

**ORANGE COUNTY DEPARTMENT OF EDUCATION
ORANGE COUNTY**

**REPORT ON AUDIT OF FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
INCLUDING REPORTS ON COMPLIANCE
June 30, 2017**



ORANGE COUNTY DEPARTMENT OF EDUCATION

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Orange County Department of Education (the County) as of and for the year ended June 30, 2017, 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 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.

INDEPENDENT AUDITOR'S REPORT

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

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 in the aforementioned table of contents present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the County as of June 30, 2017, and the respective changes in financial position and cash flows 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, budgetary comparison information, schedule of postemployment healthcare benefits funding progress, schedule of the County's proportionate share of the net pension liability, and schedule of the County's pension contributions be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The supplementary schedules, combining non-major fund financial statements, and the schedule of expenditures of federal awards, as required by *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* are presented for purposes of additional analysis and are not a required part of the basic financial statements.

INDEPENDENT AUDITOR'S REPORT

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

The supplementary section, including the schedule of expenditures of federal awards, and the combining non-major fund financial statements, 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 supplementary section, including the schedule of expenditures of federal awards and the combining non-major fund financial statements, is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 6, 2017 on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the County'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 the County's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP
Glendora, California
December 6, 2017

ORANGE COUNTY DEPARTMENT OF EDUCATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Fiscal Year Ended June 30, 2017

This section of Orange County Department of Education's (the County) 2016-2017 annual financial report presents our (management's) discussion and analysis of the County's financial performance during the fiscal year that ended on June 30, 2017, with comparative information for June 30, 2016. 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 and its component units using the integrated approach as prescribed by Governmental Accounting Standards Board (GASB) Statement No. 34.

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

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

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

The *Proprietary Activities* 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 fourth year of the Local Control Funding Formula (LCFF). In 2013-2014, the State budget saw the biggest change in education funding in over forty years with the implementation of the LCFF, and the Local Control Accountability Plan (LCAP). School Districts will continue to move to full implementation of the LCFF through 2019-2020, and County Offices of Education (COE) are considered fully funded, and will only receive cost of living increases to their base grant in future years. One of the complex calculations specific to COE LCFF is subject

ORANGE COUNTY DEPARTMENT OF EDUCATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Fiscal Year Ended June 30, 2017

to changes in county property taxes in conjunction with Average Daily Attendance (ADA). When county property taxes increase and ADA decreases, COE's move into a category called minimum state aid. We continue to be a County that has moved into this category. This may become problematic in the future years, because we will not receive any new LCFF funding from either growth in attendance or cost of living increases, while we will still have increases in expenditures.

In the current fiscal year, the County School Service Fund revenue (not including transfers from other funds) increased by \$16 million. AB602 requires a transfer to Special Education of 36% of the total property tax received. Property tax increased by \$5.4 million which required a transfer totaling \$29.5 million to the Special Education Pass-Through Fund (SELPA). This was an increase of \$2.4 million to the SELPA and the remaining \$3.0 million remained in the County School Service Fund. Although the County continues to receive increases in local taxes, overall LCFF funding for 2016-2017 grew by \$3.6 million including \$1.1 million for the College & Career Preparatory Academy charter school. Federal funding decreased \$1.9 million or 0.8 percent of the County School Service Fund revenues (and a decrease of \$1.1 million or 0.3 percent of government-wide revenues) due to changes in various federal programs. Other State revenue experienced a net increase of \$11.6 million or 4.8 percent of the County School Service Fund revenues (and \$12.1 million or 4.0 percent of government-wide revenues). The increase is largely due to an increase of \$11 million in Multi-Tiered Support System funds, \$567 thousand for CalSTRS on behalf due to GASB 68 recognizing the State's contribution on behalf of the district and other state grants and entitlements. Finally, government-wide local revenue for 2016-2017 increased by \$3.1 million as a result of various increases in interagency fees and decreases in tuition fees.

Expenditures in the County School Service Fund (not including transfers to other funds) increased by \$14 million or 6.8 percent of expenditures. This includes the increase of GASB 68 CalSTRS on behalf of the district contribution of \$567 thousand and the rate increases of CalSTRS from 10.73% to 12.58% and CalPERS from 11.847% to 13.888%. In 2016-2017, all bargaining units received a 1% percent on-going salary increase and a 3% percent off schedule payment. In addition, the district contributed to the health and welfare benefits for the 2016-17 year only with employees paying the increase in cost of health benefits for the PPO plan. The increase in salaries and the changes in the health benefits increased total expenditures for salaries and benefits by \$4.3 million, which include retirements and staff attrition and the GASB 68 CalSTRS on behalf of the district contribution. The LCAP called for increases in books, computers and instructional materials of \$309 thousand and various other changes in services and contracts.

In 2016-2017, we had an overall decrease of 201 average daily attendance (ADA). We continue to look at staffing ratios and new ways to improve our attendance.

ORANGE COUNTY DEPARTMENT OF EDUCATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Fiscal Year Ended June 30, 2017

As always, our focus is on providing world-class education and services to support our districts and students in Orange County. We also 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, Career and Technical Education, Information Technology, Instructional Services, Legal Services, Community and Student Support Services, and Special Education.

Values

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

Enrollment

A primary source of revenue for the County is generated by ADA of students in the County programs. The decline of ADA can have significant impact on the financial stability of the office. The County operated student programs decreased by 290 ADA, a 7 percent decline from last year. County-wide enrollment experienced a decrease of 0.69 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 2016-2017, we met our goal with a minimum three percent Reserve for Economic Uncertainties.

ORANGE COUNTY DEPARTMENT OF EDUCATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Fiscal Year Ended June 30, 2017

REPORTING THE COUNTY AS A WHOLE

The Statement of Net Position and the Statement of Activities

The Statement of Net Position and the Statement of Activities report information about the County as a whole and about its activities. These statements include all assets, deferred inflows of resources, liabilities and deferred outflows 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, which is one way to measure the County's financial health, or financial position. Over time, increases or decreases in the County's net position will serve as a useful indicator of whether its financial position of the County 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 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 the education of kindergarten through grade twelve students, adult education students, the operation of child development activities, and the on-going effort to improve and maintain buildings and sites. Property taxes, State income taxes, user fees, interest income, 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

ORANGE COUNTY DEPARTMENT OF EDUCATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Fiscal Year Ended June 30, 2017

taxes, grants, and other money that it receives from the U.S. and State Departments of Education.

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

THE COUNTY AS A WHOLE

Net Position

The County's net position was \$162.8 million for the fiscal year ended June 30, 2017. Of this amount, \$17.6 million was unrestricted and our long term liabilities increased to \$183.6 million. Restricted net position is reported separately to show legal constraints from debt covenants, grantors, constitutional provisions, and enabling legislation that limit the governing board's ability to use net position for day-to-day operations. Our analysis in the pages that follow in summary form focuses on the net position (Table 1) and change in net position (Table 2) of the County's governmental activities.

ORANGE COUNTY DEPARTMENT OF EDUCATION

**MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2017**

(Table 1)

Summary of Statement of Net Position

	<u>2015-16</u>	<u>2016-17</u>
Non-Capital Assets	\$ 248,643,141	\$ 282,232,775
Capital Assets	<u>92,924,619</u>	<u>90,689,709</u>
Total Assets	<u>\$ 341,567,760</u>	<u>\$ 372,922,484</u>
Deferred Outflows of Resources	<u>\$ 15,276,348</u>	<u>\$ 37,143,199</u>
Current Liabilities	\$ 48,401,620	\$ 45,664,791
Long Term Liabilities	<u>155,268,216</u>	<u>183,590,052</u>
Total Liabilities	<u>\$ 203,669,836</u>	<u>\$ 229,254,843</u>
Deferred Inflows of Resources	<u>\$ 23,721,220</u>	<u>\$ 18,013,570</u>
Net Position Invested in Capital Assets	\$ 79,680,619	\$ 77,839,709
Net Position Legally Restricted	48,613,510	67,384,137
Net Position Unrestricted	<u>1,158,923</u>	<u>17,573,424</u>
Total Net Position	<u>\$ 129,453,052</u>	<u>\$ 162,797,270</u>

The \$17.6 million in unrestricted net position of governmental activities represents the accumulated results of all past years' operations less the unfunded future pension obligations of current employees.

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 3. Table 2 takes the information from the Statement of Activities and rearranges them slightly so you can see our total revenues for the year.

ORANGE COUNTY DEPARTMENT OF EDUCATION

**MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2017**

(Table 2)

Summary of Statement of Activities

	<u>2015-16</u>	<u>2016-17</u>
Program Revenues		
Charges for Services	\$ 34,073,647	\$ 36,118,634
Operating Grants	68,280,875	80,701,028
Capital Grants	<u>(1,413,802)</u>	<u>33,361</u>
Subtotal Program Revenues	100,940,720	116,853,023
General Revenues	<u>183,365,732</u>	<u>188,113,476</u>
Total Revenues	284,306,452	304,966,499
Expenses		
Instruction and Related Services	145,371,978	159,920,685
Pupil Services	17,136,346	19,205,744
General Administration	22,708,524	22,995,643
Plant Services	13,263,975	12,578,171
Other Outgo	53,934,967	53,506,746
Debt Service	465,746	469,061
Depreciation	<u>3,037,519</u>	<u>2,946,231</u>
Total Expenses	<u>255,919,055</u>	<u>271,622,281</u>
Change in Net Position	28,387,397	33,344,218
Net position at beginning of year	<u>101,065,655</u>	<u>129,453,052</u>
Net Position at end of year	<u>\$ 129,453,052</u>	<u>\$ 162,797,270</u>

Governmental Activities

As reported in the Statement of Activities on page 3, the cost of all of our governmental activities this year was \$271.6 million. However, the amount that our taxpayers ultimately financed for these activities through local taxes was only \$98.1 million because the cost paid by those who benefited from the programs and by other governments and organizations who subsidized certain programs with grants and contributions were \$36.1 million and \$80.7 million, respectively. We paid for the remaining 'public benefit' portion of our governmental activities with \$90 million in State funds and with other revenues, like interest and general entitlements.

ORANGE COUNTY DEPARTMENT OF EDUCATION

**MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2017**

In Table 3, we present the cost and net cost of each of the County's largest functions that include regular program instruction and instruction-related activities, home-to-school transportation, other pupil services, general administration, maintenance and operations, interest on long term obligations, and other. 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	
	2016	2017	2016	2017
Instruction and Related Services	\$ 145,371,978	\$ 159,920,685	\$ 79,809,570	\$ 81,983,726
Pupil Services	17,136,346	19,205,744	10,293,389	11,633,278
General Administration	22,708,524	22,995,643	16,768,592	17,285,079
Plant Services	13,263,975	12,578,171	12,440,527	11,857,958
Other Outgo	53,934,967	53,506,746	32,162,992	28,593,925
Debt Service	465,746	469,061	465,746	469,061
Depreciation	3,037,519	2,946,231	3,037,519	2,946,231
Total	<u>\$ 255,919,055</u>	<u>\$ 271,622,281</u>	<u>\$ 154,978,335</u>	<u>\$ 154,769,258</u>

THE COUNTY'S FUNDS

As the County completed this year, our governmental funds reported a combined fund balance of \$232.4 million which is an increase of \$35.9 million (Table 4).

(Table 4)

	Balances and Activity			
	July 1, 2016	Revenues	Expenditures	June 30, 2017
County School Service Fund	\$ 154,107,433	\$ 238,766,186	\$ 207,046,890	\$ 185,826,729
Special Education Pass-Through Fund	10,370,413	41,652,961	39,199,684	12,823,690
Child Development Fund	-	21,399,860	21,399,860	-
Deferred Maintenance Fund	24,001,237	1,215,872	70,707	25,146,402
County School Facilities Fund	4,134,138	33,361	15,766	4,151,733
Special Reserve Fund for Capital				
Outlay Projects	2,332,016	2,213,456	1,579,407	2,966,065
COP Debt Service Fund	1,562,145	808,597	866,900	1,503,842
Total	<u>\$ 196,507,382</u>	<u>\$ 306,090,293</u>	<u>\$ 270,179,214</u>	<u>\$ 232,418,461</u>

The County School Service Fund is our principal operating fund. The fund balance in the County School Service Fund increased to \$185.8 million, a \$31.7 million increase, due to further implementation of the Local Control Funding Formula LCFF and staff reductions.

ORANGE COUNTY DEPARTMENT OF EDUCATION

**MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2017**

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 8, 2017. (A schedule showing the County's original and final budget amounts compared with amounts actually paid and received is provided in our annual report on page 457).

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets (net of depreciation)

On June 30, 2017, the County had \$90.7 million in a broad range of capital assets, including land, buildings, and furniture and equipment.

(Table 5)

	<u>2015-16</u>	<u>2016-17</u>
Land and construction in progress	\$ 33,664,602	\$ 30,506,226
Buildings and improvements	55,409,376	56,540,459
Furniture and equipment	<u>3,850,641</u>	<u>3,643,024</u>
Total	<u>\$ 92,924,619</u>	<u>\$ 90,689,709</u>

The \$2.2 million decrease in capital assets was the result of \$1.0 million in capital purchases offset by \$2.9 million in depreciation for the year and \$348,109 thousand of capital asset dispositions including \$45,803 in obsolete equipment and related accumulated depreciation.

Long-Term Obligations

At the end of this fiscal year, the County had a decrease of \$300 thousand in long-term obligations prior to recording the net pension obligation. This decrease was due to the normal annual debt reduction payments for the certificates of participation offset by an increase in postemployment benefits and compensated absences.

(Table 6)

	<u>2015-16</u>	<u>2016-17</u>
Certificates of participation	\$ 13,244,000	\$ 12,850,000
Compensated absences	1,785,757	1,879,280
Net pension liability	135,964,162	164,586,475
Postemployment benefits other than pension	<u>4,274,297</u>	<u>4,274,297</u>
Total	<u>\$ 155,268,216</u>	<u>\$ 183,590,052</u>

ORANGE COUNTY DEPARTMENT OF EDUCATION

MANAGEMENT'S DISCUSSION AND ANALYSIS For the Fiscal Year Ended June 30, 2017

The County's general obligation bond rating continues to be 'AAA'. The State limits the amount of general obligation debt that Counties can issue should not exceed more than five percent of the assessed value of all taxable property within the County's boundaries.

CAPITAL ASSET AND DEBT ADMINISTRATION

Other obligations include compensated absences payable (not including health benefits). We present more detailed information regarding our long-term obligations in Note 8 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 significantly increases, or changes occur in targeted sub-group populations, and/or property taxes decline. As a COE, our declining ADA has a negative impact on current year funding for various programs.

Operational costs continue to increase and we continue to be concerned about unfunded and mandated activities. The CalSTRS rate is scheduled to increase every year until it nets to a total of 19.1% by 2020-21. Although, the rate for the CalPERS has a different rate increase structure than CalSTRS, it is also increasing annually. Every year we are faced with the increase in cost for medical benefits and trying to maintain an affordable medical benefit plan packages for all parties involved. We have negotiated a cap on medical benefits, and we have a Health Benefits Review Committee to collaborate with our broker for any necessary changes to have a program that is sustainable. We are also budgeting for one-time expenditures in this current year from funding received in prior years. We will continue to adjust our budget revenue and expenditure projections as we receive more clarity on attendance, legislative changes, the State budget and the current economy

Items specifically addressed in the budget are as follows:

2017-18 is the fourth year of our LCAP and the need to address increased and improved services to our students. We have seen great progress and look forward to continue successfully providing: 1) Counselor, 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, and, 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. As we prepare and revise our Budget Reports, our ADA

ORANGE COUNTY DEPARTMENT OF EDUCATION

MANAGEMENT'S DISCUSSION AND ANALYSIS For the Fiscal Year Ended June 30, 2017

continues to project a decline. We continue to monitor ADA and to establish better control over staffing ratios at each site.

The LCFF changed how students are recorded and COEs will only be funded directly from the state for students that reside in Juvenile Hall, are probation referred, or expelled. Probation and the County of Orange continue to implement alternatives to incarceration programs which have a significant impact on our Juvenile Court population. Because of the changes in the LCFF funding model, we are now required to bill school districts for students in community schools and special schools. We continue to bill school districts over \$30 million which does create cash flow consequences for our office. We will continue to monitor our expenditures and will concentrate on evaluating our multi-year projections to ensure that we have fiscal stability for future years.

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. This fall, we will receive the first Dashboard from California Department of Education that will highlight districts that are in need of intervention and continuous improvement. We will now be required to provide technical assistance for instructional programs and we will be looking at staffing expertise to assist the districts as needed. We have successfully completed the eighth 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, investors, and creditors 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.

FINANCIAL SECTION

ORANGE COUNTY DEPARTMENT OF EDUCATION

STATEMENT OF NET POSITION

June 30, 2017

	Governmental Activities
<u>Assets</u>	
Cash in county treasury	\$ 244,458,180
Cash and cash equivalents	13,766,312
Accounts receivable	23,997,619
Prepaid expenses	10,664
Land	28,641,315
Construction in progress	1,864,911
Depreciable assets, net	<u>60,183,483</u>
Total Assets	<u>372,922,484</u>
 <u>Deferred Outflows of Resources</u>	
Deferred outflows - pensions	<u>37,143,199</u>
Total Deferred Outflows of Resources	<u>37,143,199</u>
 <u>Liabilities</u>	
Accounts payable and other current liabilities	37,506,794
Accrued interest	32,525
Unearned revenue	8,125,472
Current portion of long-term liabilities	
Certificates of participation	410,000
Non-current portion of long term liabilities	
Compensated absences	1,879,280
Postemployment benefits other than pensions	4,274,297
Net pension liability	164,586,475
Certificates of participation	<u>12,440,000</u>
Total Liabilities	<u>229,254,843</u>
 <u>Deferred Inflows of Resources</u>	
Deferred inflows - pensions	<u>18,013,570</u>
 <u>Net Position</u>	
Net investment in capital assets	77,839,709
Restricted for:	
Educational programs	58,762,497
Capital projects	7,117,798
Debt service	1,503,842
Unrestricted	<u>17,573,424</u>
Total Net Position	<u>\$ 162,797,270</u>

See accompanying notes to the financial statements.

ORANGE COUNTY DEPARTMENT OF EDUCATION

**STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2017**

Functions	Expenses	Program Revenues			Net (Expense)
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Position
					Governmental Activities
Governmental Activities					
Instruction	\$ 83,265,902	\$ 10,533,599	\$ 18,549,274	\$ 33,361	\$ (54,149,668)
Instruction - related services	76,654,783	6,006,079	42,814,646		(27,834,058)
Pupil services	19,205,744	4,050,001	3,522,465		(11,633,278)
General administration	22,995,643	1,959,938	3,750,626		(17,285,079)
Plant services	12,578,171	615,252	104,961		(11,857,958)
Other outgo	53,506,746	12,953,765	11,959,056		(28,593,925)
Debt service - interest	469,061				(469,061)
Depreciation (unallocated)	2,946,231				(2,946,231)
Total Governmental Activities	<u>\$ 271,622,281</u>	<u>\$ 36,118,634</u>	<u>\$ 80,701,028</u>	<u>\$ 33,361</u>	<u>(154,769,258)</u>
General Revenues					
Property taxes levied for					
General purposes					98,101,797
Other specific purposes					2,185,773
Federal and state aid not restricted to specific purposes					40,180,722
Interest and investment earnings					1,787,875
Miscellaneous					38,567,915
Interagency revenues					<u>7,289,394</u>
Total General Revenues and Special Items					<u>188,113,476</u>
					Change in net position
					33,344,218
					Net Position - Beginning of Year
					<u>129,453,052</u>
					Net Position - End of Year
					<u>\$ 162,797,270</u>

See accompanying notes to the financial statements.

ORANGE COUNTY DEPARTMENT OF EDUCATION

**BALANCE SHEET
GOVERNMENTAL FUNDS**

June 30, 2017

	County School Service Fund	Special Education Pass-Through Fund	Non-Major Governmental Funds	Total Governmental Funds
<u>Assets</u>				
Cash in county treasury	\$ 194,143,878	\$ 12,364,854	\$ 33,653,520	\$ 240,162,252
Cash on hand and in bank			2,000	2,000
Cash in revolving fund	70,000			70,000
Cash collections awaiting deposit	11,309,234	95,593	163,909	11,568,736
Cash with fiscal agent			1,921,856	1,921,856
Accounts Receivable:				-
Federal and state governments	9,567,444	3,872,307	1,989,992	15,429,743
Miscellaneous	8,533,676		30,500	8,564,176
Prepaid expenditures	10,664			10,664
Due from other funds	1,545,530	10,929,364	2,952,496	15,427,390
Total Assets	\$ 225,180,426	\$ 27,262,118	\$ 40,714,273	\$ 293,156,817
 <u>Liabilities and Fund Balances</u>				
Liabilities				
Accounts payable	\$ 19,513,523	\$ 14,343,173	\$ 3,157,349	\$ 37,014,045
Due to other funds	12,287,037	95,255	3,216,547	15,598,839
Unearned revenue	7,553,137		572,335	8,125,472
Total Liabilities	39,353,697	14,438,428	6,946,231	60,738,356
 Fund Balances				
Nonspendable	80,667			80,667
Restricted	45,938,807	12,823,690	8,621,640	67,384,137
Committed			25,146,402	25,146,402
Assigned	72,573,380			72,573,380
Unassigned	67,233,875			67,233,875
Total Fund Balances	185,826,729	12,823,690	33,768,042	232,418,461
Total Liabilities and Fund Balances	\$ 225,180,426	\$ 27,262,118	\$ 40,714,273	\$ 293,156,817

See accompanying notes to the financial statements.

ORANGE COUNTY DEPARTMENT OF EDUCATION

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION**

June 30, 2017

Total fund balances - governmental funds \$ 232,418,461

Amounts reported for governmental funds are different than the statement of net position because:

Capital assets used in governmental activities are not financial resource and, therefore, are not reported as assets in governmental funds. These assets consist of:

Land	\$ 28,641,315	
Construction in progress	1,864,911	
Depreciable assets, net	<u>60,183,483</u>	90,689,709

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

Compensated absences	(1,879,280)	
Certificates of participation	(12,940,000)	
Unamortized discount on certificates of participation	90,000	
Postemployment benefits other than pensions (OPEB)	(4,274,297)	
Net pension liability	<u>(164,586,475)</u>	(183,590,052)

In governmental funds, deferred outflows and inflows of resources are not reported because they are applicable to future periods. Deferred outflows and inflows of resources at year-end consist of:

Deferred outflows - pensions (pension contributions)	13,644,724	
Deferred outflows - pensions (pension related activities)	23,498,475	
Deferred inflows - pensions	<u>(18,013,570)</u>	19,129,629

An internal service funds is used by the County's management to fund and pay for the cost of dental insurance premiums. The assets and liabilities of the internal service fund are included with governmental activities. The fund consists of:

Assets	4,674,797	
Less: Liabilities	<u>(492,749)</u>	4,182,048

Interest expense related to certificates of participation was incurred but not accrued through June 30, 2017. (32,525)

Total net position - governmental activities \$ 162,797,270

See accompanying notes to the financial statements.

ORANGE COUNTY DEPARTMENT OF EDUCATION

**STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2017**

	County School Service Fund	Special Education Pass-Through Fund	Non-Major Governmental Funds	Total Governmental Funds
Revenues				
Local control funding formula sources:				
State apportionments	\$ 22,226,725	\$	\$ 1,022,520	\$ 23,249,245
Local sources	69,078,707	29,552,129		98,630,836
Total local control funding formula sources	91,305,432	29,552,129	1,022,520	121,880,081
Federal sources	22,647,125	7,580,999	7,171,759	37,399,883
Other state sources	39,079,392	3,250,224	13,515,543	55,845,159
Other local sources	85,734,237	1,269,609	3,044,884	90,048,730
Total Revenues	<u>238,766,186</u>	<u>41,652,961</u>	<u>24,754,706</u>	<u>305,173,853</u>
Expenditures				
Instruction	69,206,021		13,673,759	82,879,780
Instruction - related services	70,768,901		5,871,518	76,640,419
Pupil services	19,125,968			19,125,968
General administration	21,582,445		1,796,041	23,378,486
Plant services	11,934,422		924,422	12,858,844
Other outgo	14,307,062	39,199,684		53,506,746
Debt service	5,631		866,900	872,531
Total Expenditures	<u>206,930,450</u>	<u>39,199,684</u>	<u>23,132,640</u>	<u>269,262,774</u>
Excess of revenues over expenditures	<u>31,835,736</u>	<u>2,453,277</u>	<u>1,622,066</u>	<u>35,911,079</u>
Other Financing Sources (Uses)				
Interfund transfers in			916,440	916,440
Interfund transfers out	(116,440)		(800,000)	(916,440)
Total Other Financing Sources (Uses)	<u>(116,440)</u>	<u>-</u>	<u>116,440</u>	<u>-</u>
Net changes in fund balance	31,719,296	2,453,277	1,738,506	35,911,079
Fund Balances at Beginning of Year	<u>154,107,433</u>	<u>10,370,413</u>	<u>32,029,536</u>	<u>196,507,382</u>
Fund Balances at End of Year	<u>\$ 185,826,729</u>	<u>\$ 12,823,690</u>	<u>\$ 33,768,042</u>	<u>\$ 232,418,461</u>

See accompanying notes to the financial statements.

ORANGE COUNTY DEPARTMENT OF EDUCATION

**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE TO THE
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2017**

Net change in fund balances - total governmental funds \$ 35,911,079

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, assets with an initial, individual cost of more than \$5,000 are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay, net of retirements	\$ 1,059,430	
Depreciation expense	(2,946,231)	
Loss from disposal of assets	<u>(348,109)</u>	
Deficiency of capital outlay over depreciation expense		(2,234,910)

Repayment of long-term debt is reported as an expenditure in governmental funds, but the repayment reduces long-term liabilities in the statement of net position. Interest is recognized as an expenditure in the governmental funds when it is due. In the statement of activities, interest expense is recognized as it accrues, regardless of when it is due. The net effect of these differences in the treatment debt and related items is as follows:

Repayment of certificates of participation	400,000	
Discount on certificates of participation	(6,000)	
Net increase in accrued interest expense	<u>(975)</u>	393,025

In governmental funds, pension costs and pension related activities are recognized when the employer contribution is made, but in the statement of activities, pension costs and pension related activities are recognized on the accrual basis. The difference between accrual basis pension costs and pension related activities is as follows:

Deferred outflows - pensions	21,866,851	
Deferred inflows - pensions	5,707,650	
Net pension liability	<u>(28,622,313)</u>	(1,047,812)

Some items reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. These activities consist of:

Net increase in compensated absences		(93,523)
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An internal service funds is used by the County's management to fund and pay for the cost of dental insurance premiums. The net income/loss of the internal service fund is reported with governmental activities.

		<u>416,359</u>
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Change in net position of governmental activities \$ 33,344,218

See accompanying notes to the financial statements.

ORANGE COUNTY DEPARTMENT OF EDUCATION

STATEMENT OF FUND NET POSITION
PROPRIETARY FUND
June 30, 2017

	Governmental Activities: Internal Service Fund	Self-Insurance Fund
<u>Assets</u>		
Cash in county treasury	\$ 4,295,928	
Cash with fiscal agent	203,720	
Accounts receivable	3,700	
Due from other funds	171,449	
Total Assets	4,674,797	
<u>Liabilities</u>		
Accounts payable	149,557	
Claims liability	343,192	
Total Liabilities	492,749	
<u>Net Position</u>		
Unrestricted		4,182,048
Total Net Position	\$ 4,182,048	

See accompanying notes to the financial statements.

ORANGE COUNTY DEPARTMENT OF EDUCATION

**STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN FUND NET POSITION
PROPRIETARY FUND**

For the Fiscal Year Ended June 30, 2017

	Governmental Activities: Internal Service Fund
	<u>Self-Insurance Fund</u>
Operating Revenues	
Local and intermediate sources	\$ 2,044,186
Total Operating Revenues	<u>2,044,186</u>
Operating Expenditures	
Claims payments	1,564,949
Other operating cost	<u>96,191</u>
Total Operating Expenditures	<u>1,661,140</u>
Net operating income	<u>383,046</u>
Non-Operating Revenues	
Interest income	<u>33,313</u>
Total Non-Operating Revenues	<u>33,313</u>
Net income	416,359
Net Position at Beginning of Year	<u>3,765,689</u>
Net Position at End of Year	<u>\$ 4,182,048</u>

See accompanying notes to the financial statements.

ORANGE COUNTY DEPARTMENT OF EDUCATION

**STATEMENT OF CASH FLOWS
 PROPRIETARY FUND
 For the Fiscal Year Ended June 30, 2017**

	Governmental Activities: Internal Service Fund Self-Insurance Fund
Cash Flows from Operating Activities	
Cash received from premiums and other revenues	\$ 1,872,737
Cash payments on behalf of employees for services	(1,494,883)
Other operating cash payments	<u>(95,806)</u>
Net cash provided by operating activities	<u>282,048</u>
 Cash Flows from Investing Activities	
Interest income	<u>31,879</u>
Net cash provided by investing activities	<u>31,879</u>
 Net increase in cash	313,927
 Cash - July 1, 2016	<u>4,185,721</u>
Cash - June 30, 2017	<u>\$ 4,499,648</u>
 Reconciliation of operating income to net cash provided by operating activities	
 Operating Income	<u>\$ 383,046</u>
Adjustments to reconcile operating income to net cash provided by operating activities:	
Increase in due from other funds	(171,449)
Increase in accounts payable and claims liabilities	<u>70,451</u>
Total adjustments	<u>(100,998)</u>
 Net cash provided by operating activities	<u>\$ 282,048</u>
 Cash balances at June 30, 2017 consisted of the following:	
Cash in county treasury	\$ 4,295,928
Cash and cash equivalents	<u>203,720</u>
Total cash	<u>\$ 4,499,648</u>

See accompanying notes to the financial statements.

ORANGE COUNTY DEPARTMENT OF EDUCATION

NOTES TO THE FINANCIAL STATEMENTS

For the Fiscal Year Ended June 30, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The County accounts for its financial transactions in accordance with the policies and procedures of the Department of Education's *California School Accounting Manual*, updated to conform to the most current financial and reporting requirements promulgated by the California Department of Education. The accounting policies of the County conform to generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB).

The significant accounting policies applicable to the County are described below.

Basis of Presentation

The accompanying financial statements have been prepared in conformity with GAAP as prescribed by GASB. The financial statement presentation required by GASB provides a comprehensive, entity-wide perspective of the County's financial activities. The entity-wide perspective enhances the fund-group perspective previously required.

The County's basic financial statements consist of government-wide statements, including a Statement of Net Position, a Statement of Activities, and fund financial statements.

Government-Wide Financial Statements

The Statement of Net Position and the Statement of Activities displays information about the County as a whole. These statements include the financial activities of the primary government, including governmental activities of proprietary funds.

The Statement of Net Position presents the financial condition of the governmental activities of the County at year-end. The Statement of Activities presents a comparison between direct expenses and program revenues for each program or function of the County's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and, therefore, clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program, and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the County. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the County. Depreciation and interest expense have not been allocated to specific functions.

Fund Financial Statements

During the year, the County segregates transactions related to certain County functions or activities in separate funds in order to aid financial management and to demonstrate legal

ORANGE COUNTY DEPARTMENT OF EDUCATION

NOTES TO THE FINANCIAL STATEMENTS For the Fiscal Year Ended June 30, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

compliance. Fund financial statements are designed to present financial information of the County at this more detailed level. The focus of governmental fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. The proprietary fund is reported by type.

The fund financial statement expenditures are presented in a function-oriented format. The following is a brief description of the functions:

Instruction: includes the activities directly dealing with the interaction between teachers and students.

Instruction-Related Services: includes supervision of instruction, instructional library, media and technology, and school site administration.

Pupil Services: includes home to school transportation, food services, and other pupil services.

General Administration: includes data processing services and all other general administration services.

Plant Services: includes activities of maintaining the physical plant. This also includes facilities acquisition and construction expenditures.

Other Outgo: includes transfers to other agencies.

Debt Service: includes principal and interest payments for long term debt.

The proprietary fund expenses are presented by natural classification.

Fund Accounting

To ensure compliance with the California Education Code, the financial resources of the County are divided into separate funds for which separate accounts are maintained for recording cash, other resources and all related liabilities, obligations, and equities.

The Statement of Revenues, Expenditures and Changes in Fund Balance are statements of financial activities of the particular fund related to the current reporting period. Expenditures of the various funds frequently include amounts for land, buildings, equipment, retirement of indebtedness, transfers to other funds, etc. Consequently, these statements do not purport to present the result of operations or the net income or loss for the period as would a statement of income for a profit-type organization. The modified accrual basis of accounting is used for all governmental funds.

ORANGE COUNTY DEPARTMENT OF EDUCATION

NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Governmental Funds – Major

County School Service Fund: the general operating fund of the County is used to account for all financial resources except those required to be accounted for in another fund.

The Special Reserve for Other Than Capital Outlay Projects is used primarily to provide for the accumulation of monies for general operating purposes other than for capital outlay. Based on the requirements of GASB, the fund no longer meets the definition of a special revenue fund as it is not primarily composed of restricted or committed revenue sources. Therefore, all activities of this fund are reported in the County School Service Fund.

Special Education Pass-Through Fund: used by the Administrative Unit of a Special Education Local Plan Area (SELPA) to account for special education revenues passed-through to member districts.

Governmental Funds – Non-Major

Special Revenue Funds: used to account for the proceeds of specific revenue sources that are restricted or committed to expenditures for specific purposes other than debt service or capital projects.

Child Development Fund: used to account for resources committed to child development programs.

Deferred Maintenance Fund: used for the purpose of major repair or replacement of County property. The County has taken formal action to commit state apportionment funding from local control funding formula to this fund for the continued operation of the original program. The fund therefore meets the requirements to be reported as a Special Revenue fund.

Capital Projects Funds: used to account for the financial resources that are restricted, committed or assigned for the acquisition and/or construction of major governmental general fixed assets.

County School Facilities Fund: used to account for the School Facility Program grants awarded for modernization and new construction of various sites.

Special Reserve Fund for Capital Outlay Projects: used to account for specific board-approved capital expenditures.

ORANGE COUNTY DEPARTMENT OF EDUCATION

**NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2017**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Debt Service Fund: used to account for the financial resources that are restricted, committed or assigned and the accumulation of resources for the payment of general long-term debt principal, interest, and related costs. The County's debt service fund is used to account for the interest and redemption of principal of Certificates of Participation.

Proprietary Funds

Self-Insurance Fund

Internal Service Fund: used to account for services rendered on a cost-reimbursement basis within the County. The Internal Service Fund consists of the Dental Fund which is used to account for resources committed to the County's dental and vision insurance program.

Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of measurement made, regardless of the measurement focus applied. Revenues in governmental fund financial statements are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the County considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. The proprietary fund uses the accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of unearned revenue, and in the presentation of expenses versus expenditures.

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 in the county treasury is recorded at cost, which approximates fair value.

Receivables

Receivables are generally recorded when the amount is earned and can be estimated. All material receivables are considered fully collectible.

ORANGE COUNTY DEPARTMENT OF EDUCATION

**NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2017**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Prepaid Expenditures

Payments made to vendors for goods or services that will benefit periods beyond June 30, 2017, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure is reported in the year in which goods or services are consumed.

Capital Assets

Generally, capital assets result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the Statement of Net Position, but are not reported in the fund financial statements.

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The County maintains a capitalization threshold of \$5,000. The County does not own any infrastructure as defined by GASB. 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.

All reported capital assets except for land and construction in progress are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Buildings	20 to 50 years
Improvements	5 to 50 years
Furniture and Equipment	2 to 15 years

Depreciation expense reported on the government-wide statement of activities excludes direct depreciation expense recorded to functions where applicable.

Deferred Outflows of Resources

Deferred outflows of resources represent a consumption of net position or fund balance that applies to a future period(s) and thus, will not be recognized as an outflow of resources (expense/expenditure) until then. These amounts are reported in the government-wide statement of net position.

The deferred outflows of resources related to pensions resulted from County contributions to employee pension plans subsequent to the measurement date of the actuarial valuations for the

ORANGE COUNTY DEPARTMENT OF EDUCATION

**NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2017**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

pension plans, the effect of changes in proportion, and the difference between expected and actual experience. The deferred outflows – pensions will be deferred and amortized as detailed in Note 12 to the financial statements.

Unearned Revenue

Cash received for federal and state special projects and programs is recognized as revenue to the extent that qualified expenditures have been incurred. Unearned revenue is recorded to the extent cash received on specific projects and programs exceed qualified expenditures.

Compensated Absences

Accumulated unpaid employee vacation benefits are recognized as a liability when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

Sick leave benefits are accumulated without limit for each employee. The employees do not gain a vested right to accumulated sick leave, therefore, accumulated employee sick leave benefits are not recognized as a liability of the County. The County's policy is to record sick leave as an operating expense in the period taken. However, credit for unused sick leave is applicable to all classified school members who retire after January 1, 1999. Unused sick leave is added to the creditable service period at the rate of .004 year of service credit for each day of unused sick leave for calculation of retirement benefits when the employee retires. 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.

Long-Term Obligations

The County reports long-term debt of governmental funds at face value in the government-wide financial statements. Long-term debt and other obligations financed by proprietary funds are reported as liabilities in the appropriate funds.

Debt premiums and discounts are deferred and amortized over the life of the debt using the straight-line method. Long-term debt payable is reported net of the applicable debt premium or discount.

In the fund financial statements, governmental fund types recognize debt premiums and discounts, as well as debt issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported

ORANGE COUNTY DEPARTMENT OF EDUCATION

**NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2017**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures.

Net Pension Liability

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

Deferred Inflows of Resources

Deferred inflows of resources represent an acquisition of net assets by the County that is applicable to a future reporting period. The deferred inflows of resources related to pensions results from the difference between the estimated and actual return on pension plan investments, the effect of changes in proportion and changes in assumptions, and the difference between expected and actual experience. These amounts are deferred and amortized as detailed in Note 12 to the financial statements.

Net Position

Net position represents the difference between assets plus deferred outflows of resources less liabilities and deferred inflows of resources. Net position invested 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 improvements of those assets. Net position is reported as restricted when there are limitations imposed on use through external restrictions imposed by donors, grantors, laws or regulations of other governments or by enabling legislation adopted by the County.

Fund Balance Classification

The governmental fund financial statements present fund balance classifications that comprise a hierarchy based on the extent to which the County is bound to honor constraints on the specific purposes for which amounts can be spent. The classifications used in the governmental fund financial statements are as follows:

ORANGE COUNTY DEPARTMENT OF EDUCATION

**NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2017**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nonspendable: This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact.

Restricted: Amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.

Committed: Amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the Superintendent. These amounts cannot be used for any other purpose unless the Superintendent removes or changes the specified use by taking the same formal action (resolution) that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements.

Assigned: Amounts that are constrained by the County's intent to be used for a specific purpose but are neither restricted nor committed. The Superintendent, through a formal action has given authority to the Assistant Superintendent of Administrative Services to assign amounts for a specific purpose that is neither restricted nor committed.

Unassigned: The residual fund balance for the County School Service Fund and all other spendable amounts.

Spending Order Policy

The County considers restricted amounts to have been spent when an expenditure is incurred for purposes for which both restricted and unrestricted net position or fund balance is available.

When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the County's policy considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the Superintendent has provided otherwise in its commitment or assignment functions.

Minimum Fund Balance Policy

The County does not have a written minimum fund balance policy. To protect against revenue shortfalls and unexpected one-time expenditures, the County has maintained a Reserve for Economic Uncertainties consisting of unassigned amounts equivalent to 3% of budgeted County School Service Fund expenditures and other financing uses. These amounts represent the minimum recommended reserve consistent with the Criteria and Standards for fiscal solvency adopted by the State Board of Education.

ORANGE COUNTY DEPARTMENT OF EDUCATION

NOTES TO THE FINANCIAL STATEMENTS For the Fiscal Year Ended June 30, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

State Apportionments

Certain current year apportionments from the state are based upon various financial and statistical information of the previous year. Second period to annual corrections for local control funding formula and other state apportionments (either positive or negative) are accrued at the end of the fiscal year.

Property Taxes

Secured property taxes attach as an enforceable lien on property as of January 1st. Taxes are payable in two installments on November 1st and February 1st. Unsecured property taxes are payable in one installment on or before August 31st.

Real and personal property tax revenues are reported in the same manner in which the county auditor records and reports actual property tax receipts to the California Department of Education. This is generally on a cash basis. A receivable has not been recognized in the County School Service Fund for property taxes due to the fact that any receivable is offset by a payable to the state for local control funding formula purposes.

Contributed Services

Generally accepted accounting principles require that contributions of donated services that create or enhance non-financial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are to be recorded at fair value in the period received. Although the County receives numerous hours of volunteer time, it is not deemed necessary to record these hours on the books of the County based on the above guidelines. In addition, the County receives donations of immaterial equipment and supplies which are not recorded upon receipt.

Classification of Revenues – Proprietary Funds

Proprietary funds distinguish operating revenues from non-operating revenues. Operating revenues include activities that have the characteristics of exchange transactions, such as food service sales, federal and most state and local grants and contracts, and self-insurance premiums. Non-operating revenues include activities that have the characteristics of non-exchange transactions that are defined as non-operating revenues by GASB.

Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts

ORANGE COUNTY DEPARTMENT OF EDUCATION

NOTES TO THE FINANCIAL STATEMENTS For the Fiscal Year Ended June 30, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Reporting Entity

The County, organized under the laws of the State of California, is the level of government primarily accountable for activities related to public education. The governing authority consists of elected officials who, together, constitute the Board of Education.

The County considered its financial and operational relationships with potential component units under the reporting entity definition of GASB. The basic, but not the only, criterion for including another organization in the County's reporting entity for financial reports is the ability of the County's elected officials to exercise oversight responsibility over such agencies. Oversight responsibility implies that one entity is dependent on another and a financial benefit or burden relationship is present and that the dependent unit should be reported as part of the other.

Oversight responsibility is derived from the County's power and includes, but is not limited to: financial interdependency; selection of governing authority; designation of management; ability to significantly influence operations; and accountability for fiscal matters.

Due to the nature and significance of their relationship with the County, including ongoing financial support of the County or its other component units, certain organizations warrant inclusion as part of the financial reporting entity. A legally separate, tax-exempt organization should be reported as a component unit of the County if all of the following criteria are met:

- The economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the County, its component units, or its constituents.
- The County, or its component units, is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization.
- The economic resources received or held by an individual organization that the County, or its component units, is entitled to, or has the ability to otherwise access, are significant to the County.

Based upon the application of the criteria listed above, the following potential component units have been included in the County's reporting entity:

The Orange County Department of Education Facilities Corporation (the Corporation): The financial activity has been blended in the Special Reserve Capital Projects Fund and the Debt Service Fund (Certificate of Participation (COP) fund). Certificates of Participation issued by the Corporation are included in the Statement of Net Position. Individually prepared financial statements are not prepared for the Corporation.

ORANGE COUNTY DEPARTMENT OF EDUCATION

NOTES TO THE FINANCIAL STATEMENTS For the Fiscal Year Ended June 30, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The College and Career Preparatory Academy Charter School (CCPA): The financial activity is recorded in the County School Service Fund. Individually prepared financial statements are not prepared for CCPA.

The Orange County Special Education Alliance (the Alliance): The financial activity is recorded in the County School Service Fund. Separate financial statements for the Alliance may be obtained through the County.

The following potential component unit has been excluded from the County's reporting entity:

Various PTA, PTO and Booster Clubs: Each of these types of organizations at each of the school sites within the County were evaluated using the three criteria listed above. Each entity has been excluded as a component unit because the third criterion was not met in all cases; the economic resources received and held by the PTA, PTO and the Booster Club individually are not significant to the County.

NOTE 2: BUDGETS

By state law, the County governing board must approve a budget no later than July 1, using the Single Adoption Budget process. A public hearing must be conducted to receive comments prior to adoption. The County governing board satisfied these requirements. Budgets for all governmental funds were adopted on a basis consistent with GAAP.

These budgets are revised by the County governing board during the year to give consideration to unanticipated income and expenditures. The original and final revised budget for the County School Service Fund is presented in a budgetary comparison schedule in the required supplementary section.

Formal budgetary integration was employed as a management control device during the year for all budgeted funds. Expenditures cannot legally exceed appropriations by major object account.

NOTE 3: DEPOSITS AND INVESTMENTS

Deposits

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the County's deposits may not be returned to it. The County has established a policy for custodial risk that follows requirements set forth in Education Code 41002.5. As of June 30, 2017, the County's bank balance of \$70,740 was not exposed to credit risk. At June 30, 2017, \$11,568,736 in cash collections were awaiting deposit to the County treasury.

ORANGE COUNTY DEPARTMENT OF EDUCATION

**NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2017**

NOTE 3: DEPOSITS AND INVESTMENTS

Cash in County

In accordance with Education Code Section 41001, the County maintains substantially all of its cash in the Orange County Treasury (the county treasury) as part of the common investment pool. The County is considered an involuntary participant in the investment pool. These pooled funds are recorded at amortized cost which approximates fair value. Fair value of the pooled investments at June 30, 2017 is measured at 99.69% of amortized cost. The County's deposits in the fund are considered to be highly liquid.

The county treasury is authorized to deposit cash and invest excess funds by California Government Code Section 53534, 53601, 53635 and 53648. The county treasury is restricted to invest in time deposits, U.S. government securities, state registered warrants, notes or bonds, State Treasurer's investment pool, bankers' acceptances, commercial paper, negotiable certificates of deposit, and repurchase or reverse repurchase agreements. The funds maintained by the county treasury are either secured by federal depository insurance or are collateralized. The county treasury investment pool is not required to be rated. Interest earned is deposited quarterly into participating funds. Any investment losses are proportionately shared by all funds in the pool.

The county treasury investment pool is not registered as an investment company with the Securities and Exchange Commission (SEC) nor is it an SEC Rule 2a7-like pool. California Government Code statutes and the County Board of Supervisors set forth the various investment policies that the County Treasurer follows. The method used to determine the value of the participant's equity withdrawn is based on the book value, which is amortized cost, of the participant's percentage participation on the date of such withdrawals.

The pool sponsor's annual financial report may be obtained from Orange County Treasurer-Tax Collector Hall of Finance & Records, 625 N. Ross St, Building 11, Room G-76, Santa Ana, CA 92702.

Cash with Fiscal Agent

The County has cash and cash equivalent balances held with fiscal agents related to long-term debt and the self-insurance program. As of June 30, 2017, \$1,871,216 and \$50,640 was held with U.S. Bank and First Republic Bank for the Esplanade Certificates of Participation refunding and for the Esplanade real estate property services, respectively. \$203,720 was held with Alameda County Schools Insurance Group for estimated claims related to the County's self-insured dental program.

ORANGE COUNTY DEPARTMENT OF EDUCATION

**NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2017**

NOTE 3: DEPOSITS AND INVESTMENTS

Investments

Policies

Under provisions of California Government Code Sections 16430, 53601 and 53602 (and County Board Policy Section 500-7), the County may invest in the following types of investments:

- State of California Local Agency Investment Fund (LAIF)
- Orange County Investment Pools (OCIP)
- U.S. Treasury notes, bonds, bills or certificates of indebtedness
- U.S. Government Agency guaranteed instruments
- Fully insured or collateralized certificates of deposit
- Fully insured and collateralized credit union accounts

The County did not violate any provisions of the California Government Code during the year ended June 30, 2017.

NOTE 4: ACCOUNTS RECEIVABLE

Accounts receivable as of June 30, 2017 consists of the amounts presented herein.

	Governmental Funds			Proprietary Fund	Total Governmental Activities
	County School Service Fund	Special Education Pass-Through Fund	Non-Major Governmental Funds	Self-Insurance Fund	
Accounts Receivable					
Federal and state	\$ 9,567,444	\$ 3,872,307	\$ 1,989,992	\$	\$ 15,429,743
Miscellaneous	8,533,676		30,500	3,700	8,567,876
Total accounts receivable	<u>\$ 18,101,120</u>	<u>\$ 3,872,307</u>	<u>\$ 2,020,492</u>	<u>\$ 3,700</u>	<u>\$ 23,997,619</u>

NOTE 5: INTERFUND TRANSACTIONS

Interfund activity has been eliminated in the Government-wide statements. The following balances and transactions are reported in the fund financial statements.

Interfund Receivables/Payables

Individual interfund receivable and payable balances at June 30, 2017 are temporary loans and are presented herein.

ORANGE COUNTY DEPARTMENT OF EDUCATION

**NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2017**

NOTE 5: INTERFUND TRANSACTIONS

Fund	Interfund Receivables	Interfund Payables
County School Service Fund	\$ 1,545,530	\$ 12,287,037
Major Funds:		
Special Education Pass-Through Fund	10,929,364	95,255
Non-Major Governmental Funds:		
Special Revenue Funds:		
Child Development Fund	259,201	1,542,297
Deferred Maintenance Fund	1,026,395	7,350
Special Reserve Fund for Capital Outlay	866,900	800,000
COP Debt Service Fund	800,000	866,900
Internal Service Fund:		
Self-Insurance Fund	171,449	-
Total	\$ 15,598,839	\$ 15,598,839

Interfund Transfers

Interfund transfers consist of operating transfers from funds receiving revenue to funds through which the resources are to be expended.

Interfund transfers for the 2016-17 fiscal year are presented herein.

Transfer from the County School Service Fund to the Child Development Fund to cover excess costs for programs	\$ 116,440
Transfer from the Special Reserve Fund for Capital Outlay Projects to the COP Debt Service Fund for debt service payments	<u>800,000</u>
Total	<u>\$ 916,440</u>

ORANGE COUNTY DEPARTMENT OF EDUCATION

NOTES TO THE FINANCIAL STATEMENTS

For the Fiscal Year Ended June 30, 2017

NOTE 6: CAPITAL ASSETS AND DEPRECIATION – SCHEDULE OF CHANGES

Capital asset activity for the year ended June 30, 2017 is presented herein.

	Balance July 1, 2016	Additions	Retirements	Balance June 30, 2017
Capital assets not being depreciated:				
Land	\$ 28,641,315	\$	\$	\$ 28,641,315
Construction in progress	5,023,287	31,695	3,190,071	1,864,911
Total capital assets not being depreciated	<u>33,664,602</u>	<u>31,695</u>	<u>3,190,071</u>	<u>30,506,226</u>
Capital assets being depreciated:				
Land improvements	4,511,925			4,511,925
Buildings and improvements	78,419,513	3,190,071	71,071	81,538,513
Furniture and equipment	13,466,861	1,027,735	1,753,119	12,741,477
Total capital assets being depreciated	<u>96,398,299</u>	<u>4,217,806</u>	<u>1,824,190</u>	<u>98,791,915</u>
Less accumulated depreciation for:				
Land improvements	2,791,032	186,917		2,977,949
Buildings and improvements	24,731,030	1,801,000		26,532,030
Furniture and equipment	9,616,220	958,314	1,476,081	9,098,453
Total accumulated depreciation	<u>37,138,282</u>	<u>2,946,231</u>	<u>1,476,081</u>	<u>38,608,432</u>
Depreciable assets, net	<u>59,260,017</u>	<u>1,271,575</u>	<u>348,109</u>	<u>60,183,483</u>
Governmental activities capital assets, net	<u>\$ 92,924,619</u>	<u>\$ 1,303,270</u>	<u>\$ 3,538,180</u>	<u>\$ 90,689,709</u>

ORANGE COUNTY DEPARTMENT OF EDUCATION

**NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2017**

NOTE 7: FUND BALANCES

The following amounts for nonspendable, restricted, committed, assigned or unassigned are presented herein.

	County School Service Fund	Special Education Pass-Through Fund	Non-Major Governmental Funds	Total Governmental Funds
Nonspendable:				
Cash in revolving fund	\$ 70,000	\$	\$	\$ 70,000
Prepaid expenditures	<u>10,667</u>	<u> </u>	<u> </u>	<u>10,667</u>
Total nonspendable	<u>80,667</u>	<u>-</u>	<u>-</u>	<u>80,667</u>
Restricted:				
Legally restricted programs	45,938,807	12,823,690		58,762,497
Capital projects			7,117,798	7,117,798
Debt service			1,503,842	1,503,842
Total restricted	<u>45,938,807</u>	<u>12,823,690</u>	<u>8,621,640</u>	<u>67,384,137</u>
Committed:				
Deferred maintenance program			<u>25,146,402</u>	<u>25,146,402</u>
Total committed	<u>-</u>	<u>-</u>	<u>25,146,402</u>	<u>25,146,402</u>
Assigned:				
Special Reserve Fund for Other Than Capital Outlay Projects - OPEB	4,274,297			4,274,297
ACCESS Program	28,748,436			28,748,436
Mandated costs	10,781,737			10,781,737
Workshops and contracts	1,182,030			1,182,030
Various program balances	3,624,562			3,624,562
Technology projects	4,161,675			4,161,675
Other assignments	19,800,643			19,800,643
Total assigned	<u>72,573,380</u>	<u>-</u>	<u>-</u>	<u>72,573,380</u>
Unassigned:				
Economic uncertainties	46,919,554			46,919,554
Unassigned	<u>20,314,321</u>	<u> </u>	<u> </u>	<u>20,314,321</u>
Total unassigned	<u>67,233,875</u>	<u>-</u>	<u>-</u>	<u>67,233,875</u>
Total fund balance	<u>\$ 185,826,729</u>	<u>\$ 12,823,690</u>	<u>\$ 33,768,042</u>	<u>\$ 232,418,461</u>

ORANGE COUNTY DEPARTMENT OF EDUCATION

**NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2017**

NOTE 8: LONG-TERM DEBT – SCHEDULE OF CHANGES

A schedule of changes in long-term debt for the year ended June 30, 2017 is presented herein.

	Balance July 1, 2016	Additions	Reductions	Balance June 30, 2017	Amount Due in One Year
Certificates of participation	\$ 13,340,000	\$	\$ 400,000	\$ 12,940,000	\$ 410,000
Unamortized discount	(96,000)		(6,000)	(90,000)	
Compensated absences	1,785,757	93,523		1,879,280	
Net pension liability	135,964,162	28,622,313		164,586,475	
Postemployment benefits					
Other than pension (OPEB)	4,274,297			4,274,297	
Total	<u>\$ 155,268,216</u>	<u>\$ 28,715,836</u>	<u>\$ 394,000</u>	<u>\$ 183,590,052</u>	<u>\$ 410,000</u>

Liabilities for the certificates of participation are liquidated by the COP Debt Service Fund. The compensated absences liability and contributions for net pension liability payments are made by the fund for which the employee worked. Payments for OPEB obligations are made by the County School Service Fund.

NOTE 9: LEASES

Operating Leases

The County has entered into various operating leases for land, 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 presented herein.

Year Ending June 30,	Lease Payment
2018	\$ 2,907,959
2019	2,315,765
2020	1,641,231
2021	1,119,349
2022	139,106
Total	<u>\$ 8,123,410</u>

Current year expenditures for operating leases total approximately \$5,800,000. The County will receive no sublease rental revenues nor pay any contingent rentals for these properties.

ORANGE COUNTY DEPARTMENT OF EDUCATION

**NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2017**

NOTE 9: LEASES

Lease Revenue

The County has property held for lease with a combined cost of land and buildings of approximately \$17 million and accumulated depreciation of approximately \$2 million. Lease agreements have been entered into with various lessees, including internal County programs, 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 lessees, but is unlikely that the County will cancel any of these agreements prior to their expiration date.

<u>Year Ending June 30,</u>	<u>Lease Payment</u>
2018	\$ 2,055,413
2019	1,224,935
2020	293,180
2021	177,275
2022	159,413
Total	<u>\$ 3,910,216</u>

NOTE 10: CERTIFICATES OF PARTICIPATION

The agreement dated February 1, 2012, is between the County as the "lessee" and the Orange County Department of Education Facilities Corporation (the Corporation) as the "lessor" or "corporation". The Corporation is a legally separate entity which was formed for the sole purpose of the acquisition of the Esplanade building project and then leasing such items to the County.

The Corporation's funds for acquiring these items were generated by the issuance of \$20,000,000 of Certificates of Participation (COPs). In February 2012, the COPS were restructured as a private issue in the amount of \$16,200,000 with an interest rate of 3%. In 2015-16, the County exercised a prepayment option of \$1,500,000 built into the 2012 restructuring.

Lease payments are required to be made by the County under the lease agreement on each June 1 and December 1 for use and possession of the equipment for the period commencing June 1, 2012 and terminating June 1, 2032. Lease payments will be funded in part from the proceeds of the Certificates. Interest rates range from 3% to 3.5% for the length of the issuance.

The lease requires that lease payments be deposited in the lease payment fund maintained by the trustee. Any amount held in the lease payment fund will be credited towards the lease payment due and payable. The trustee will pay from the lease payment fund the required principal and interest payments.

ORANGE COUNTY DEPARTMENT OF EDUCATION

NOTES TO THE FINANCIAL STATEMENTS

For the Fiscal Year Ended June 30, 2017

NOTE 10: CERTIFICATES OF PARTICIPATION

Year Ending June 30,	Principal	Interest	Total Payments
2018	\$ 410,000	\$ 390,300	\$ 800,300
2019	450,000	378,000	828,000
2020	500,000	364,500	864,500
2021	560,000	349,500	909,500
2022	620,000	332,700	952,700
2023-2027	4,130,000	1,345,200	5,475,200
2028-2032	6,270,000	514,700	6,784,700
Total	<u>\$ 12,940,000</u>	<u>\$ 3,674,900</u>	<u>\$ 16,614,900</u>

Debt in excess of proceeds received is deducted from the maturity amount and amortized to interest expense over the life of the debt. The COPS included a total discount of \$180,000. This amount is amortized using the straight-line method. Amortization of \$6,000 was recognized during the 2016-17 year.

NOTE 11: POST EMPLOYMENT HEALTHCARE BENEFITS

Plan Description and Eligibility

The County administers a single-employer defined benefit healthcare plan (the Retiree Health Plan). The plan provides medical and dental benefits to eligible Certificated, Classified and Management employees and their spouses. Retirees have the option to purchase benefits for a length of time of their choosing. Benefits are provided to Certificated employees who have reached age 55 and retire with at least 10 years of service and to Classified and Management employees who have reached age 50 and retire with at least 5 years of service. Benefit provisions are established through negotiations between the County and the bargaining unions representing employees. The Retiree Health Plan does not issue a separate financial report.

Funding Policy

The obligation is financed on a pay-as-you-go basis. The retirees pay the cost of current year premiums for eligible retired plan members and their spouses as applicable. For the year ended June 30, 2017, the retirees paid \$160,506 to the plan for current year premiums.

Annual OPEB Cost and Net OPEB Obligation

The annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The table herein

ORANGE COUNTY DEPARTMENT OF EDUCATION

**NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2017**

NOTE 11: POST EMPLOYMENT HEALTHCARE BENEFITS

shows the components of the annual OPEB cost for the year, the amount actually contributed, and changes in the OPEB obligation:

	Balance
	June 30, 2017
<u>Annual OPEB Cost and Net OPEB Obligation</u>	
Annual required contribution (ARC)	\$ 491,190
Interest on net OPEB obligation	192,343
Adjustment to ARC	<u>(211,076)</u>
Annual OPEB cost	<u>\$ 472,457</u>
Net OPEB obligation - beginning of year	\$ 4,274,297
Change in net OPEB obligation	<u>-</u>
Net OPEB obligation - end of year	<u>\$ 4,274,297</u>

The annual OPEB cost for the year, the percentage of annual OPEB cost contributed, and the net OPEB obligation for fiscal year ended 2017 are presented herein.

Year Ending June 30,	Annual		Percentage of	Net OPEB Obligation
	OPEB Cost	Actual Contribution	Annual OPEB Cost Contributed	
2015	\$ 501,258	\$ -	0.0%	\$ 4,135,596
2016	656,312	-	0.0%	4,274,297
2017	472,457	-	0.0%	4,274,297

Funding Status and Funding Progress

As of March 1, 2016, the most recent actuarial valuation date, the plan was unfunded. The actuarial accrued liability for benefits as well as the unfunded actuarial accrued liability (UAAL) was \$4,726,752. There was no covered payroll as employees enroll at date of retirement and pay benefits month-to-month as long as they wish to retain benefits. Currently, the County is using the pay-as-you-go method to fund the existing fiscal year payments. Although the plan has no segregated assets, \$4,274,297 has been set aside for retiree health care costs in the Special Reserve for Other than Capital Outlay at June 30, 2017.

Actuarial valuations of an ongoing benefit plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared

ORANGE COUNTY DEPARTMENT OF EDUCATION

**NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2017**

NOTE 11: POST EMPLOYMENT HEALTHCARE BENEFITS

with past expectations and new estimates are made about the future. The schedule of postemployment healthcare benefits funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets, if any, is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, if any, consistent with the long-term perspective of the calculations.

In the March 1, 2016 actuarial valuation, the entry age normal cost method was used. The actuarial assumptions included a 4.5 percent investment rate of return and an annual healthcare cost trend rate of 4 percent. Both rates include a 2.75 percent inflation assumption. There were no plan assets on the valuation date. The UAAL is being amortized as a level dollar of projected payroll on a closed basis over 30 years for the initial UAAL and on an open basis over 26 years for any residual UAAL.

NOTE 12: EMPLOYEE RETIREMENT PLANS

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

As of June 30, 2017, the County's proportionate share of the net pension liabilities, pension expense, and deferred inflows of resources and deferred outflows of resources for each of the retirement plans as follows:

Pension Plan	Net Pension Liability	Deferred Outflows of Resources	Deferred Inflows of Resources	Pension Expense
CalSTRS (STRP)	\$ 76,836,950	\$ 12,139,147	\$ 11,219,411	\$ 5,748,211
CalPERS (Schools Pool Plan)	87,749,525	25,004,052	6,794,159	8,875,478
Total	\$ 164,586,475	\$ 37,143,199	\$ 18,013,570	\$ 14,623,689

The details of each plan are presented herein.

ORANGE COUNTY DEPARTMENT OF EDUCATION

NOTES TO THE FINANCIAL STATEMENTS

For the Fiscal Year Ended June 30, 2017

NOTE 12: EMPLOYEE RETIREMENT PLANS

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.

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 to the STRP Defined Benefit Program and STRP Defined Benefit Supplement Program, thus disclosures are not included for the other plans.

The STRP provisions and benefits in effect at June 30, 2017, are summarized herein.

ORANGE COUNTY DEPARTMENT OF EDUCATION

**NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2017**

NOTE 12: EMPLOYEE RETIREMENT PLANS

Provisions and Benefits	CalSTRS-STRP Defined Benefit Program and Supplement Program	
	On or Before December 31, 2012	On or after January 1, 2013
Hire date	On or Before December 31, 2012	On or after January 1, 2013
Benefit formula	2% at 60	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	60	62
Monthly benefits as a percentage of eligible compensation	2.0%-2.4%	2.0%-2.4%
Required employee contribution rate	10.25%	9.21%
Required employer contribution rate	12.58%	12.58%
Required state contribution rate	8.828%	8.828%

Contributions

Required member, County and State of California contribution 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. The contribution rates for each plan for the year ended June 30, 2017 are presented above and the total County contributions were \$6,030,647.

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

At June 30, 2017, 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:

Proportionate Share of Net Pension Liability	Balance June 30, 2017
County proportionate share of net pension liability	\$ 76,836,950
State's proportionate share of the net pension liability associated with the County	43,748,345
Total	<u>\$ 120,585,295</u>

The net pension liability was measured as of June 30, 2016. 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 districts and the State, actuarially determined. At June 30, 2016, the County's proportion was 0.0950%.

For the year ended June 30, 2017, the County recognized pension expense of \$5,748,211 and revenue of \$4,228,738 for support provided by the state. At June 30, 2017, the County reported deferred outflows of resources and deferred inflows of resources related to pensions from the sources presented herein.

ORANGE COUNTY DEPARTMENT OF EDUCATION

**NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2017**

NOTE 12: EMPLOYEE RETIREMENT PLANS

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension Deferred Outflows and Inflows of Resources		
Pension contributions subsequent to measurement date	\$ 6,030,647	\$
Effect of changes in proportion		9,345,061
Net differences between expected and actual experience		1,874,350
Net differences between projected and actual earnings on plan investments	6,108,500	
Total	\$ 12,139,147	\$ 11,219,411

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 year ended June 30, 2018. The net difference between projected and actual earnings on plan investments is amortized over a five year period on a straight-line basis. One-fifth is recognized in pension expense during the measurement period and the remaining amount is deferred and will be amortized over the remaining four-year period. The remaining net differences between projected and actual earnings on plan investments shown above represents the unamortized balance relating to the current measurement period and the prior measurement period on a net basis.

All other deferred inflows of resources and deferred outflows of resources are amortized over the expected average remaining service life (EARSL) of the plan participants. The EARSL for the STRP for the June 30, 2016 measurement date is 7 years. The first year of amortization is recognized in pension expense for the year the gain or loss occurs. The remaining amounts are deferred and will be amortized over the remaining periods not to exceed 6 years.

The remaining amount will be recognized as a reduction in pension expense as presented herein.

Year Ending June 30,	Amortization
2018	\$ (464,156)
2019	(464,156)
2020	(464,156)
2021	(464,156)
2022	(1,991,281)
2023	(1,263,006)
Total	\$ (5,110,911)

Actuarial Methods and Assumptions

Total pension liability for STRP was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2015, and rolling forward the total pension liability to June 30, 2016. The financial reporting actuarial valuation as of June 30, 2015 used the methods and assumptions presented herein, applied to all prior periods included in the measurement.

ORANGE COUNTY DEPARTMENT OF EDUCATION

**NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2017**

NOTE 12: EMPLOYEE RETIREMENT PLANS

Actuarial Methods and Assumptions

Valuation Date	June 30, 2015
Measurement Date	June 30, 2016
Experience Study	July 1, 2006 through June 30, 2010
Actuarial Cost Method	Entry Age Normal
Discount Rate	7.60%
Investment Rate of Return	7.60%
Consumer Price Inflation	3.00%
Wage Growth	3.75%

CalSTRS uses custom mortality tables to best fit the patterns of mortality among its members. These custom tables are based on RP2000 series tables adjusted to fit CalSTRS experience.

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. Based on the model for CalSTRS consulting actuary's investment practice, a best estimate range was determined by assuming the portfolio is re-balanced annually and that the annual returns are lognormally distributed and independent from year to year to develop an expected percentiles for the long-term distribution of annualized returns. The assumed asset allocation is based on board policy for target asset allocation in effect on February 2, 2012, the date the current experience study was approved by the board. Best estimates of 20-year geometric real rates of return and the assumed asset allocation for each major asset class used as input to develop the actuarial investment rate of return are summarized herein.

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

Discount Rate

The discount rate used to measure the total pension liability was 7.60%. 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 (7.60%) and

ORANGE COUNTY DEPARTMENT OF EDUCATION

NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2017

NOTE 12: EMPLOYEE RETIREMENT PLANS

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.

Presented herein is 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 (6.60%)	\$ 110,585,700
Current discount rate (7.60%)	76,836,950
1% increase (8.60%)	48,807,200

Plan Fiduciary Net Position

Detailed information about the STRP's plan fiduciary net position is available in a separate comprehensive annual financial report for CalSTRS. Copies of the CalSTRS annual financial report may be obtained from CalSTRS, 7667 Folsom Boulevard, Sacramento, CA 95826.

California Public Employees Retirement System (CalPERS)

Plan Description

Qualified employees are eligible to participate in the Schools Pool Plan under the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by state statutes, as legislatively amended, within the Public Employees' Retirement Law.

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.

ORANGE COUNTY DEPARTMENT OF EDUCATION

**NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2017**

NOTE 12: EMPLOYEE RETIREMENT PLANS

All members are eligible for non-duty disability benefits after 5 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 5 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, 2017, are summarized herein.

Provisions and Benefits	CalPERS-Schools Pool Plan	
	On or Before December 31, 2012	On or after January 1, 2013
Hire date	On or Before December 31, 2012	On or after January 1, 2013
Benefit formula	2% at 55	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	55	62
Monthly benefits as a percentage of eligible compensation	1.1%-2.5%	1.0%-2.5%
Required employee contribution rate	6.974%	6.000%
Required employer contribution rate	13.888%	13.888%

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 determined 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, 2017 are as presented above and the total County contributions were \$7,614,077.

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

As of June 30, 2017, the County reported net pension liabilities for its proportionate share of the CalPERS net pension liability totaling \$87,749,525. The net pension liability was measured as of June 30, 2016. The total pension liability for CalPERS was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2015 and rolling forward the total pension liability to June 30, 2016. 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

ORANGE COUNTY DEPARTMENT OF EDUCATION

**NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2017**

NOTE 12: EMPLOYEE RETIREMENT PLANS

relative to the projected contributions of all participating school districts, actuarially determined. At June 30, 2016, the County's proportion was 0.4443%.

For the year ended June 30, 2017, the County recognized pension expense of \$8,875,478. At June 30, 2017, the County reported deferred outflows of resources and deferred inflows of resources related to pensions from the sources herein.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension Deferred Outflows and Inflows of Resources		
Pension contributions subsequent to measurement date	\$ 7,614,077	\$
Effect of changes in proportion		4,157,808
Effect of changes in assumptions		2,636,351
Net differences between expected and actual experience	3,774,070	
Net differences between projected and actual earnings on plan investments	13,615,905	
Total	\$ 25,004,052	\$ 6,794,159

The deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. The net difference between projected and actual earnings on plan investments is amortized over a five year period on a straight-line basis. One-fifth is recognized in pension expense during the measurement period and the remaining amount is deferred and will be amortized over the remaining four-year period. The remaining net differences between projected and actual earnings on plan investments shown above represents the unamortized balance relating to the current measurement period and the prior measurement period on a net basis.

All other deferred inflows of resources and deferred outflows of resources are amortized over the expected average remaining service life (EARSL) of the plan participants. The EARSL for the CalPERS Plan for the June 30, 2016 measurement date is 3.9 years. The first year of amortization is recognized in pension expense for the year the gain or loss occurs. The remaining amounts are deferred and will be amortized over the remaining periods not to exceed 2.9 years.

The remaining amount will be recognized to pension expense as presented herein.

Year Ending June 30,	Amortization
2017	\$ (144,312)
2018	643,129
2019	6,543,368
2020	3,553,631
Total	\$ 10,595,816

ORANGE COUNTY DEPARTMENT OF EDUCATION

NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2017

NOTE 12: EMPLOYEE RETIREMENT PLANS

Actuarial Methods and Assumptions

Total pension liability for the School Employer Pool was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2015, and rolling forward the total pension liability to June 30, 2016. The financial reporting actuarial valuation as of June 30, 2015 used the following methods and assumptions, applied to all prior periods included in the measurement:

Actuarial Methods and Assumptions

Valuation Date	June 30, 2015
Measurement Date	June 30, 2016
Experience Study	July 1, 1997 through June 30, 2011
Actuarial Cost Method	Entry Age Normal
Discount Rate	7.65%
Investment Rate of Return	7.50%
Consumer Price Inflation	2.75%
Wage Growth	3.00%

Mortality assumptions are based on CalPERS specific membership data and mortality rates resulting from the most recent CalPERS experience study adopted by the CalPERS Board. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB.

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 10 years) and the long-term (11-60 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 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 equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized herein.

ORANGE COUNTY DEPARTMENT OF EDUCATION

**NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2017**

NOTE 12: EMPLOYEE RETIREMENT PLANS

Asset Class	Assumed Asset Allocation	Long-term Expected Real Rate of Return
Global equity	51%	5.71%
Global debt securities	20%	2.43%
Inflation assets	6%	3.36%
Private equity	10%	6.95%
Real estate	10%	5.13%
Infrastructure and forestland	2%	5.09%
Liquidity	1%	-1.05%

Discount Rate

The discount rate used to measure the total pension liability was 7.65%. 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.

Presented herein is 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 (6.65%)	\$ 130,922,780
Current discount rate (7.65%)	87,749,525
1% increase (8.65%)	51,799,294

Plan Fiduciary Net Position

Detailed information about CalPERS School Employer plan fiduciary net position is available in a separate comprehensive annual financial report. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, CA 95814.

NOTE 13: INTERNAL SERVICE FUND

The Dental Program, for which the County retains risk of loss, is administered by the Self-Insurance Fund.

ORANGE COUNTY DEPARTMENT OF EDUCATION

**NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2017**

NOTE 13: INTERNAL SERVICE FUND

At June 30, 2017, the County accrued the claims liability in accordance with GAAP which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Changes in the reported liability are presented herein.

Reported Liability	Beginning Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claim Payments	Ending Fiscal Year Liability
Dental Program	\$ 273,126	\$ 1,635,015	\$ 1,564,949	\$ 343,192

NOTE 14: JOINT POWERS AGREEMENTS

The County participates in three joint powers agreement (JPA) entities, the Western Orange County Self-Funded Workers' Compensation Agency (WOCSWCA), the Southern Orange County Property/Liability Joint Powers Authority (SOCPJPA), and the Schools Excess Liability Fund (SELF).

WOCSWCA arranges for and provides workers' compensation insurance for its members. SOCPJPA arranges for and provides property and liability insurance for its members. SELF arranges for and provides excess liability and workers' compensation coverage for all members. The County pays an annual premium to each JPA commensurate with the level of coverage requested.

Each JPA is governed by a board consisting of a representative from each member district. Each governing board controls the operations of its JPA independent of any influence by the Orange County Department of Education beyond the County's representation on the governing boards.

Each JPA is independently accountable for its fiscal matters. Budgets are not subject to any approval other than that of the respective governing boards. Member districts share surpluses and deficits proportionately to their participation in the JPA. Separate financial statements for each JPA may be obtained from the respective entity.

The relationships between the County and the JPAs are such that neither JPA is a component unit of the County for financial reporting purposes.

Condensed financial information for the year ended June 30, 2017 is presented herein.

ORANGE COUNTY DEPARTMENT OF EDUCATION

NOTES TO THE FINANCIAL STATEMENTS

For the Fiscal Year Ended June 30, 2017

NOTE 14: JOINT POWERS AGREEMENTS

	WOCSSWCA 6/30/16 (Audited)	SOCPPJA 6/30/17 (Audited)	SELF 6/30/17 (Audited)
<u>JPA Condensed Financial Information</u>			
Total assets and deferred outflows	\$ 20,109,813	\$ 1,124,149	\$ 126,580,131
Total liabilities and deferred inflows	<u>11,947,971</u>	<u>89,405</u>	<u>104,151,104</u>
Net position	<u>\$ 8,161,842</u>	<u>\$ 1,034,744</u>	<u>\$ 22,429,027</u>
Total revenues	\$ 4,447,650	\$ 17,873	\$ 14,247,212
Total expenditures	<u>2,566,133</u>	<u>145,699</u>	<u>13,352,806</u>
Net change in net position	<u>\$ 1,881,517</u>	<u>\$ (127,826)</u>	<u>\$ 894,406</u>

NOTE 15: RISK MANAGEMENT

The County is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; life and health of employees; and natural disasters. The County purchases commercial insurance for property damage with coverage up to a maximum of \$300 million, subject to various policy sublimits generally ranging from \$1 million to \$50 million and deductibles ranging from \$25,000 to \$300,000 per occurrence. The County also purchases commercial insurance for general liability claims with coverage up to \$1 million per occurrence and \$2 million aggregate, with excess liability coverage over \$25 million, all subject to various deductibles up to \$20,000 per occurrence and per employee policy limit, subject to a deductible of \$100,000 per occurrence per claim up to a maximum of \$1.5 million for 2017.

The County's risk management activities are recorded in the County School Service and Self-Insurance Funds. Employee life, health and disability programs are administered by the County School Service Fund through the purchase of commercial insurance. The County provides health insurance benefits to County employees electing to participate in the plan by paying a monthly premium based on the number of County employees participating in the plan. The County administers a dental program through their dental self-insurance fund described in Note 13.

The County participates in a JPA to provide excess insurance coverage above the self-insured retention level for worker's compensation and property and liability claims as described in Note 14. Settled claims have not exceeded the coverage provided by the JPA in any of the past three fiscal years.

NOTE 16: COMMITMENTS AND CONTINGENCIES

Litigation

From time to time the County becomes involved in claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these

ORANGE COUNTY DEPARTMENT OF EDUCATION

NOTES TO THE FINANCIAL STATEMENTS For the Fiscal Year Ended June 30, 2017

NOTE 16: COMMITMENTS AND CONTINGENCIES

matters will not have a material adverse effect on the County's financial statements. The County is currently involved in a case with the Orange County Employees Retirement System (OCERS); OCERS is seeking to retroactively obtain an allegedly unpaid unfunded actuarial accrued liability (UAAL) estimated by OCERS to be \$3.28 million. Orange County Department of Education (OCDE) employees that began their employment on or after July 1, 1977 are not covered by OCERS. As of this date, OCDE became a separate independent agency. Because the case is in the appeals process, the probability of a favorable outcome cannot be estimated. The County is currently making payments on a pay-as-you go basis, as directed, which will reduce the UAAL estimate indicated above over time.

State and Federal Allowances, Awards, and Grants

The County has received state and federal funds for specific purposes, including reimbursement of mandated costs, which are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowances under terms of the grants, it is believed that any required reimbursement will not be material

County School Facilities Fund

From time to time, the County is involved in construction and modernization projects funded through the Office of Public School Construction. These projects are subject to future audits by the State, which may result in other adjustments to the fund.

NOTE 17: GOVERNMENTAL ACCOUNTING STANDARDS BOARD STATEMENTS ISSUED, NOT YET EFFECTIVE

Statement No. 75 – Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions

This statement was issued in June 2015 and establishes standards for governmental employer recognition, measurement, and presentation of information about OPEB. The statement also establishes requirements for reporting information about financial support provided by certain non-employer entities for OPEB that is provided to the employees of other entities. This statement is closely related in some areas to Statement No. 74. The statement is effective for the fiscal year 2017-18.

Statement No. 81 – Irrevocable Split-Interest Agreements

This statement was issued in March 2016 and establishes guidance in order to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of

ORANGE COUNTY DEPARTMENT OF EDUCATION

NOTES TO THE FINANCIAL STATEMENTS

For the Fiscal Year Ended June 30, 2017

**NOTE 17: GOVERNMENTAL ACCOUNTING STANDARDS BOARD STATEMENTS
ISSUED, NOT YET EFFECTIVE**

the agreement. This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period. The statement is effective for the fiscal year 2017-18.

Statement No. 83 – Certain Asset Retirement Obligations

This statement was issued in November 2016 and addresses accounting and financial reporting for certain asset retirement obligations when a legally enforceable liability is associated with the retirement of a tangible capital asset. The statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources. The statement is effective for the fiscal year 2018-19.

Statement No. 84 – Fiduciary Activities

This statement was issued in January 2017. The objective of the statement is to improve guidance regarding the recognition of fiduciary activities for accounting and financial reporting purposes by establishing criteria for identifying fiduciary activities of all state and local governments. The statement is effective for the fiscal year 2019-20.

Statement No. 85 – Omnibus 2017

This statement was issued in March 2017. The objective of the statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. Specific topics addressed in this statement are related to blended component units, goodwill, fair value measurement and application, and postemployment benefits (OPEB). The statement is effective for the fiscal year 2017-18.

Statement No. 86 – Certain Debt Extinguishment Issues

This statement was issued in May 2017 and addresses accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources – resource other than the proceeds of refunding debt – are placed in an irrevocable trust for the sole purpose of extinguishing debt. This statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The statement is effective for the fiscal year 2017-18.

ORANGE COUNTY DEPARTMENT OF EDUCATION

**NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2017**

**NOTE 17: GOVERNMENTAL ACCOUNTING STANDARDS BOARD STATEMENTS
ISSUED, NOT YET EFFECTIVE**

Statement No. 87 – *Leases*

This statement was issued in June 2017 and addresses accounting and financial reporting for leases by governments. This statement requires 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, 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. The statement is effective for the fiscal year 2020-21.

REQUIRED SUPPLEMENTARY INFORMATION

ORANGE COUNTY DEPARTMENT OF EDUCATION

**SCHEDULE OF BUDGETARY COMPARISON FOR THE COUNTY SCHOOL
SERVICE FUND**

For the Fiscal Year Ended June 30, 2017

	Budgetary Amounts - County			Fund Basis to GAAP (a)	Actual Amounts
	School Service Fund		Actual Amounts		
	Original	Final	County School Service Fund	GAAP Basis	
Revenues					
Local control funding formula sources	\$ 80,496,005	\$ 90,698,412	\$ 91,305,432	\$	\$ 91,305,432
Federal sources	23,423,993	18,137,368	22,647,125		22,647,125
Other state sources	10,657,047	42,168,146	39,079,392		39,079,392
Other local sources	83,542,765	84,666,299	85,541,611	192,626	85,734,237
Total Revenues	<u>198,119,810</u>	<u>235,670,225</u>	<u>238,573,560</u>	<u>192,626</u>	<u>238,766,186</u>
Expenditures					
Certificated salaries	53,218,153	53,760,612	53,130,341		53,130,341
Classified salaries	50,575,959	54,784,911	54,180,358		54,180,358
Employee benefits	38,714,082	43,524,041	42,469,464		42,469,464
Books and supplies	9,180,630	7,815,087	6,623,786		6,623,786
Contracted services	30,796,291	40,664,459	37,014,902		37,014,902
Capital outlay	1,563,607	1,046,047	994,944		994,944
Other Outgo	11,383,379	11,987,392	14,285,723		14,285,723
Debt Service	22,524	22,524	26,969		26,969
Direct support - indirect cost	(1,219,913)	(1,780,517)	(1,796,037)		(1,796,037)
Total Expenditures	<u>194,234,712</u>	<u>211,824,556</u>	<u>206,930,450</u>	<u>-</u>	<u>206,930,450</u>
Excess of revenues over expenditures	<u>3,885,098</u>	<u>23,845,669</u>	<u>31,643,110</u>	<u>192,626</u>	<u>31,835,736</u>
Other Financing Sources (Uses)					
Interfund transfers in				-	-
Interfund transfers out	(1,672,105)	(1,172,491)	(116,440)	-	(116,440)
Total Other Financing Sources (Uses)	<u>(1,672,105)</u>	<u>(1,172,491)</u>	<u>(116,440)</u>	<u>-</u>	<u>(116,440)</u>
Net change in fund balances	<u>\$ 2,212,993</u>	<u>\$ 22,673,178</u>	<u>\$ 31,526,670</u>	<u>\$ 192,626</u>	31,719,296
Fund Balance - Beginning of Year					<u>154,107,433</u>
Fund Balance - End of Year					<u>\$185,826,729</u>

(a) Amounts presented are the result of the County including activity of the Special Reserve for Other Than Capital Outlay Fund. (See Note 1)

See the accompanying notes to the required supplementary information.

ORANGE COUNTY DEPARTMENT OF EDUCATION

**SCHEDULE OF BUDGETARY COMPARISON FOR THE SPECIAL EDUCATION
PASS-THROUGH FUND
For the Fiscal Year Ended June 30, 2017**

	Budgetary Amounts		Actual
	Original	Final	Amounts GAAP Basis
Revenues			
Local control funding formula sources	\$ 24,641,241	\$ 29,422,431	\$ 29,552,129
Federal sources	7,453,472	7,565,016	7,580,999
Other state sources	3,136,738	3,179,918	3,250,224
Other local sources	1,235,471	1,263,291	1,269,609
Total Revenues	<u>36,466,922</u>	<u>41,430,656</u>	<u>41,652,961</u>
Expenditures			
Other outgo	36,196,637	39,720,282	39,199,684
Total Expenditures	<u>36,196,637</u>	<u>39,720,282</u>	<u>39,199,684</u>
Net change in fund balances	<u>\$ 270,285</u>	<u>\$ 1,710,374</u>	2,453,277
Fund Balance - Beginning of Year			<u>10,370,413</u>
Fund Balance - End of Year			<u>\$ 12,823,690</u>

See the accompanying notes to the required supplementary information.

ORANGE COUNTY DEPARTMENT OF EDUCATION
SCHEDULE OF POSTEMPLOYMENT HEALTHCARE
BENEFITS FUNDING PROGRESS
For the Fiscal Year Ended June 30, 2017

Actuarial Valuation Date	Actuarial Value of Assets (AVA)	Actuarial Accrued Liability (Unit Credit Cost Method) (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funding Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
3/1/2012	\$ -	\$ 4,691,739	\$ 4,691,739	0%	N/A*	N/A*
3/1/2014	-	4,135,596	4,135,596	0%	N/A*	N/A*
3/1/2016	-	4,274,297	4,274,297	0%	N/A*	N/A*

Although the plan has no segregated assets, \$4,274,297 has been set aside for retiree health care costs in the Special Reserve Fund for Other Than Capital Outlay at June 30, 2017.

*Employees are not automatically enrolled for benefits. They enroll at date of retirement and pay monthly for the length of time they wish to retain benefits; therefore, covered payroll is not applicable to the disclosure for the plan.

See the accompanying notes to the required supplementary information.

ORANGE COUNTY DEPARTMENT OF EDUCATION

**SCHEDULE OF THE COUNTY'S PROPORTIONATE
SHARE OF THE NET PENSION LIABILITY
For the Fiscal Year Ended June 30, 2017**

State Teachers' Retirement Plan	2015	2016	2017
County's proportionate share of the net pension liability (assets)	0.1110%	0.1040%	0.0950%
County's proportionate share of the net pension liability	\$ 64,865,070	\$ 70,016,960	\$ 76,836,950
State's proportionate share of the net pension liability (asset) associated with the County	<u>39,168,723</u>	<u>37,031,154</u>	<u>43,748,345</u>
Total	<u>\$ 104,033,793</u>	<u>\$ 107,048,114</u>	<u>\$ 120,585,295</u>
County's covered payroll	\$ 49,181,000	\$ 47,996,000	\$ 48,203,000
County's proportion of the net pension liability (asset) as a percentage of its covered payroll	131.89%	145.88%	159.40%
Plan fiduciary net position as a percentage of the total pension liability	77.00%	74.02%	70.04%
California Public Employees' Retirement Plan	2015	2016	2017
County's proportion of the net pension liability (assets)	0.4904%	0.4474%	0.4443%
County's proportionate share of the net pension liability	<u>\$ 55,672,340</u>	<u>\$ 65,947,202</u>	<u>\$ 87,749,525</u>
County's covered payroll	\$ 49,734,000	\$ 49,525,000	\$ 53,475,000
County's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	111.94%	133.16%	164.09%
Plan fiduciary net position as a percentage of the total pension liability	83.37%	79.40%	73.90%

Note: Accounting standards require presentation of 10 years of information. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule as future data becomes available.

The amounts for covered payroll are reported as of the previous fiscal year to align with the measurement date of the net pension liability.

See the accompanying notes to the required supplementary information.

ORANGE COUNTY DEPARTMENT OF EDUCATION
SCHEDULE OF COUNTY PENSION CONTRIBUTIONS
For the Fiscal Year Ended June 30, 2017

State Teachers' Retirement Plan	2015	2016	2017
Contractually required contribution	\$ 4,262,028	\$ 5,172,158	\$ 6,030,647
Contributions in relation to the contractually required contribution	<u>4,262,028</u>	<u>5,172,158</u>	<u>6,030,647</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
County's covered payroll	\$ 47,996,000	\$ 48,203,000	\$ 47,938,000
Contributions as a percentage of covered payroll	8.88%	10.73%	12.58%
California Public Employees' Retirement Plan	2015	2016	2017
Contractually required contribution	\$ 5,829,589	\$ 6,335,210	\$ 7,614,077
Contributions in relation to the contractually required contribution	<u>5,829,589</u>	<u>6,335,210</u>	<u>7,614,077</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
County's covered payroll	\$ 49,525,000	\$ 53,475,000	\$ 54,825,000
Contributions as a percentage of covered payroll	11.77%	11.85%	13.89%

Note: Accounting standards require presentation of 10 years of information. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule as future data becomes available.

See the accompanying notes to the required supplementary information.

ORANGE COUNTY DEPARTMENT OF EDUCATION

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
For the Fiscal Year Ended June 30, 2017**

NOTE 1: PURPOSE OF SCHEDULES

Schedule of Budgetary Comparison For The County School Service Fund and Major Special Revenue Fund(s)

A budgetary comparison is presented for the County School Service Fund and for any major special revenue fund that has a legally adopted annual budget. This schedule presents the budget as originally adopted, the revised budget as of the fiscal yearend, actual amounts at fiscal yearend, and any adjustments needed to present the amounts in accordance with generally accepted accounting principles (GAAP).

Schedule of Postemployment Healthcare Benefits Funding Progress

The schedule is intended to show trends about the funding progress of the County's actuarially determined liability for postemployment benefits other than pensions.

Schedules of County's Proportionate Share of the Net Pension Liability – STRP and PERS

The schedule presents information on the County's proportionate share of the net pension liability, the plans' fiduciary net position and, when applicable, the State's proportionate share of the net pension liability associated with the County. In the future, as data becomes available, 10 years of information will be presented.

Schedules of County Pension Contributions – STRP and PERS

The 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, 10 years of information will be presented.

NOTE 2: EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Excesses of expenditures over appropriations, by major object accounts, occurred in the following funds:

County School Services Fund:		
Other Outgo	\$	2,298,331
Debt Service		4,445

SUPPLEMENTARY INFORMATION

ORANGE COUNTY DEPARTMENT OF EDUCATION

HISTORY AND ORGANIZATION For the Fiscal Year Ended June 30, 2017

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

The County provides professional and administrative assistance to twelve elementary school districts, three high school districts, twelve unified school districts, four community college districts and four regional occupation programs, one of which is administered by the County Department of Education, within Orange County.

The Board of Education and the County Administrators for the fiscal year ended June 30, 2017 is presented herein.

BOARD OF EDUCATION

<u>Member</u>	<u>Office</u>	<u>Term Expires</u>
Ms. Linda Lindholm	President	June 30, 2018
Dr. John W. Bedell	Vice President	June 30, 2020
Mr. David L. Boyd	Member	June 30, 2018
Ms. Rebecca Gomez	Member	June 30, 2020
Dr. Ken L. Williams	Member	June 30, 2020

COUNTY ADMINISTRATORS

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 (ADA)
For the Fiscal Year Ended June 30, 2017

The requirements governing ADA, admission of pupils, types of schools, recording and reporting of pupil attendance, and similar matters are controlled by provisions of the Education Code and by regulations of the California Department of Education.

ADA statistics reported to the state for the fiscal year ended June 30, 2017 are as follows:

County Superintendent's Report of Schools and Classes:

	<u>Second Period</u>	<u>Annual</u>
Elementary:		
Juvenile Halls, Homes and Camps	39	40
Probation Referred, On Probation or Parole, Expelled Pursuant to EC 48915 (a) or (c)	<u>104</u>	<u>119</u>
Total Elementary ADA	<u>143</u>	<u>159</u>
Secondary:		
Juvenile Halls, Homes and Camps	441	452
Probation Referred, On Probation or Parole, Expelled Pursuant to EC 48915 (a) or (c)	<u>1,781</u>	<u>1,860</u>
Total Secondary ADA	<u>2,222</u>	<u>2,312</u>
Total ADA from County Office of Education	<u><u>2,365</u></u>	<u><u>2,471</u></u>

See the accompanying notes to the supplementary information.

ORANGE COUNTY DEPARTMENT OF EDUCATION
SCHEDULE OF AVERAGE DAILY ATTENDANCE (ADA)
For the Fiscal Year Ended June 30, 2017

District Funded County Programs:

	Second Period	Annual
Grades transitional kindergarten through third:		
County community schools	276	248
Special education - special day class	50	50
Extended year special education	5	5
Total grades transitional kindergarten through third ADA	331	303
Grades fourth through sixth:		
County community schools	263	235
Special education - special day class	53	50
Extended year special education	5	5
Total grades fourth through sixth ADA	321	290
Grades seven and eight:		
County community schools	220	200
Special education - special day class	42	37
Extended year special education	3	3
Total grades seven and eight ADA	265	240
Grades nine through twelve:		
County community schools	2,490	2,267
Special education - special day class	197	186
Extended year special education	23	22
Total grades nine through twelve ADA	2,710	2,475
Total ADA for District Funded County Programs	3,627	3,308

College and Career Preparatory Academy (Charter School)

District Funded County Programs:

Grades nine through twelve:		
County community schools	141	146
Total grades nine through twelve ADA	141	146
Total ADA for College and Career Preparatory Academy	141	146

See the accompanying notes to the supplementary information.

ORANGE COUNTY DEPARTMENT OF EDUCATION

**SCHEDULE OF INSTRUCTIONAL TIME
For the Fiscal Year Ended June 30, 2017**

Grade Level	Minute Requirement	Actual Minutes	Number of Days	
			Traditional Calendar	Status
Kindergarten	36,000	60,060	182	In Compliance
Grade 1	50,400	65,968	182	In Compliance
Grade 2	50,400	65,968	182	In Compliance
Grade 3	50,400	65,968	182	In Compliance
Grade 4	54,000	65,968	182	In Compliance
Grade 5	54,000	65,968	182	In Compliance
Grade 6	54,000	65,968	182	In Compliance
Grade 7	54,000	65,968	182	In Compliance
Grade 8	54,000	65,968	182	In Compliance
Grade 9	64,800	71,412	182	In Compliance
Grade 10	64,800	71,142	182	In Compliance
Grade 11	64,800	71,142	182	In Compliance
Grade 12	64,800	71,142	182	In Compliance

See the accompanying notes to the supplementary information.

ORANGE COUNTY DEPARTMENT OF EDUCATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2017

Program Name	Federal Catalog Number	Pass-Through Entity Identifying Number	Total Program Expenditures
United States Department of Education			
Pass-Through Program From California Department of Education:			
Special Education Cluster:			
Local Assistance	84.027	13379	\$ 7,499,967
Local Assistance - Private Schools	84.027	10115	63,227
Preschool Grants	84.173	13430	170,527
Preschool Accountability Grants	84.173A	14688	58,555
Preschool Local Entitlement Part B	84.027A	13682	588,480
Mental Health Allocation Plan	84.027	15197	533,761
Preschool Staff Development	84.173A	13431	4,281
Alternate Dispute Resolution	84.173A	13007	<u>35,801</u>
Total: Special Education Cluster			<u>8,954,599</u>
Every Student Succeeds Act:			
Title I, Part A - Basic Grants Low-Income and Neglected	84.010	14329	2,634,774
Title I, Part D - Local Delinquent Programs	84.010	14357	1,519,581
Pass-through from Imperial County Office of Education			
Title I, Basic School Support	84.010	14416	467,182
Title II, Part A - Improving Teacher Quality	84.367	14341	65,808
Title II, Part B - Mathematics and Science Partnerships	84.366	14512	468,053
Title III - Immigrant Education Program	84.365	15146	553
Title III - English Learner Student Program	84.365	14346	9,329
McKinney-Vento Homeless Assistance Grants	84.196	14332	<u>251,116</u>
Subtotal: Every Student Succeeds Act			5,416,396
Special Education IDEA Early Intervention	84.181	23761	395,978
Carl D. Perkins Career and Technical Education: Adult, Section 131	84.048	14894	56,478
Title IV: 21st Century Community Learning Centers Technical Assist	84.287	14350	<u>152,640</u>
Subtotal: Pass-Through Programs			<u>14,976,091</u>
Total: United States Department of Education			<u>14,976,091</u>
United States Department of Agriculture			
Pass-Through Program From:			
California Department of Education			
Child Nutrition Cluster			
National School Lunch Program	10.555	13391	141,485
School Breakfast Program - School Breakfast Basic	10.553	13525	16,898
School Breakfast Program - School Breakfast Needy	10.553	13526	<u>68,162</u>
Total: Child Nutrition Cluster			<u>226,545</u>
County of Orange Healthcare Agency			
Supplemental Nutrition Assistance Program (SNAP) Cluster			
Nutrition Services Network	10.561	(1)	<u>1,108,283</u>
Total: SNAP Cluster			<u>1,108,283</u>
Total U.S Department of Agriculture			<u>1,334,828</u>

See the accompanying notes to the supplementary information.

ORANGE COUNTY DEPARTMENT OF EDUCATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2017

Program Name	Federal Catalog Number	Pass-Through Entity Identifying Number	Total Program Expenditures
United States Department of Health and Human Services			
Pass-Through Program From California Department of Education:			
Child Care and Development Fund Cluster:			
Child Development Quality Improvement Activities	93.575	14988	759,857
Child Development Federal Alternative Payment	93.596	14153	5,196,604
Child Development Local Planning Councils	93.575	13946	72,623
Child Development Federal Alternative Payment, Stage 3	93.575	13881	<u>1,413,926</u>
Total: Child Care and Development Fund Cluster			7,443,010
Pass-Through Program From California Department of Health Care Services:			
Medi-Cal Billing Option	93.778	10013	1,204,507
Pass-Through Program From the County of Orange:			
Alcohol and Other Drug Prevention Services Friday Night Live	93.959	(1)	400,000
Leading Youth Away from Negative Choices	93.959	(1)	<u>157,867</u>
Total: United States Department of Health and Human Services			<u>9,205,384</u>
National Science Foundation			
Pass-Through Program From University of California, Irvine:			
ESCAPE: Equitable Science Curriculum Integrating Arts in Public Education	47.076	(1)	<u>153,138</u>
Subtotal: National Science Foundation			<u>153,138</u>
Total Federal Programs			<u>\$ 25,669,441</u>
Reconciliation to Federal Revenue			
Total Federal Program Expenditures			\$ 25,669,441
Revenues in excess of expenditures related to Federal Entitlements:			
Medi-Cal Administrative Activities			12,337,902
Expenditures in excess of revenues related to Federal Entitlements:			
Medi-Cal Billing Option			<u>(607,460)</u>
Total Federal Program Revenue			<u>\$ 37,399,883</u>

(1) Pass-Through Entity Identifying Number not readily available or not applicable

Of the federal expenditures presented in the schedule, the County provided federal awards to subrecipients as follows:

Special Education - Local Assistance	84.027	13379	\$ 6,281,395
Special Education - Local Assistance - Private Schools	84.027	10115	57,059
Special Education - Preschool Local Entitlements	84.173	13430	152,287
Special Education - Preschool Local Entitlement Part B	84.027A	13682	556,497
Special Education - Mental Health Allocation Plan	84.027	14468	<u>533,761</u>
Total Amount Provided to Subrecipients			<u>\$ 7,580,999</u>

See the accompanying notes to the supplementary information.

ORANGE COUNTY DEPARTMENT OF EDUCATION
SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
For the Fiscal Year Ended June 30, 2017

	<u>2018 (Budgeted)</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Total revenues	\$ 229,741,960	\$ 238,573,560	\$ 222,533,482	\$ 196,917,500
Total expenditures	242,595,952	206,930,450	192,929,162	195,342,552
Total other sources and uses	<u>(1,346,952)</u>	<u>(116,440)</u>	<u>(2,384,335)</u>	<u>-</u>
Change in fund balance	<u>\$ (14,200,944)</u>	<u>\$ 31,526,670</u>	<u>\$ 27,219,985</u>	<u>\$ 1,574,948</u>
Ending fund balance	<u>\$ 147,037,168</u>	<u>\$ 161,238,112</u>	<u>\$ 129,711,442</u>	<u>\$ 102,491,457</u>
Available reserve	<u>\$ 52,888,716</u>	<u>\$ 46,919,554</u>	<u>\$ 26,479,874</u>	<u>\$ 17,574,452</u>
Available reserve %	22%	23%	14%	9%
ADA	<u>2,472</u>	<u>2,471</u>	<u>2,754</u>	<u>3,370</u>
Total long term debt (Note 8)	<u>\$ 183,180,052</u>	<u>\$ 183,590,052</u>	<u>\$ 155,268,216</u>	<u>\$ 141,498,140</u>

The amounts above are those reported as County School Service Fund in the Annual Financial and Budget Report and do not include the Special Reserve Fund for Other Than Capital Outlay reported in the County School Service Fund of the governmental funds' financial statements.

Available reserves are those amounts designated for economic uncertainty and any other remaining unassigned fund balance from the County School Service Fund.

The available reserve percentage does not include pass through to Districts.

The 2018 budget is the original adopted budget.

The state recommends 2% of total County School Service Fund expenditures, including transfers out and other uses. For the year ended June 30, 2017, the County has met this requirement.

See the accompanying notes to the supplementary information.

ORANGE COUNTY DEPARTMENT OF EDUCATION

**SCHEDULE OF CHARTER SCHOOLS
For the Fiscal Year Ended June 30, 2017**

<u>Charter School</u>	<u>Included in County Audit Report</u>
Samueli Academy	No
Vista Heritage Charter Middle	No
Oxford Preparatory Academy – Saddleback Valley	No
Unity Middle College High	No
USC College Prep Santa Ana Campus	No
Orange County Academy Sciences and Arts	No
Epic Charter School	No
Scholarship Prep Charter School	No
Orange County Workforce Innovations High	No
Citrus Springs Charter	No
College and Career Preparatory Academy	Yes

See the accompanying notes to the supplementary information.

ORANGE COUNTY DEPARTMENT OF EDUCATION
RECONCILIATION OF THE ANNUAL FINANCIAL AND BUDGET REPORT
WITH THE AUDITED FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2017

There were no differences between the fund balances reported on the June 30, 2017 Annual Financial and Budget Report for the governmental funds and the audited financial statements.

See the accompanying notes to the supplementary information.

ORANGE COUNTY DEPARTMENT OF EDUCATION

NOTES TO THE SUPPLEMENTARY INFORMATION For the Fiscal Year Ended June 30, 2017

NOTE 1: PURPOSE OF SCHEDULES

Schedule of Average Daily Attendance (ADA)

Average daily attendance 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 school districts. This schedule provides information regarding the attendance of students at various grade levels and in different programs.

Schedule of Instructional Time

The County has met or exceeded its target funding and has received incentive funding for increasing instructional time as provided by the Incentives for Longer Instructional Day. This schedule presents information on the amount of instructional time offered by the County and whether the County complied with the provisions of Education Code Sections 46200 through 46206.

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 County under programs of the federal governmental for the year ended June 30, 2017. The information in this Schedule is presented in accordance with the requirements of the 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 operations of the County, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the County.

Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. 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. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. The County did not use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

ORANGE COUNTY DEPARTMENT OF EDUCATION

**NOTES TO THE SUPPLEMENTARY INFORMATION
For the Fiscal Year Ended June 30, 2017**

NOTE 1: PURPOSE OF SCHEDULES

Schedule of Financial Trends and Analysis

The *2016-17 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* requires that this schedule be prepared showing financial trends of the County School Service Fund over the past three fiscal years as well as the current year budget. This report is intended to identify if the County faces potential fiscal problems and if they have met the recommended available reserve percentages.

Schedule of Charter Schools

The *2016-17 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* requires that this schedule list all charter schools chartered by the County and inform the users whether or not the charter school information is included in the County's financial statements.

Reconciliation of Annual Financial and Budget Report with Audited Financial Statements

This schedule provides the information necessary to reconcile the fund balances of all funds as reported on the annual Financial and Budget Report form to the audited financial statements.

OPTIONAL SUPPLEMENTARY INFORMATION

ORANGE COUNTY DEPARTMENT OF EDUCATION

**COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS**

June 30, 2017

	<u>Child Development</u>	<u>Deferred Maintenance</u>	<u>County School Facilities</u>	<u>Special Reserve Fund for Capital Outlay Projects</u>	<u>COP Debt Service</u>	<u>Total Non-Major Governmental Funds</u>
<u>Assets</u>						
Cash in county treasury	\$ 2,808,948	\$ 24,106,561	\$ 4,148,435	\$ 1,680,062	\$ 909,514	\$ 33,653,520
Cash in banks				2,000		2,000
Cash with fiscal agent				1,261,413	660,443	1,921,856
Cash collections awaiting deposit	4,542			159,367		163,909
Accounts receivable:						
Federal and State	1,989,992					1,989,992
Miscellaneous	3,967	20,796	3,579	1,373	785	30,500
Due from other funds	259,201	1,026,395		866,900	800,000	2,952,496
Total Assets	<u>\$ 5,066,650</u>	<u>\$ 25,153,752</u>	<u>\$ 4,152,014</u>	<u>\$ 3,971,115</u>	<u>\$ 2,370,742</u>	<u>\$ 40,714,273</u>
<u>Liabilities and Fund Balances</u>						
<u>Liabilities</u>						
Accounts payable	\$ 2,952,018	\$ -	\$ 281	\$ 205,050		\$ 3,157,349
Due to other funds	1,542,297	7,350	-	800,000	866,900	3,216,547
Unearned revenue	572,335					572,335
Total Liabilities	<u>5,066,650</u>	<u>7,350</u>	<u>281</u>	<u>1,005,050</u>	<u>866,900</u>	<u>6,946,231</u>
<u>Fund Balances</u>						
Restricted			4,151,733	2,966,065	1,503,842	8,621,640
Committed		25,146,402				25,146,402
Total Fund Balances	<u>-</u>	<u>25,146,402</u>	<u>4,151,733</u>	<u>2,966,065</u>	<u>1,503,842</u>	<u>33,768,042</u>
Total Liabilities and Fund Balances	<u>\$ 5,066,650</u>	<u>\$ 25,153,752</u>	<u>\$ 4,152,014</u>	<u>\$ 3,971,115</u>	<u>\$ 2,370,742</u>	<u>\$ 40,714,273</u>

See the accompanying notes to the optional supplementary information.

ORANGE COUNTY DEPARTMENT OF EDUCATION

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
NON-MAJOR GOVERNMENTAL FUNDS**

For the Fiscal Year Ended June 30, 2017

	Child Development	Deferred Maintenance	County School Facilities	Special Reserve Fund for Capital Outlay Projects	COP Debt Service	Total Non-Major Governmental Funds
Revenues						
Local control funding formula sources:						
State apportionments	\$	\$ 1,022,520	\$	\$	\$	\$ 1,022,520
Federal revenue	7,171,759					7,171,759
Other state sources	13,515,543		-			13,515,543
Other local sources	596,118	193,352	33,361	2,213,456	8,597	3,044,884
Total Revenues	<u>21,283,420</u>	<u>1,215,872</u>	<u>33,361</u>	<u>2,213,456</u>	<u>8,597</u>	<u>24,754,706</u>
Expenditures						
Instruction	13,673,759					13,673,759
Instruction related services	5,871,518					5,871,518
General administrative	1,796,041					1,796,041
Plant services	58,542	70,707	15,766	779,407		924,422
Debt service					866,900	866,900
Total Expenditures	<u>21,399,860</u>	<u>70,707</u>	<u>15,766</u>	<u>779,407</u>	<u>866,900</u>	<u>23,132,640</u>
Excess (deficiency) of revenues over expenditures	<u>(116,440)</u>	<u>1,145,165</u>	<u>17,595</u>	<u>1,434,049</u>	<u>(858,303)</u>	<u>1,622,066</u>
Other Financing Sources (Uses)						
Interfund transfers in	116,440				800,000	916,440
Interfund transfers out				(800,000)		(800,000)
Total Other Financing Sources (Uses)	<u>116,440</u>	<u>-</u>	<u>-</u>	<u>(800,000)</u>	<u>800,000</u>	<u>116,440</u>
Net changes in fund balance	-	1,145,165	17,595	634,049	(58,303)	1,738,506
Fund Balances at Beginning of Year	<u>-</u>	<u>24,001,237</u>	<u>4,134,138</u>	<u>2,332,016</u>	<u>1,562,145</u>	<u>32,029,536</u>
Fund Balances at End of Year	<u>\$ -</u>	<u>\$ 25,146,402</u>	<u>\$ 4,151,733</u>	<u>\$ 2,966,065</u>	<u>\$ 1,503,842</u>	<u>\$ 33,768,042</u>

See the accompanying notes to the optional supplementary information.

ORANGE COUNTY DEPARTMENT OF EDUCATION

**NOTES TO THE OPTIONAL SUPPLEMENTARY INFORMATION
For the Fiscal Year Ended June 30, 2017**

NOTE 1: PURPOSE OF SCHEDULES

Combining Fund Financial Statements

Combining fund balance sheets and statements of revenues, expenditures and changes in fund balance have been presented for the non-major funds to provide additional information to the users of these financial statements. These statements have been prepared using the basis of accounting described in the notes to the financial statements

OTHER INDEPENDENT AUDITOR'S REPORT

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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Orange County Department of Education (the County), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the County’s basic financial statements, and have issued our report thereon dated December 6, 2017.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the County’s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance 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.



CliftonLarsonAllen LLP
Glendora, California
December 6, 2017

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

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

Report on Compliance for Each Major Federal Program

We have audited Orange County Department of Education's (the County) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on each of the County's major federal programs for the year ended June 30, 2017. The County'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 the County'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 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 compliance for each major federal program. However, our audit does not provide a legal determination of the County's compliance.

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

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

Opinion on Each Major Federal Program

In our opinion, the County 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, 2017.

Report on Internal Control Over Compliance

Management of the County 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 the County'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 County'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 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, 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.

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

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

Purpose of this Report

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.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP
Glendora, California
December 6, 2017

INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

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

We have audited the Orange County Department of Education's (the County) compliance with the types of compliance requirements described in the *2016-17 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, published by the Education Audit Appeals Panel for the year ended June 30, 2017. The County's state compliance requirements are identified in the table provided.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on the County's compliance based on our audit of the types of compliance requirements referred to below. 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 *2016-17 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, published by the Education Audit Appeals Panel. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the specific areas 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.

INDEPENDENT AUDITOR’S REPORT ON STATE COMPLIANCE

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

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 the laws and regulations applicable to the following items:

<u>Description</u>	<u>Procedures Performed</u>
Attendance	Yes
Teacher Certification and Misassignments	Yes
Kindergarten Continuance	No ¹
Independent Study	Yes
Continuation Education	Not Applicable
Instructional Time	Yes
Instructional Materials	Yes
Ratio of Administrative Employees to Teachers	Not Applicable
Classroom Teacher Salaries	Not Applicable
Early Retirement Incentive	Not Applicable
GANN Limit Calculation	Yes
School Accountability Report Card	Yes
Juvenile Court Schools	Yes
Middle or Early College High Schools	Not Applicable
K-3 Grade Span Adjustment	Not Applicable
Transportation Maintenance of Effort	Yes
Mental health Expenditures	Yes
Educator Effectiveness	No ²
California Clean Energy Act	Yes
After School Education and Safety Program	Not Applicable
Proper Expenditure of Education Protection Account Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control and Accountability Plan	Yes
Independent Study-Course Based	Not Applicable
Immunizations	Yes
Charter Schools:	
Attendance	Yes ³
Mode of Instruction	Not Applicable
Nonclassroom Based Instruction/Independent Study	Yes ³
Determination of Funding for Nonclassroom Based Instruction	Yes ³
Annual Instructional Minutes – Classroom Based	Not Applicable
Charter School Facility Grant Program	Not Applicable

¹We did not perform testing for kindergarten continuance, because no kindergarten students were retained during the year.

²Testing was not performed, because Educator Effectiveness funds were not spent during the year.

³Testing was performed for the College and Career Preparatory Academy only. Testing for the other charter schools was done by the school’s respective auditor.

INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

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

Opinion on State Compliance

In our opinion, the County complied with the laws and regulations of the state programs referred to above in all material respects for the year ended June 30, 2017.

Purpose of this Report

The purpose of this report on state compliance is solely to describe the results of testing based on the requirements of the *2016-17 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, published by the Education Audit Appeals Panel. Accordingly, this report is not suitable for any other purpose.



CliftonLarsonAllen LLP
Glendora, California
December 6, 2017

FINDINGS AND QUESTIONED COSTS

ORANGE COUNTY DEPARTMENT OF EDUCATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
SUMMARY OF AUDITOR RESULTS
June 30, 2017

SECTION I – SUMMARY OF AUDITOR’S RESULTS

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? Yes X No
 Significant deficiency(ies) identified? Yes X None Reported

Noncompliance material to financial statements noted? Yes X No

Federal Awards

Internal control over major federal awards:

Material weakness(es) identified? Yes X No
 Significant deficiency(ies) identified? Yes X None Reported

Type of auditor’s report issued on compliance for major federal programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? Yes X No

Identification of Major Federal Programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.010	Title I, Part A – Basic Grants Low-Income and Neglected Title I, Part D – Local Delinquent Programs
84.366	Title II, Part B - Mathematics and Science Partnerships
84.196	McKinney-Vento Homeless Assistance Grants

Dollar threshold used to distinguish between type A and type B programs: \$770,083

Auditee qualified as low-risk auditee? X Yes No

ORANGE COUNTY DEPARTMENT OF EDUCATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
RELATED TO THE FINANCIAL STATEMENTS
June 30, 2017

All audit findings must be identified as one or more of the following categories:

<u>Five Digit Code</u>	<u>Finding Types</u>
10000	Attendance
20000	Inventory of Equipment
30000	Internal Control
40000	State Compliance
42000	Charter School Facilities Programs
50000	Federal Compliance
60000	Miscellaneous
61000	Classroom Teacher Salaries
62000	Local Control Accountability Plan
70000	Instructional Materials
71000	Teacher Misassignments
72000	School Accountability Report Card

There were no findings and questioned costs related to the basic financial statements for the year ended June 30, 2017.

ORANGE COUNTY DEPARTMENT OF EDUCATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
RELATED TO FEDERAL AWARDS
June 30, 2017

There were no findings and questioned costs related to federal awards for June 30, 2017.

ORANGE COUNTY DEPARTMENT OF EDUCATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
RELATED TO STATE AWARDS
June 30, 2017

There were no findings and questioned costs related to state awards for the year ended June 30, 2017.

ORANGE COUNTY DEPARTMENT OF EDUCATION

STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

June 30, 2017

2016-001 **Internal Controls: Bank Reconciliation Procedures** **30000**

Criteria: Bank reconciliations should be performed monthly and revolving cash account balances should be reconciled to the imprest balance specified for each account.

Condition: During our audit we noted that bank reconciliations were not performed timely. The June 30, 2016 cash clearing and payroll revolving bank balances were reconciled in September 2016 and the June 30, 2016 revolving cash bank balance was reconciled in October 2016. The revolving cash and payroll revolving accounts were not reconciled to their designated imprest balance amounts.

Context: During our audit we noted that bank reconciliations were not performed timely.

Effect: Lack of timely bank reconciliations, including reconciling to the imprest balance, can result in discrepancies in general ledger balances and bank statement activity not being recognized. Lack of complete and timely reconciliations can also result in misappropriation of assets and lack of accountability of cash being replenished from cash in county funds.

Cause: Position vacancies and department restructuring.

Questioned Costs and Units: The amounts not reconciled to the imprest balance for the revolving cash account and the payroll revolving account were \$4,054 and \$6,888, respectively.

Recommendation: Complete bank reconciliations on a monthly basis as soon as possible once the bank statement is received; ensure that the accounts with an imprest balance are reconciled to the stated balance.

Corrective Action Plan: Reconciliations were completed for all bank accounts through October 2016. A procedure was instituted to ensure timely completion of bank account reconciliation to the imprest balance amounts. This will be performed within a week of receiving the bank statements.

Status: Substantially implemented.

2016-002 **Internal Controls: Capital Assets Reconciliations** **30000**

Criteria: Capital asset schedules should be updated and reviewed as part of closing procedures. An inventory of capital assets should occur every three years according to County policy.

Condition: During our audit we noted differences between recalculated capital asset balances from capital expenditure activity and capital asset reports. In addition, inventory of non-federally funded capital assets has not been performed for three years.

ORANGE COUNTY DEPARTMENT OF EDUCATION

STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

June 30, 2017

2016-002 Internal Controls: Capital Assets Reconciliations 30000

Effect: Lack of capital asset reconciliations and inventorying of capital assets can result in misappropriation of assets and improper valuation of capital assets.

Cause: Position vacancies and department restructuring.

Questioned Costs and Units: No direct questioned costs were identified.

Recommendation: Conduct an inventory of capital assets. Using the results of the inventory, update capital asset activity in the accounting records to reflect proper items and balances. As part of year end closing procedures, reconcile capital asset reports to general ledger activity to determine that additions and deletions to fixed assets as well as depreciation expense are appropriately stated.

Corrective Action Plan: Fiscal Services will perform a physical inventory of capital assets before the end of fiscal year 2016-17 to update our schedules accordingly. We will put a procedure in place to ensure that assets that need to be capitalized are correctly identified and tagged for inventory purposes. The Fixed Asset module within our financial systems will be updated with the capital asset activities and acquisition forms will be tracked. On a monthly basis, we will reconcile the reports from the Fixed Asset module to the general ledger, identifying all additions, deletions, and depreciations. We will monitor the procedure we've put into action to ensure that all assets are tracked appropriately.

Status: Substantially implemented.