate	2,947,434	-	-	2,947,434
Reserve for school site improvements	2,000,000	-	-	2,000,000
Reserve for information technology system upgrade	2,000,000	-	-	2,000,000
Risk management safety rebate	1,016,488	-	-	1,016,488
Reserve for health & safety equipment	1,200,000	-	-	1,200,000
Reserve for outdated checks	814,801	-	-	814,801
CTEp (ROP) tier III	812,324	-	-	812,324
EISS workshops	802,952	-	-	802,952
Various other designated programs	571,465	-	-	571,465
Various workshops & trainings	514,328	-	-	514,328
Special education JPA	423,569	-	-	423,569
Special schools tier III	319,237	-	-	319,237
Time and attendance	194,588	-	-	194,588
Courier services	193,462	-	-	193,462
Instructional materials lottery	7,652,623	-	-	7,652,623
CTEp (ROP) lottery	365,965	-	-	365,965
CCF for student transportation	37,253	-	-	37,253
Other postemployment benefits	4,274,297	-	-	4,274,297
Total assigned	<u>88,382,558</u>	<u>-</u>	<u>-</u>	<u>88,382,558</u>
Unassigned				
Reserve for economic uncertainties	123,409,056	-	-	123,409,056
Total	<u>\$ 258,312,938</u>	<u>\$ 9,116,324</u>	<u>\$ 36,363,620</u>	<u>\$ 303,792,882</u>

**Note 11 - Lease Revenues**

The County has property held for lease with a combined estimated cost of \$10,078,223 and accumulated depreciation of \$3,728,943. 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
2021	\$ 1,428,880
2022	958,846
2023	280,047
2024	119,174
2025	35,927
	\$ 2,822,874

**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, 2020, 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.

**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, 2018 to June 30, 2020:

	<u>Dental Care</u>
Liability Balance, July 1, 2018	\$ 250,770
Claims and changes in estimates	1,353,837
Claims payments	<u>(1,362,680)</u>
Liability Balance, June 30, 2019	241,927
Claims and changes in estimates	1,162,693
Claims payments	<u>(1,154,624)</u>
Liability Balance, June 30, 2020	<u>\$ 249,996</u>
Assets available to pay claims at June 30, 2020	<u>\$ 6,358,069</u>

**Note 13 - Employee Retirement Systems**

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

For the fiscal year ended June 30, 2020, the County reported its proportionate share of net pension liabilities, deferred outflows of resources, deferred inflows of resources, and pension expense for each of the above plans as follows:

<u>Pension Plan</u>	<u>Net Pension Liability</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>	<u>Pension Expense</u>
CalSTRS	\$ 72,532,183	\$ 16,747,116	\$ 18,406,269	\$ 5,412,849
CalPERS	119,105,453	25,954,820	4,802,588	18,387,813
OCERS	<u>3,099,339</u>	<u>558,405</u>	<u>1,006,978</u>	<u>3,896</u>
Total	<u>\$ 194,736,975</u>	<u>\$ 43,260,341</u>	<u>\$ 24,215,835</u>	<u>\$ 23,804,558</u>

The details of each plan are as follows:

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

#### **Plan Description**

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

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2018, 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.



The STRP provisions and benefits in effect at June 30, 2020, are summarized as follows:

	<u>STRP Defined Benefit Program</u>	
	On or before December 31, 2012	On or after January 1, 2013
Hire date	2% at 60	2% at 62
Benefit formula	5 Years of Service	5 Years of Service
Benefit vesting schedule	Monthly for Life	Monthly for Life
Benefit payments	60	62
Retirement age	2.0% - 2.4%	2.0% - 2.4%
Monthly benefits as a percentage of eligible compensation	10.25%	10.205%
Required employee contribution rate	17.10%	17.10%
Required employer contribution rate	10.328%	10.328%
Required State contribution rate		

**Contributions**

Required member local educational agencies and the State of California contributions rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. The contributions rates are expressed as a level percentage of payroll using the entry age normal actuarial method. In accordance with AB 1469, employer contributions into CalSTRS will be increasing to a total of 19.1 percent of applicable member earnings phased over a seven-year period. The contribution rates for each plan for the year ended June 30, 2020, are presented above and the County's total contributions were \$7,390,275.

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

At June 30, 2020, 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	\$ 72,532,183
State's proportionate share of the net pension liability associated with the County	<u>39,571,148</u>
Total	<u><u>\$ 112,103,331</u></u>

The net pension liability was measured as of June 30, 2019. 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, 2019 and June 30, 2018, respectively, was 0.0803 percent and 0.0903 percent, resulting in a net decrease in the proportionate share of 0.0100 percent.

Orange County Department of Education

Notes to Financial Statements

June 30, 2020

For the year ended June 30, 2020, the County recognized pension expense of \$5,412,849. In addition, the County recognized pension expense and revenue of \$5,892,997 for support provided by the State. At June 30, 2020, 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	\$ 7,390,275	\$ -
Change in proportion and differences between contributions made and District's proportionate share of contributions	-	13,568,434
Difference between projected and actual earnings on pension plan investments	-	2,793,963
Differences between expected and actual experience in the measurement of the total pension liability	183,105	2,043,872
Changes of assumptions	9,173,736	-
Total	\$ 16,747,116	\$ 18,406,269

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
2021	\$ (281,819)
2022	(2,218,077)
2023	(460,508)
2024	166,441
	\$ (2,793,963)

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

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2021	\$ (1,322,193)
2022	(2,217,946)
2023	(275,055)
2024	425,575
2025	(1,475,439)
Thereafter	(1,390,407)
	<u>\$ (6,255,465)</u>

#### Actuarial Methods and Assumptions

Total pension liability for STRP was determined by applying update procedures to the financial reporting actuarial valuation as of June 30, 2018 and rolling forward the total pension liability to June 30, 2019. The financial reporting actuarial valuation as of June 30, 2018, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2018
Measurement date	June 30, 2019
Experience study	July 1, 2010 through June 30, 2015
Actuarial cost method	Entry age normal
Discount rate	7.10%
Investment rate of return	7.10%
Consumer price inflation	2.75%
Wage growth	3.50%

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

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. The best estimate ranges were developed using capital market assumptions from CalSTRS general investment consultant (Pension Consulting Alliance-PCA) as an input to the process. The actuarial investment rate of return assumption was adopted by the board in February 2017 in conjunction with the most recent experience study. For each future valuation, CalSTRS consulting actuary (Milliman) reviews the return assumption for reasonableness based on the most current capital market assumptions. Best estimates of 20-year geometrically-linked real rates of return and the assumed asset allocation for each major asset class for the year ended June 30, 2019, are summarized in the following table:

Asset Class	Assumed Asset Allocation	Long-Term Expected Real Rate of Return
Global equity	47%	4.8%
Fixed income	12%	1.3%
Real estate	13%	3.6%
Private equity	13%	6.3%
Risk mitigating strategies	9%	1.8%
Inflation sensitive	4%	3.3%
Cash/liquidity	2%	-0.4%

**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%)	\$ 108,006,425
Current discount rate (7.10%)	72,532,183
1% increase (8.10%)	43,117,281

**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, 2018 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, 2020, are summarized as follows:

	<u>School Employer Pool (CalPERS)</u>	
	On or before December 31, 2012	On or after January 1, 2013
Hire date		
Benefit formula	2% at 55	2% at 62
Benefit vesting schedule	5 Years of Service	5 Years of Service
Benefit payments	Monthly for Life	Monthly for Life
Retirement age	55	62
Monthly benefits as a percentage of eligible compensation	1.1% - 2.5%	1.0% - 2.5%
Required employee contribution rate	7.000%	7.000%
Required employer contribution rate	19.721%	19.721%

**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, 2020, are presented above and the total County contributions were \$11,633,194.

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

As of June 30, 2020, the County reported net pension liabilities for its proportionate share of the CalPERS net pension liability totaling \$119,105,453. The net pension liability was measured as of June 30, 2019. 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, 2019 and June 30, 2018, respectively, was 0.4087 percent and 0.4230 percent, resulting in a net decrease in the proportionate share of 0.0143 percent.

For the year ended June 30, 2020, the County recognized pension expense of \$18,387,813. At June 30, 2020, the County reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Pension contributions subsequent to measurement date	\$ 11,633,194	\$ -
Change in proportion and differences between contributions made and District's proportionate share of contributions	-	3,697,863
Difference between projected and actual earnings on pension plan investments	-	1,104,725
Differences between expected and actual experience in the measurement of the total pension liability	8,651,837	-
Changes of assumptions	<u>5,669,789</u>	<u>-</u>
Total	<u>\$ 25,954,820</u>	<u>\$ 4,802,588</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
2021	\$ 1,090,486
2022	(2,178,211)
2023	(330,081)
2024	313,081
	<u>\$ (1,104,725)</u>

The deferred outflows/(inflows) of resources related to the change in proportion and differences between contributions made and County's proportionate share of contributions, differences between expected and actual experience in the measurement of the total pension liability, and changes of assumptions will be amortized over the Expected Average Remaining Service Life (EARSL) of all members that are provided benefits (active, inactive, and retirees) as of the beginning of the measurement period. The EARSL for the measurement period is 4.1 years and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows of Resources
2021	\$ 7,326,529
2022	2,648,953
2023	589,348
2024	58,933
	<u>\$ 10,623,763</u>

**Actuarial Methods and Assumptions**

Total pension liability for the SEP was determined by applying update procedures to the financial reporting actuarial valuation as of June 30, 2018 and rolling forward the total pension liability to June 30, 2019. The financial reporting actuarial valuation as of June 30, 2018, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2018
Measurement date	June 30, 2019
Experience study	July 1, 1997 through June 30, 2015
Actuarial cost method	Entry age normal
Discount rate	7.15%
Investment rate of return	7.15%
Consumer price inflation	2.50%
Wage growth	Varies by entry age and service

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

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:

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



**Discount Rate**

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

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

<u>Discount Rate</u>	<u>Net Pension Liability</u>
1% decrease (6.15%)	\$ 171,682,680
Current discount rate (7.15%)	119,105,453
1% increase (8.15%)	75,489,013

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

**Plan Description**

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

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

**Benefits Provided**

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

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

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

General member benefits are calculated pursuant to the provisions of California Government Code Sections 31676.01, 31676.1, 31676.12, 31676.16, 31676.18 or 31676.19. For section 31676.01, the monthly allowance is equal to  $1/90$ th 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  $1/60$ th 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  $1/50$ th 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 2019-2020 were \$264,432, 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 2019-2020 vary by member based on age of entry.

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

As of June 30, 2020, the County reported a net pension liability for its proportionate share of the OCERS net pension liability of \$3,099,339. The collective net pension liability for the Plan was measured as of December 31, 2018. Plan fiduciary net position was valued as of the measurement date, while the total pension liability (TPL) was determined based upon rolling forward the TPL from an actuarial valuation as of December 31, 2017. The plan provisions used in the measurement of the net pension liability are the same as those used in the OCERS actuarial valuations as of December 31, 2017. The County's proportionate share for the measurement period December 31, 2019 and December 31, 2018, respectively, was 0.0610 percent and 0.0570 percent, resulting in a net increase of 0.0040 percent.

For the year ended June 30, 2020, the County recognized pension expense of \$3,896. At June 30, 2020, the County reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between projected and actual earnings on pension plan investments	\$ -	\$ 318,152
Differences between expected and actual experience in the measurement of the total pension liability	380,618	678,741
Changes of assumptions	<u>177,787</u>	<u>10,085</u>
Total	<u>\$ 558,405</u>	<u>\$ 1,006,978</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
2021	\$ (237,096)
2022	(166,861)
2023	(22,380)
2024	(60,537)
2025	38,301
Total	<u>\$ (448,573)</u>

**Actuarial Methods and Assumptions**

The collective total pension liability as of December 31, 2019 was determined by rolling forward the total pension liability from the actuarial valuation as of December 31, 2018. The actuarial assumptions used were based on the results of an experience study for the period from January 1, 2014 through December 31, 2016. Following are the key methods and assumptions used for the total pension liability as of December 31, 2018.

Actuarial Cost Method	Entry age normal
Inflation	2.75%
Salary Increases	General: 4.25% to 12.25%, vary by service, including inflation
Investment Rate of Return	7.00%, net of pension plan investment expense, including inflation
Discount Rate	7.00%
Cost of Living Adjustment	2.75% of retirement income

Post – Retirement Mortality Rates:

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

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

### Discount Rate

The discount rate used to measure the total pension liability was 7.00 percent as of December 31, 2019 and 2018. The projection of cash flows used to determine the discount rate assumed plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the actuarially determined contribution rates. For this purpose, only employer contributions that are intended to fund benefits for current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs for future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, the Plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments for current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability as of both December 31, 2019 and 2018.

The long-term expected rate of return on pension plan investments was determined in 2017 using a building-block method in which expected future real rates of return (expected returns, net of inflation) are developed for each major asset class. These returns are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage, adding expected inflation and subtracting expected investment expenses and a risk margin. The target allocation and projected arithmetic real rates of return for each major asset class, after deducting inflation, but before investment expenses are shown in the following table. This information was used in the derivation of the long-term expected investment rate of return assumption for the December 31, 2019 and 2018 actuarial valuations. This information will change every three years based on the actuarial experience study. The expected investment rate of return assumption is summarized in the following table:

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:

<u>Discount Rate</u>	<u>Net Pension Liability</u>
1% decrease (6.00%)	\$ 4,877,710
Current discount rate (7.00%)	3,099,339
1% increase (8.00%)	1,652,803

**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 \$92,650.

**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 \$4,133,332 (10.328 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.

Senate Bill 90 (Chapter 33, Statutes of 2019), which was signed by the Governor on June 27, 2019, appropriated an additional 2019–2020 contribution on-behalf of school employers of \$1.1 billion for CalSTRS. A proportionate share of these contributions totaling \$1,386,459 has been recorded in these financial statements. On behalf payments related to these additional contributions have been excluded from the calculation of available reserves and have not been included in the budgeted amounts reported in the *General Fund – Budgetary Comparison Schedule*.

**Note 14 - Commitments and Contingencies**

**Grants**

The County received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the County School Service Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the County at June 30, 2020.

**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, 2020.

**Construction Commitments**

As of June 30, 2020, the County had the following commitments with respect to the unfinished capital projects:

<u>Capital Projects</u>	<u>Remaining Construction Commitment</u>	<u>Expected Date of Completion</u>
Kalmus doors and windows replacement	\$ 221,979	06/30/21
Kalmus restroom remodel	1,276,470	06/30/21
ACCESS sites relocation	10,376	06/30/21
Esplanade building 3 remodel	419,421	06/30/21
CS #9 Anaheim	14,833,337	06/30/22
	<u>\$ 16,761,583</u>	

**Operating Leases**

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

<u>Year Ending June 30,</u>	<u>Lease Payment</u>
2021	\$ 2,408,127
2022	1,607,429
2023	601,333
2024	<u>447,636</u>
	<u>\$ 5,064,525</u>

Lease payments for the year ended June 30, 2020, were approximately \$6,572,053.

**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, 2020, the County made payments of \$1,961,532 and \$298,496 to WOCSSWCA and Alliance of Schools for Cooperative Insurance Programs Joint Powers Authority, respectively, for annual premium payments.

**Note 16 - Subsequent Events**

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





Required Supplementary Information  
June 30, 2020

# Orange County Department of Education

Orange County Department of Education  
Budgetary Comparison Schedule – County School Service Fund  
Year Ended June 30, 2020

	Budgeted Amounts		Actual (GAAP Basis)	Variances - Positive (Negative)
	Original	Final		Final to Actual
<b>Revenues</b>				
Local Control Funding Formula	\$ 108,386,134	\$ 105,878,160	\$ 105,505,818	\$ (372,342)
Federal sources	37,852,374	36,770,584	12,796,613	(23,973,971)
Other State sources	15,100,945	17,543,099	16,516,503	(1,026,596)
Other local sources	95,159,366	106,331,024	133,882,540	27,551,516
Total revenues <sup>1</sup>	<u>256,498,819</u>	<u>266,522,867</u>	<u>268,701,474</u>	<u>2,178,607</u>
<b>Expenditures</b>				
<b>Current</b>				
Certificated salaries	49,508,441	48,261,993	47,692,362	569,631
Classified salaries	56,357,115	57,049,742	55,212,943	1,836,799
Employee benefits	54,377,266	50,488,820	51,391,980	(903,160)
Books and supplies	15,598,310	11,314,980	9,145,290	2,169,690
Services and operating expenditures	43,684,798	51,045,743	44,748,452	6,297,291
Other outgo	35,170,092	18,261,585	18,316,276	(54,691)
Capital outlay	2,824,000	3,144,221	3,316,216	(171,995)
Total expenditures <sup>1</sup>	<u>257,520,022</u>	<u>239,567,084</u>	<u>229,823,519</u>	<u>9,743,565</u>
Excess (Deficiency) of Revenues over Expenditures	<u>(1,021,203)</u>	<u>26,955,783</u>	<u>38,877,955</u>	<u>11,922,172</u>
Other Financing Uses				
Transfers out	<u>(1,836,878)</u>	<u>(1,458,949)</u>	<u>(1,459,258)</u>	<u>(309)</u>
Net Change in Fund Balance	(2,858,081)	25,496,834	37,418,697	11,921,863
Fund Balance - Beginning	<u>220,894,241</u>	<u>220,894,241</u>	<u>220,894,241</u>	<u>-</u>
Fund Balance - Ending	<u>\$ 218,036,160</u>	<u>\$ 246,391,075</u>	<u>\$ 258,312,938</u>	<u>\$ 11,921,863</u>

<sup>1</sup> The consolidation of Fund 17, Special Reserve Fund for Other Than Capital Outlay Projects, and for reporting purposes into the County School Service Fund, additional revenues and expenditures pertaining to these other funds are included in the Actual (GAAP Basis) revenues and expenditures; however, are not included in the original and final County School Service Fund budgets. In addition, on behalf payments of \$1,386,459, relating to Senate Bill 90, are included in the Actual (GAAP Basis) revenues and expenditures; however, are not included in the original and final County School Service Fund budgets.

Orange County Department of Education  
 Budgetary Comparison Schedule – Special Education Pass-Through Fund  
 Year Ended June 30, 2020

	Budgeted Amounts		Actual (GAAP Basis)	Variances - Positive (Negative)
	Original	Final		Final to Actual
Revenues				
Local Control Funding Formula	\$ 37,950,979	\$ 35,221,557	\$ 36,420,839	\$ 1,199,282
Federal sources	7,614,734	7,684,881	7,642,938	(41,943)
Other State sources	2,424,041	2,444,975	2,607,269	162,294
Other local sources	1,378,413	1,400,602	186,603	(1,213,999)
Total revenues	<u>49,368,167</u>	<u>46,752,015</u>	<u>46,857,649</u>	<u>105,634</u>
Expenditures				
Other outgo	<u>48,793,136</u>	<u>47,479,661</u>	<u>47,571,903</u>	<u>(92,242)</u>
Net Change in Fund Balances	575,031	(727,646)	(714,254)	13,392
Fund Balance - Beginning	<u>9,830,578</u>	<u>9,830,578</u>	<u>9,830,578</u>	<u>-</u>
Fund Balance - Ending	<u><u>\$ 10,405,609</u></u>	<u><u>\$ 9,102,932</u></u>	<u><u>\$ 9,116,324</u></u>	<u><u>\$ 13,392</u></u>

Orange County Department of Education  
 Budgetary Comparison Schedule – Child Development Fund  
 Year Ended June 30, 2020

	Budgeted Amounts		Actual (GAAP Basis)	Variances - Positive (Negative)
	Original	Final		Final to Actual
<b>Revenues</b>				
Federal sources	\$ 13,139,387	\$ 23,700,585	\$ 23,351,104	\$ (349,481)
Other State sources	16,917,442	18,043,418	16,137,734	(1,905,684)
Other local sources	428,532	777,616	942,960	165,344
Total revenues	<u>30,485,361</u>	<u>42,521,619</u>	<u>40,431,798</u>	<u>(2,089,821)</u>
<b>Expenditures</b>				
Current				
Certificated salaries	10,941	218,037	216,833	1,204
Classified salaries	2,728,987	2,641,270	2,890,767	(249,497)
Employee benefits	1,461,562	1,293,136	1,437,710	(144,574)
Books and supplies	33,756	63,834	192,539	(128,705)
Services and operating expenditures	24,434,860	35,118,420	32,682,229	2,436,191
Other outgo	2,671,398	3,665,136	3,484,899	180,237
Capital outlay	-	-	5,344	(5,344)
Total expenditures	<u>31,341,504</u>	<u>42,999,833</u>	<u>40,910,321</u>	<u>2,089,512</u>
Deficiency of Revenues over Expenditures	<u>(856,143)</u>	<u>(478,214)</u>	<u>(478,523)</u>	<u>(309)</u>
Other Financing Sources Transfers in	<u>856,143</u>	<u>478,214</u>	<u>478,523</u>	<u>309</u>
Net Change in Fund Balances	-	-	-	-
Fund Balance - Beginning	-	-	-	-
Fund Balance - Ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Orange County Department of Education  
Schedule of Changes in the County's Total OPEB Liability and Related Ratios  
Year Ended June 30, 2020

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

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

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

Orange County Department of Education  
Schedule of the County's Proportionate Share of the Net OPEB Liability – MPP Program  
Year Ended June 30, 2020

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

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

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

Orange County Department of Education  
Schedule of the County's Proportionate Share of the Net Pension Liability  
Year Ended June 30, 2020

	2020	2019	2018
<b>CalSTRS</b>			
Proportion of the net pension liability	0.0803%	0.0903%	0.0910%
Proportionate share of the net pension liability	\$ 72,532,183	\$ 83,019,800	\$ 84,144,083
State's proportionate share of the net pension liability associated with the County	39,571,148	47,532,718	49,778,929
Total	\$ 112,103,331	\$ 130,552,518	\$ 133,923,012
Covered payroll	\$ 43,101,112	\$ 48,515,759	\$ 47,398,000
Proportionate share of the net pension liability as a percentage of its covered payroll	168%	171%	178%
Plan fiduciary net position as a percentage of the total pension liability	73%	71%	69%
Measurement Date	June 30, 2019	June 30, 2018	June 30, 2017
<b>CalPERS</b>			
Proportion of the net pension liability	0.4087%	0.4230%	0.4292%
Proportionate share of the net pension liability	\$ 119,105,453	\$ 112,783,669	\$ 102,455,197
Covered payroll	\$ 55,802,192	\$ 55,298,184	\$ 54,825,000
Proportionate share of the net pension liability as a percentage of its covered payroll	213%	204%	187%
Plan fiduciary net position as a percentage of the total pension liability	70%	71%	72%
Measurement Date	June 30, 2019	June 30, 2018	June 30, 2017
<b>OCERS<sup>1</sup></b>			
Proportion of the net pension liability	0.0610%	0.0570%	0.0510%
Proportionate share of the net pension liability	\$ 3,099,339	\$ 3,517,372	\$ 2,530,324
Covered payroll	N/A <sup>2</sup>	N/A <sup>2</sup>	N/A <sup>2</sup>
Proportionate share of the net pension liability as a percentage of its covered payroll	N/A <sup>+</sup>	N/A <sup>+</sup>	N/A <sup>+</sup>
Plan fiduciary net position as a percentage of the total pension liability	77%	70%	75%
Measurement Date	December 31, 2019	December 31, 2018	December 31, 2017

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

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

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

Orange County Department of Education  
Schedule of the County's Proportionate Share of the Net Pension Liability  
Year Ended June 30, 2020

	2017	2016	2015
<b>CalSTRS</b>			
Proportion of the net pension liability	0.0950%	0.1040%	0.1110%
Proportionate share of the net pension liability	\$ 76,836,950	\$ 70,016,960	\$ 64,865,070
State's proportionate share of the net pension liability associated with the County	43,748,345	37,031,154	39,168,723
Total	\$ 120,585,295	\$ 107,048,114	\$ 104,033,793
Covered payroll	\$ 48,203,000	\$ 47,996,000	\$ 49,181,000
Proportionate share of the net pension liability as a percentage of its covered payroll	159.40%	145.88%	131.89%
Plan fiduciary net position as a percentage of the total pension liability	70%	74%	77%
Measurement Date	June 30, 2016	June 30, 2015	June 30, 2014
<b>CalPERS</b>			
Proportion of the net pension liability	0.4443%	0.4474%	0.4904%
Proportionate share of the net pension liability	\$ 87,749,525	\$ 65,947,202	\$ 55,672,340
Covered payroll	\$ 53,475,000	\$ 49,525,000	\$ 49,734,000
Proportionate share of the net pension liability as a percentage of its covered payroll	164.09%	133.16%	111.94%
Plan fiduciary net position as a percentage of the total pension liability	74%	79%	83%
Measurement Date	June 30, 2016	June 30, 2015	June 30, 2014

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

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

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



Orange County Department of Education  
Schedule of the County Contributions  
Year Ended June 30, 2020

	2020	2019	2018	2017	2016	2015
<b>CaISTRS</b>						
Contractually required contribution	\$ 7,390,275	\$ 7,016,861	\$ 7,000,824	\$ 6,030,647	\$ 5,172,158	\$ 4,262,028
Contributions in relation to the contractually required contribution	(7,390,275)	(7,016,861)	(7,000,824)	(6,030,647)	(5,172,158)	(4,262,028)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered payroll	\$ 43,217,982	\$ 43,101,112	\$ 48,515,759	\$ 47,398,000	\$ 48,203,000	\$ 47,996,000
Contributions as a percentage of covered payroll	17.10%	16.28%	14.43%	12.58%	10.73%	8.88%
<b>CalPERS</b>						
Contractually required contribution	\$ 11,633,194	\$ 10,078,992	\$ 8,588,361	\$ 7,614,077	\$ 6,335,210	\$ 5,829,589
Contributions in relation to the contractually required contribution	(11,633,194)	(10,078,992)	(8,588,361)	(7,614,077)	(6,335,210)	(5,829,589)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered payroll	\$ 58,988,865	\$ 55,802,192	\$ 55,298,184	\$ 54,825,000	\$ 53,475,000	\$ 49,525,000
Contributions as a percentage of covered payroll	19.721%	18.062%	15.531%	13.888%	11.847%	11.771%
<b>OCERS<sup>1</sup></b>						
Contractually required contribution	\$ 267,432	\$ 301,464	\$ 524,000			
Contributions in relation to the contractually required contribution	(267,432)	(301,464)	(524,000)			
Contribution deficiency (excess)	\$ -	\$ -	\$ -			
Covered payroll	N/A <sup>2</sup>	N/A <sup>2</sup>	N/A <sup>2</sup>			
Contributions as a percentage of covered payroll	N/A <sup>2</sup>	N/A <sup>2</sup>	N/A <sup>2</sup>			

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

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

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

**Note 1 - Purpose of Schedules**

**Budgetary Comparison Schedules**

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

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

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

At June 30, 2020, the following County major fund exceeded the budgeted amount in total as follows:

	Expenditures		Excess
	Budget	Actual	
Special Education Pass-Through Fund	<u>\$ 47,479,661</u>	<u>\$ 47,571,903</u>	<u>\$ 92,242</u>

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

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

- *Change in Benefit Terms* – There were no changes in benefit terms.
- *Changes of Assumptions* – The discount rate changed from 3.50 percent to 2.20 percent.

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

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

- *Changes in Benefit Terms* – There were no changes in the benefit terms since the previous valuation.
- *Changes of Assumptions* – The plan rate of investment return assumption was changed from 3.87 percent to 3.50 percent since the previous valuation.

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

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

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

### **Schedule of County Contributions**

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



Supplementary Information  
June 30, 2020

# Orange County Department of Education

Orange County Department of Education  
Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2020

Federal Grantor/Pass-Through Grantor/Program	CFDA Number	Pass-Through Entity Identifying Number	Program Expenditures	Amounts Passed Through to Subrecipients
U.S. Department of Education				
Passed through California Department of Education (CDE):				
Special Education (IDEA) Cluster:				
Basic Local Assistance Entitlement, Part B, Sec 611	84.027	13379	\$ 8,008,082	\$ 6,965,553
Local Assistance, Part B, Sec 611, Private School ISPs	84.027	10115	25,152	25,152
Preschool Grants, Part B, Sec 619	84.173	13430	199,607	155,885
Preschool Capacity Building, Part B, Sec 619	84.173A	13839	118,618	-
Mental Health Allocation Plan, Part B, Sec 611	84.027A	15197	496,348	496,348
Preschool Staff Development, Part B, Sec 619	84.173A	13431	3,757	-
Alternate Dispute Resolution	84.173A	13007	19,916	-
Mental Health Services, Part B, Sec 611	84.027A	15321	259,219	-
Total Special Education (IDEA) Cluster			<u>9,130,699</u>	<u>7,642,938</u>
Title I, Part A, Basic Grants Low-Income and Neglected	84.010	14329	3,124,119	-
Title I, Part D, Local Delinquent Programs	84.010	14357	1,790,511	-
School Improvement Funding for LEAs	84.010	15438	219,096	-
School Improvement Funding for COEs	84.010	15439	188,392	-
Subtotal			<u>5,322,118</u>	<u>-</u>
Title III, Immigrant Student Program	84.365	15146	780	-
Title III, English Learner Student Program	84.365	14346	12,132	-
Subtotal			<u>12,912</u>	<u>-</u>
Title IV, Part A, Student Support and Academic Enrichment Grants	84.424	15396	217,650	-
Title IV, Part A, Student Support and Academic Enrichment Grant Program (Competitive)	84.424	15391	1,074,695	-
Subtotal			<u>1,292,345</u>	<u>-</u>
Title II, Part A, Supporting Effective Instruction	84.367	14341	46,469	-
Title IV, 21st Century Community Learning Centers Technical Assistance	84.287	14350	196,308	-
Title IX, Part A, McKinney-Vento Homeless Assistance Grants	84.196	14332	241,491	-
Early Intervention Grants, Part C	84.181	23761	373,789	-
Passed through County of Orange:				
California Career Innovations: Work Based Learning Initiative	84.126	[1]	56,132	-
Total U.S. Department of Education			<u>16,672,263</u>	<u>7,642,938</u>

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

Orange County Department of Education  
Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2020

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 Fund Cluster:				
Quality Improvement Activities	93.575	14092	\$ 1,655,629	\$ -
Quality Improvement Activities	93.575	14871	396,668	-
Quality Improvement Activities	93.575	14990	223,644	-
Quality Improvement Activities	93.575	14130	729,441	-
Federal Alternative Payment	93.596	14153	733,107	-
Federal Alternative Payment	93.596	15400	2,323,332	-
Federal Alternative Payment	93.596	13694	15,352,444	-
Local Planning Councils	93.575	13946	101,491	-
Federal Alternative Payment, Stage 2	93.575	14178	1,236,816	-
Federal Alternative Payment, Stage 3	93.596	14985	28,304	-
Federal Alternative Payment, Stage 3	93.575	13881	2,672,949	-
Federal Alternative Payment, Stage 3	93.575	14984	27,070	-
Federal Alternative Payment, Stage 3	93.596	14040	41,977	-
Federal Alternative Payment, Stage 3	93.596	15452	297,846	-
Total Child Care and Development Fund Cluster			<u>25,820,718</u>	<u>-</u>
U.S. Department of Health and Human Services				
Passed through County of Orange:				
Alcohol and Other Drug Prevention Services				
Friday Night Live	93.959	[1]	365,239	-
Block Grant for Substance Abuse Prevention Services	93.959	[1]	333,450	-
Subtotal			<u>698,689</u>	<u>-</u>
Foster Youth Services Coordinating Programs	93.658	[1]	323,821	-
Total U.S. Department of Health and Human Services			<u>26,843,228</u>	<u>-</u>
U.S. Department of Agriculture				
Passed through CDE:				
Child Nutrition Cluster:				
National School Lunch Program	10.555	13396	142,628	-
Basic School Breakfast Program	10.553	13390	17,240	-
Especially Needy Breakfast Program	10.553	13526	76,272	-
Commodities	10.555	13396	10,405	-
Total Child Nutrition Cluster			<u>246,545</u>	<u>-</u>
Forest Service Schools and Roads Cluster:				
Forest Reserve Funds	10.665	10044	28,619	23,879
Total Forest Service Schools and Roads Cluster			<u>28,619</u>	<u>23,879</u>
Total U.S. Department of Agriculture			<u>275,164</u>	<u>23,879</u>
Total Federal Programs			<u>\$ 43,790,655</u>	<u>\$ 7,666,817</u>

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

## Organization

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

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

The Board of Education and the County Administrators for the fiscal year ended June 30, 2020 is presented herein.

## County Board of Education

Member	Office	Term Expires
Ms. Mari Barke	President	2022
Dr. Ken L. Williams	Vice President	2020
Dr. John W. Bedell	Member	2020
Ms. Rebecca Gomez	Member	2020
Dr. Lisa Sparks	Member	2022

## Administration

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

Orange County Department of Education  
 Schedule of Average Daily Attendance  
 Year Ended June 30, 2020

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**Orange County Department of Education Report of Schools and Classes**

	Final Report	
	Second Period Report	Annual Report
<b>County Office of Education</b>		
Juvenile Halls, Homes, and Camps		
Elementary	49.95	59.94
High School	345.75	415.09
Total Juvenile Halls, Homes, and Camps	395.70	475.03
Probation Referred, On Probation or Parole, Expelled		
Elementary	132.32	158.79
High School	1,658.03	1,963.46
Total Probation Referred, on Probation or Parole, Expelled	1,790.35	2,122.25
Total ADA	2,186.05	2,597.28



Orange County Department of Education  
 Schedule of Average Daily Attendance  
 Year Ended June 30, 2020

**District Funded County Programs**

	Final Report	
	Second Period Report	Annual Report
County Community Schools		
Transitional kindergarten through third	128.25	113.66
Fourth through sixth	140.38	129.42
Seventh and eighth	171.92	164.51
Ninth through twelfth	2,822.26	2,839.27
Total County Community Schools	3,262.81	3,246.86
Special Education - Special Day Class		
Transitional kindergarten through third	44.30	44.30
Fourth through sixth	41.13	41.13
Seventh and eighth	58.17	58.17
Ninth through twelfth	192.25	192.25
Total Special Education Special Day Class	335.85	335.85
Extended Year Special Education		
Transitional kindergarten through third	4.63	4.63
Fourth through sixth	4.08	4.08
Seventh and eighth	5.70	5.70
Ninth through twelfth	22.20	22.20
Total Extended Year Special Education	36.61	36.61
Total ADA	3,635.27	3,619.32

**Charter School - College and Career Preparatory Academy**

Community Day School		
Ninth through twelfth	199.03	238.87

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

Orange County Department of Education  
Reconciliation of Annual Financial and Budget Report with Audited Financial Statements  
Year Ended June 30, 2020

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There were no adjustments to the Unaudited Actual Financial Report, which required reconciliation to the audited financial statements at June 30, 2020.

Orange County Department of Education  
Schedule of Financial Trends and Analysis  
Year Ended June 30, 2020

	(Budget) 2021 <sup>1</sup>	2020	2019	2018
County School Service Fund <sup>3</sup>				
Revenues	\$ 248,072,177	\$ 268,221,679	\$ 279,744,668	\$ 234,339,963
Other sources	-	-	21,049	-
Total revenues and other sources	<u>248,072,177</u>	<u>268,221,679</u>	<u>279,765,717</u>	<u>234,339,963</u>
Expenditures	269,801,098	229,823,519	246,802,762	231,260,229
Other uses	1,431,837	1,459,258	1,493,127	298,295
Total expenditures and other uses	<u>271,232,935</u>	<u>231,282,777</u>	<u>248,295,889</u>	<u>231,558,524</u>
Increase (Decrease) in Fund Balance	<u>\$ (23,160,758)</u>	<u>\$ 36,938,902</u>	<u>\$ 31,469,828</u>	<u>\$ 2,781,439</u>
Ending Fund Balance	<u>\$ 209,267,522</u>	<u>\$ 232,428,280</u>	<u>\$ 195,489,378</u>	<u>\$ 164,019,550</u>
Available Reserves <sup>2</sup>	<u>\$ 110,791,275</u>	<u>\$ 123,409,056</u>	<u>\$ 107,738,426</u>	<u>\$ 86,722,283</u>
Available Reserves as a Percentage of Total Outgo <sup>4</sup>	<u>40.8%</u>	<u>53.7%</u>	<u>44.6%</u>	<u>37.5%</u>
Long-Term Obligations including OPEB and Pensions	<u>N/A</u>	<u>\$ 214,244,753</u>	<u>\$ 221,256,673</u>	<u>\$ 214,783,525</u>
K-12 Average Daily Attendance at Annual	<u>1,693</u>	<u>2,597</u>	<u>1,847</u>	<u>2,310</u>

The County School Service Fund balance has increased by \$68,408,730 over the past two years. The fiscal year 2020-2021 budget projects a decrease of \$23,160,758 (10.0 percent). For a County this size, the State recommends available reserves of at least three percent of total County School Service Fund expenditures, transfers out, and other uses (total outgo).

The County has incurred operating surpluses for of the past three years; however, the County anticipates incurring an operating deficit during the 2020-2021 fiscal year. Total long-term liabilities have decreased by \$538,772 over the past two years.

Average daily attendance has increased by 287 over the past two years. However, a decline of 904 ADA is anticipated during fiscal year 2020-2021.

<sup>1</sup> Budget 2021 is included for analytical purposes only and has not been subjected to audit. As of the audit date, the budget for fiscal year 2020-2021 was not adopted.

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

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

<sup>4</sup> On behalf payments of \$1,386,459 and \$6,832,626, relating to Senate Bill 90, have been excluded from the calculation of available reserve for the fiscal year ending June 30, 2020 and 2019, respectively.

Orange County Department of Education

Schedule of Charter Schools

Year Ended June 30, 2020

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

\* Effective as of July 1, 2020.

Orange County Department of Education  
Combining Balance Sheet – Non-Major Governmental Funds  
June 30, 2020

	Deferred Maintenance Fund	County School Facilities Fund	Special Reserve Fund for Capital Outlay Projects	Debt Service Fund	Total Non-Major Governmental Funds
<b>Assets</b>					
Deposits and investments	\$ 29,383,048	\$ 2,332,106	\$ 2,811,486	\$ 1,309,710	\$ 35,836,350
Receivables	27,454	2,327	143,501	612	173,894
Due from other funds	1,022,520	-	-	-	1,022,520
Total assets	<u>\$ 30,433,022</u>	<u>\$ 2,334,433</u>	<u>\$ 2,954,987</u>	<u>\$ 1,310,322</u>	<u>\$ 37,032,764</u>
<b>Liabilities and Fund Balances</b>					
<b>Liabilities</b>					
Accounts payable	\$ 234,295	\$ 14,189	\$ 420,660	\$ -	\$ 669,144
<b>Fund Balances</b>					
Restricted	-	2,320,244	2,534,327	1,310,322	6,164,893
Committed	30,198,727	-	-	-	30,198,727
Total fund balance	<u>30,198,727</u>	<u>2,320,244</u>	<u>2,534,327</u>	<u>1,310,322</u>	<u>36,363,620</u>
Total liabilities and fund balances	<u>\$ 30,433,022</u>	<u>\$ 2,334,433</u>	<u>\$ 2,954,987</u>	<u>\$ 1,310,322</u>	<u>\$ 37,032,764</u>

Orange County Department of Education  
Combining Statement of Revenues, Expenditure, and Changes in Fund Balances – Non-Major Governmental  
Funds  
Year Ended June 30, 2020

	Deferred Maintenance Fund	County School Facilities Fund	Special Reserve Fund for Capital Outlay Projects	Debt Service Fund	Total Non-Major Governmental Funds
<b>Revenues</b>					
Local Control Funding Formula	\$ 1,022,520	\$ -	\$ -	\$ -	\$ 1,022,520
Other local sources	530,712	35,539	2,090,361	14,208	2,670,820
<b>Total revenues</b>	<b>1,553,232</b>	<b>35,539</b>	<b>2,090,361</b>	<b>14,208</b>	<b>3,693,340</b>
<b>Expenditures</b>					
<b>Current</b>					
Plant services	-	-	821,592	-	821,592
Facility acquisition and construction	1,050,211	168,623	1,005,561	-	2,224,395
Debt service					
Principal	-	-	-	1,205,000	1,205,000
Interest and other	-	-	-	380,083	380,083
<b>Total expenditures</b>	<b>1,050,211</b>	<b>168,623</b>	<b>1,827,153</b>	<b>1,585,083</b>	<b>4,631,070</b>
<b>Excess (Deficiency) of Revenue over Expenditures</b>	<b>503,021</b>	<b>(133,084)</b>	<b>263,208</b>	<b>(1,570,875)</b>	<b>(937,730)</b>
<b>Other Financing Sources (Uses)</b>					
Transfers in	980,735	-	-	1,585,083	2,565,818
Transfers out	-	-	(1,585,083)	-	(1,585,083)
<b>Net financing sources (uses)</b>	<b>980,735</b>	<b>-</b>	<b>(1,585,083)</b>	<b>1,585,083</b>	<b>980,735</b>
<b>Net Change in Fund Balances</b>	<b>1,483,756</b>	<b>(133,084)</b>	<b>(1,321,875)</b>	<b>14,208</b>	<b>43,005</b>
Fund Balances - Beginning	28,714,971	2,453,328	3,856,202	1,296,114	36,320,615
<b>Fund Balances - Ending</b>	<b>\$ 30,198,727</b>	<b>\$ 2,320,244</b>	<b>\$ 2,534,327</b>	<b>\$ 1,310,322</b>	<b>\$ 36,363,620</b>

**Note 1 - Purpose of Schedules****Schedule of Expenditures of Federal Awards**Basis of Presentation

The accompanying schedule of expenditures of federal awards (the schedule) includes the federal award activity of the Orange County Department of Education (the County) under programs of the federal government for the year ended June 30, 2020. The information is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the Orange County Department of Education, it is not intended to and does not present the financial position of the County.

Summary of Significant Accounting Policies

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

Indirect Cost Rate

The County has not elected to use the ten percent de minimis cost rate.

Food Donation

Nonmonetary assistance is reported in the schedule at the fair market value of the commodities received and disbursed. At June 30, 2020, the County did not report any commodities in inventory.

**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.

**Schedule of Financial Trends and Analysis**

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

**Schedule of Charter Schools**

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

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

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





Independent Auditor's Reports  
June 30, 2020

**Orange County Department of  
Education**



**Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards***

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Orange County Department of Education, as of and for the year ended June 30, 2020, 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 March 19, 2021.

**Internal Control over Financial Reporting**

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

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

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

**Compliance and Other Matters**

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

**Purpose of this Report**

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

The image shows a handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, professional style.

Rancho Cucamonga, California  
March 19, 2021



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

To the County Board of Education and  
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 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, 2020. Orange County Department of Education's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

### **Management's Responsibility**

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

### **Auditor's Responsibility**

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

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

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

In our opinion, Orange County Department of Education's complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2020.

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

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

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

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

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



Rancho Cucamonga, California  
March 19, 2021



## Independent Auditor's Report on State Compliance

To the County Board of Education and  
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 described in the *2019-2020 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, applicable to the state laws and regulations listed in the table below for the year ended June 30, 2020.

### **Management's Responsibility**

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

### **Auditor's Responsibility**

Our responsibility is to express an opinion on the County's compliance with state laws and regulations based on our audit of the types of compliance requirements referred to below. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of the *2019-2020 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements listed below has occurred. An audit includes examining, on a test basis, evidence about the County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on state compliance. However, our audit does not provide a legal determination of the County's compliance.

**Compliance Requirements Tested**

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

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

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



***Unmodified Opinion***

In our opinion, Orange County Department of Education complied with the laws and regulations of the state programs referred to above for the year ended June 30, 2020.

The purpose of this report on state compliance is solely to describe the results of our testing based on the requirements of the *2019-2020 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. Accordingly, this report is not suitable for any other purpose.

*Eide Bailly LLP*

Rancho Cucamonga, California  
March 19, 2021



Schedule of Findings and Questioned Costs  
June 30, 2020

# Orange County Department of Education

**FINANCIAL STATEMENTS**

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

**FEDERAL AWARDS**

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

Identification of major programs:

<u>Name of Federal Program or Cluster</u>	<u>CFDA Numbers</u>
Title I, Part A, Basic Grants Low-Income and Neglected	84.010
Title I, Part D, Local Delinquent Programs	84.010
School Improvement Funding for LEAs	84.010
School Improvement Funding for COEs	84.010
Child Care and Development Fund Cluster	93.575 and 93.596

Dollar threshold used to distinguish between Type A and Type B programs:	\$1,313,720
Auditee qualified as low-risk auditee?	Yes

**STATE COMPLIANCE**

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

None reported.

None reported.

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