

**ORANGE COUNTY
DEPARTMENT OF
EDUCATION**

ANNUAL FINANCIAL REPORT

JUNE 30, 2012

ORANGE COUNTY DEPARTMENT OF EDUCATION

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FINANCIAL SECTION

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INDEPENDENT AUDITORS' REPORT

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

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, 2012, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County's management. 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; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2011-2012*, issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Orange County Department of Education, as of June 30, 2012, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in the Notes to the basic financial statements, the accompanying financial statements reflect certain changes required as a result of the establishment of a new fund by the California Department of Education for the year ended June 30, 2012. These changes required a restatement to the beginning fund balance of the General Fund and the Special Education Pass-Through Fund, as discussed in Note 18.

As discussed in the Notes to the basic financial statements, the State of California continues to suffer the effects of a recessionary economy, which directly impacts the funding requirements of the State of California to the K-12 educational community.

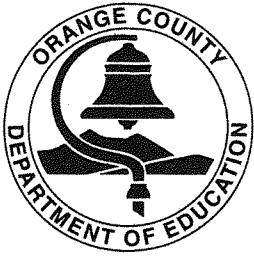
In accordance with *Government Auditing Standards*, we have also issued our report dated December 10, 2012, on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 14, and the budgetary comparison information and the schedule of other post employment benefits funding progress on pages 56 through 58 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County's financial statements. The Schedule of Expenditures of Federal Awards, *as required by Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations (Circular A-133)* and other supplementary information listed in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the fairly stated in all material respects in relation to the financial statements as a whole.

Vavrinak, J. & Co., LLP

Rancho Cucamonga, California
December 10, 2012



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BOARD OF EDUCATION**

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DAVID L. BOYD

ROBERT M. HAMMOND

ELIZABETH PARKER

KEN L. WILLIAMS, D.O.

This section of Orange County Department of Education's (the County) 2011-2012 annual financial report presents our discussion and analysis of the County's financial performance during the fiscal year that ended on June 30, 2012, with comparative information for June 30, 2011. 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), as well as all liabilities (including long-term obligations). Additionally, certain eliminations have occurred as prescribed by the statement in regards to interfund activity, payables and receivables.

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

ORANGE COUNTY DEPARTMENT OF EDUCATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2012

FINANCIAL HIGHLIGHTS OF THE PAST YEAR

In 2011-2012, General Fund revenue decreased by \$54.9 million or 20.5 percent. In 2011-2012, we had a decrease of \$20.0 million in revenue limit due to a decrease in pass-through funding that is now required to be reported in Fund 10, an increase deficit on our State revenue limit, and an increase in Average Daily Attendance (ADA). Although we had an increase in ADA, which was mostly due to our Semester 1 Secondary (S1S) program, we experienced a significant decrease in funding due to the decline in the Community Schools throughout the year. We received a \$28.8 million decrease in Federal funding or 47.63 percent. This is due to the elimination of the American Recovery Reinvestment Act (ARRA) funds and Medi-Cal Administrative Activities (MAA) funds that were received in 2011-2012, and passed through to participating school districts. We also had a decrease of \$750 thousand in State funding for categorical programs. Finally, local revenue for 2011-2012, decreased \$4.7 million due to the closure of the Special Schools Infant Assessment Center (IAC) programs and lower interagency fees, workshop fees and registrations.

The General Fund expenditures decreased by \$46.2 million or 18.6 percent, the major decrease was due to pass through expenditures required to be reported in Fund 10 and numerous other factors. In 2011-2012, all bargaining units received a zero percent salary increase but the County did pay for the increase in health benefits. Salaries and benefits increased by \$1.1 million due to the increase in health benefits and some reductions in staffing. Books and supplies increased by 26.3 percent and operating expenditures decreased by 5.8 percent, which is mostly due to decreases in lease costs due to classroom closures. In 2011-2012, we had a decrease of \$46.6 million, or 68.9 percent in other outgo and pass-through to districts that is now required to be reported in Fund 10. We also experienced an increase in capital outlay due to replacement of some equipment for our computer systems.

In 2011-2012, we expected a 366 increase in attendance in our Alternative Education Program based on current enrollment. As the year progressed, we only increased by 46 ADA which included a combination of some programs declining and growth for the S1S program. In addition, the Special Schools Program declined by 27 ADA for an overall increase of 19 ADA for our student programs. We continue to look at staffing ratios and new ways to improve our attendance.

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

Values

The County is a public education organization based on fundamental human values of honesty, commitment, responsibility, respect, integrity, and professional ethics. Our priority is service to students, districts, and the community who look to us for support and educational leadership. We believe that the public deserves our complete candor and objectivity in our delivery of all services.

We provide safe, caring, courteous, and professional environment in a climate that fosters collaborative work and individual development for our employees. We hold each other and ourselves accountable for the highest level of performance, efficiency, resource management, and professionalism.

ORANGE COUNTY DEPARTMENT OF EDUCATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2012

Mission

- The County provides over 160,000 students with a world-class education that emphasizes standards-based skills in a safe and orderly learning environment. These students attend the following County-operated programs and services: Alternative and Correctional Education, Outdoor Science, Regional Occupational Program, Special Education, and Student Programs.
- We partner with our districts to provide a world-class education for over 500,000 students.
- We serve as a connecting agency among Orange County school districts, community college districts, local, State and Federal governmental agencies, and community agencies.
- We respond to County and community requests for staff development, administrative, business, educational, and support services.
- We partner with parents, businesses, and the community for student success in Orange County.

Enrollment

A primary source of revenue for the County is generated by the average daily attendance (ADA) of students in the County programs. The growth or decline of ADA can have significant impact on the financial stability of the office. The County operated student programs increased by 19 ADA from last year. County-wide enrollment grew slightly with an increase of 2.8 percent County-wide with multiple districts experiencing growth or slower decline in 2011-2012.

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 2011-2012, we met our goal with a minimum 3.0 percent Reserve for Economic Uncertainties.

REPORTING THE COUNTY AS A WHOLE

The Statement of Net Assets and the Statement of Activities

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

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

ORANGE COUNTY DEPARTMENT OF EDUCATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2012

In the *Statement of Net Assets* 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 taxes, grants, and other money that it receives from the U.S. and State Department's 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.

ORANGE COUNTY DEPARTMENT OF EDUCATION

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2012

THE COUNTY AS A WHOLE

Net Assets

The County's net assets were \$234 million for the fiscal year ended June 30, 2012. Of this amount, \$94.1 million was unrestricted. Restricted net assets are reported separately to show legal constraints from debt covenants, grantors, constitutional provisions, and enabling legislation that limit the governing board's ability to use those net assets for day-to-day operations. Our analysis below, in summary form, focuses on the net assets (Table 1) and change in net assets (Table 2) of the County's governmental activities.

Table 1

(Amounts in millions)

	Governmental Activities	
	2012	2011
Assets		
Current and other assets	\$ 179.1	\$ 180.8
Capital assets	97.4	98.9
Total Assets	276.5	279.7
Liabilities		
Current liabilities	21.4	37.6
Long-term obligations	21.1	21.6
Total Liabilities	42.5	59.2
Net Assets		
Invested in capital assets, net of related debt	82.4	83.5
Restricted	57.5	51.3
Unrestricted	94.1	85.7
Total Net Assets	\$ 234.0	\$ 220.5

The \$94.1 million in unrestricted net assets of governmental activities represents the accumulated results of all past years' operations.

ORANGE COUNTY DEPARTMENT OF EDUCATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2012

Changes in Net Assets

The results of this year's operations for the County as a whole are reported in the Statement of Activities on page 16. Table 2 takes the information from the Statement, rounds off the numbers, and rearranges them slightly so you can see our total revenues for the year.

Table 2

(Amounts in millions)	Governmental Activities	
	2012	2011
Revenues		
Program revenues:		
Charges for services	\$ 35.2	\$ 36.5
Operating grants and contributions	52.0	67.5
Capital grants and contributions	(1.4)	1.4
General revenues:		
Federal and State aid not restricted	80.5	86.0
Property taxes	73.6	73.2
Other general revenues	47.3	29.3
Total Revenues	287.2	293.9
Expenses		
Instruction-related	146.6	147.2
Student support services	14.7	14.9
Administration	20.4	20.2
Maintenance and operations	14.8	15.2
Other	77.2	75.0
Total Expenses	273.7	272.5
Change in Net Assets	\$ 13.5	\$ 21.4

Governmental Activities

As reported in the Statement of Activities on page 16, the cost of all of our governmental activities this year was \$273.7 million. However, the amount that our taxpayers ultimately financed for these activities through local taxes was only \$73.6 million because the cost was paid by those who benefited from the programs \$35.2 million or by other governments and organizations who subsidized certain programs with grants and contributions of \$50.6 million. We paid for the remaining 'public benefit' portion of our governmental activities with \$127.8 million in State funds and with other revenues, like interest and general entitlements.

ORANGE COUNTY DEPARTMENT OF EDUCATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2012

In Table 3, we have presented the cost and net cost of each of the County's largest functions - regular program instruction, 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

(Amounts in millions)

	Total Cost of Services		Net Cost of Services	
	2012	2011	2012	2011
Instruction	\$ 91.8	\$ 87.5	\$ 63.3	\$ 59.2
Instruction-related activities:				
Instructional library, media, and technology	0.9	0.9	0.9	0.9
Supervision of instruction	38.8	43.8	19.1	19.3
School site administration	15.1	15.0	13.2	12.7
Home-to-school transportation	4.2	4.3	-	-
Other pupil services	10.5	10.6	3.2	4.8
General administration	20.4	20.2	15.4	14.9
Maintenance and operations	14.8	15.2	13.8	14.2
Interest on long-term obligations	0.1	0.5	0.1	0.5
Other	77.1	74.5	58.9	40.6
Total	\$ 273.7	\$ 272.5	\$ 187.9	\$ 167.1

ORANGE COUNTY DEPARTMENT OF EDUCATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2012

THE COUNTY'S FUNDS

As the County completed this year, our governmental funds reported a combined fund balance of \$154.2 million, which is an increase of \$14 million (Table 4).

Table 4

(Amounts in millions)

	Balances and Activity			
	July 1, 2011	Revenues	Expenditures	June 30, 2012
General Fund	\$ 113.3	\$ 215.2	\$ 212.4	\$ 116.1
Special Education Pass-Through Fund	-	38.8	28.5	10.3
Child Development Fund	-	13.6	13.6	-
Deferred Maintenance Fund	15.5	2.1	0.1	17.5
County School Facilities Fund	7.5	(1.4)	0.2	5.9
Special Reserve Fund for				
Capital Outlay Projects	3.2	18.3	18.0	3.5
COP Debt Service Fund	0.7	16.9	16.7	0.9
Total	\$ 140.2	\$ 303.5	\$ 289.5	\$ 154.2

The General Fund is our principal operating fund. The fund balance in the General Fund increased by \$2.8 million to total \$116.1 million due to:

1. The use in 2011-2012 of \$2.8 million in deferred Federal Jobs Funding we were able to increase our balances in other accounts that helped our ending balance.
2. The second year of the S1S program, we continue to have a significant increase in revenue from the growth in S1S ADA, however, the decline in the Community Schools reduces this growth.
3. Major staffing reductions over the last few years which helped to decrease our on-going expenditures.

The Special Education Pass-Through Fund is a new California Department of Education created fund. Previously these revenues, expenditures and fund balance were reported as part of the General Fund.

The County School Facilities Fund shows negative \$1.4 million revenue due to the return of project funds to the state Office of Public School Construction for a discontinued school construction project.

General 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 September 6, 2012. (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 56).

ORANGE COUNTY DEPARTMENT OF EDUCATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2012

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets (net of depreciation)

At June 30, 2012, the County had \$97.4 million in a broad range of capital assets, including land, buildings, and furniture and equipment.

Table 5

(Amounts in millions)

	Governmental Activities	
	2012	2011
Land and construction in process	\$ 29.3	\$ 29.0
Buildings and improvements	64.8	67.1
Furniture and equipment	3.3	2.8
Total	\$ 97.4	\$ 98.9

The \$1.5 million decrease in capital assets was the result of \$1.2 million in capital purchases offset by \$3.0 million in depreciation for the year. We also disposed of \$145 thousand in obsolete equipment and related accumulated depreciation.

Long-Term Obligations

At the end of this fiscal year, the County had a decrease of \$0.4 million in long-term obligations. This decrease was due to normal annual debt reduction payments.

Table 6

(Amounts in millions)

	Governmental Activities	
	2012	2011
Certificates of participation	\$ 15.9	\$ 16.0
Accumulated vacation - net	1.6	1.7
Other postemployment benefits	3.6	3.8
Total	\$ 21.1	\$ 21.5

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

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.

ORANGE COUNTY DEPARTMENT OF EDUCATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2012

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

In considering the County Budget for the 2012-2013 year, the County Board and management used the following criteria:

The key assumptions in our revenue forecast are:

1. Revenue limit income will decrease by \$8,645,562. We project a decrease of \$6,794,103 for mid-year reductions if the Proposition 30 tax initiative fails. We will also project a decrease of \$1,851,459 for declining enrollment in Alternative Education.
2. Federal income will increase by \$831,771. We project an increase of \$5,073,418 for the Medi-Cal Administrative Activities, Race to the Top, and other Federal programs. A decrease of \$3,461,643 due to the Education Jobs funding that was exhausted in 2011-2012. A decrease of \$442,001 for Federal funding that is moved to Fund 10 for pass-through to the North Orange County SELPA. A decrease of \$338,003 for decreases in various Federal programs.
3. State income is anticipated to increase by \$866,664 due to an increase of \$784,588 for various categorical programs and a transfer of \$82,076 to Fund 10 pass-through revenue to the North Orange County SELPA.
4. Local income will increase by \$40,660 due to the following: (1) an increase of \$1,251,999 for increases in various local programs and workshop registrations; (2) a decrease of \$731,630 in funding for redevelopment; (3) a decrease of \$479,709 for reduced funding for the Inside the Outdoors program.

Expenditures are based on the following forecasts:

1. A total increase in salaries of \$2,432,041 is the result of increases of \$2.3 million for step and column movement, filling vacant positions, and creation of new positions being offset by reductions in staffing and reductions for substitutes and short-term employees. There is a zero Cost of Living Adjustment (COLA) increase for salaries for 2012-2013.
2. An increase of \$2,182,668 for Health and Welfare benefits is a result of an increase in the projected benefit rate for 2012-2013 plan year, plus the cost of filling vacant and new positions, and an increase in the Workers' Compensation rate.
3. As of September 2012, we have completed negotiations for all groups with zero salary increases, but the County did pay the increase cost of the Health and Welfare benefits.
4. There is an increase in General Fund Other Outgo of \$2,847,820 due to the transfer of pass-through payments made to the North Orange County SELPA to Fund 10 and various other pass-through payments to districts.

ORANGE COUNTY DEPARTMENT OF EDUCATION

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2012

The new items specifically addressed in the budget are as follows:

The State's budget projections on revenue limit funding based on ADA for the 2012-2013 year includes a 22.549 percent deficit reduction. As we prepare our First Interim Budget Report, our ADA indicates a larger decline in ADA. We continue to monitor ADA and to establish better control over staffing ratios at each site.

One of the major areas of concern is the uncertainty of the State Budget for 2012-2013. With the passing of Proposition 30 in November of 2012, mid-year cuts were avoided for the 2012-2013 year though we continue to operate with over 22 percent less revenue than due to deficit on our State revenue limit. While the forecast from the State is more positive than prior years we are still not receiving any new funding to replace the large cuts we have received. Our funding is less than we received in 2007-2008. 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.

The State of California passed new legislation increasing the oversight responsibilities for county offices. Assembly Bill 2756 has increased the financial oversight of our districts. This year, financial oversight will continue to be a significant issue, as several districts continue to experience declining enrollment and facing financial distress. Due to the massive State cuts, we have numerous school districts that will be qualified at First Interim which will require a more intensive level of service from our offices. We have successfully completed the sixth round of school inspections for the Williams Settlement. The Williams Settlement required visits to over 95 schools within Orange County that were in deciles one through three in API scores. With the new legislative requirements and the continued focus on the No Child Left Behind Act, all facets of our office will be focused on aiding our school districts to meet all State and Federal requirements.

CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, students, and 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, Assistant 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.

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ORANGE COUNTY DEPARTMENT OF EDUCATION

STATEMENT OF NET ASSETS

JUNE 30, 2012

	Governmental Activities
ASSETS	
Deposits and investments	\$ 137,396,746
Receivables	40,845,554
Prepaid expenses	3,631
Deferred charges	907,935
Capital assets	
Land and construction in process	29,278,035
Other capital assets	93,205,089
Less: accumulated depreciation	<u>(25,096,782)</u>
Total Capital Assets	<u>97,386,342</u>
Total Assets	<u>276,540,208</u>
LIABILITIES	
Accounts payable	19,662,693
Interest payable	20,000
Deferred revenue	1,389,338
Other current liabilities	341,248
Long-term obligations	
Current portion of long-term obligations	230,000
Noncurrent portion of long-term obligations	<u>20,852,504</u>
Total Long-Term Obligations	<u>21,082,504</u>
Total Liabilities	<u>42,495,783</u>
NET ASSETS	
Invested in capital assets, net of related debt	82,414,277
Restricted for:	
Debt service	904,513
Capital projects	9,482,309
Educational programs	19,340,821
Other activities	27,777,566
Unrestricted	<u>94,124,939</u>
Total Net Assets	<u>\$ 234,044,425</u>

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

ORANGE COUNTY DEPARTMENT OF EDUCATION

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:				
Instruction	\$ 91,828,213	\$ 10,412,321	\$ 19,580,625	\$ (1,423,739)
Instruction-related activities:				
Supervision of instruction	38,808,690	6,671,723	13,026,053	-
Instructional library, media, and technology	863,272	-	-	-
School site administration	15,108,909	1,289,711	628,566	-
Pupil services:				
Home-to-school transportation	4,248,905	2,607,860	1,630,086	-
Food services	1,070,906	10,481	392,316	-
All other pupil services	9,490,810	2,563,672	4,378,587	-
Administration:				
Data processing	5,909,878	-	-	-
All other administration	14,476,902	1,983,123	3,005,938	-
Plant services	14,770,544	617,573	323,664	-
Ancillary services	135,989	-	-	-
Interest on long-term obligations	72,555	-	-	-
Other outgo	77,002,189	9,129,078	9,082,330	-
Total Governmental Activities	\$273,787,762	\$ 35,285,542	\$ 52,048,165	\$ (1,423,739)

General revenues and subventions:

- Property taxes, levied for general purposes
- Taxes levied for other specific purposes
- Federal and State aid not restricted to specific purposes
- Interest and investment earnings
- Miscellaneous

Subtotal, General Revenues

Change in Net Assets

- Net Assets - Beginning
- Net Assets - Ending

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

**Net (Expenses)
Revenues and
Changes in
Net Assets**

**Governmental
Activities**

\$ (63,259,006)

(19,110,914)

(863,272)

(13,190,632)

(10,959)

(668,109)

(2,548,551)

(5,909,878)

(9,487,841)

(13,829,307)

(135,989)

(72,555)

(58,790,781)

(187,877,794)

72,765,866

841,258

80,509,293

647,538

46,657,868

201,421,823

13,544,029

220,500,396

\$ 234,044,425

ORANGE COUNTY DEPARTMENT OF EDUCATION

**GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2012**

	General Fund	Special Education Pass-Through Fund	Non Major Governmental Funds	Total Governmental Funds
ASSETS				
Deposits and investments	\$ 97,549,928	\$ 8,321,630	\$ 28,453,779	\$ 134,325,337
Receivables	35,450,374	4,514,179	880,166	40,844,719
Due from other funds	1,375,218	2,978,347	1,450,054	5,803,619
Prepaid expenditures	3,631	-	-	3,631
Total Assets	\$ 134,379,151	\$ 15,814,156	\$ 30,783,999	\$ 180,977,306
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 12,772,574	\$ 4,926,358	\$ 1,845,596	\$ 19,544,528
Due to other funds	4,428,401	280,024	1,095,194	5,803,619
Deferred revenue	1,102,743	286,595	-	1,389,338
Total Liabilities	18,303,718	5,492,977	2,940,790	26,737,485
Fund Balances:				
Nonspendable	73,631	-	-	73,631
Restricted	19,340,821	10,321,179	10,386,822	40,048,822
Committed	-	-	17,456,387	17,456,387
Assigned	37,907,414	-	-	37,907,414
Unassigned	58,753,567	-	-	58,753,567
Total Fund Balances	116,075,433	10,321,179	27,843,209	154,239,821
Total Liabilities and Fund Balances	\$ 134,379,151	\$ 15,814,156	\$ 30,783,999	\$ 180,977,306

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

ORANGE COUNTY DEPARTMENT OF EDUCATION

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2012**

Total Fund Balance - Governmental Funds		\$ 154,239,821
Amounts Reported for Governmental Activities in the Statement of Net Assets are Different Because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.		
The cost of capital assets is:	\$ 122,483,124	
Accumulated depreciation is:	<u>(25,096,782)</u>	
Net Capital Assets		97,386,342
Expenditures relating to issuance of debt of next fiscal year were recognized on modified accrual basis, but are not recognized on the accrual basis.		907,935
In governmental funds, unmatured interest on long-term obligations is recognized in the period when it is due. On the government-wide financial statements, unmatured interest on long-term obligations is recognized when it is incurred.		(20,000)
An Internal Service Fund is used by the County's management to charge the costs of the workers' compensation insurance program to the individual funds. The assets and liabilities of the Internal Service Fund are included with governmental activities.		2,612,831
Long-term obligations, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.		
Long-term obligations at year-end consist of:		
Certificates of participation	15,880,000	
Compensated absences (vacations)	1,603,006	
Net OPEB obligation	<u>3,599,498</u>	
Total Long-Term Obligations		(21,082,504)
Total Net Assets - Governmental Activities		<u>\$ 234,044,425</u>

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

ORANGE COUNTY DEPARTMENT OF EDUCATION

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES FOR THE YEAR ENDED JUNE 30, 2012

	General Fund	Special Education Fund	Non-Major Governmental Funds	Total Governmental Funds
REVENUES				
Revenue limit sources	\$ 100,596,454	\$ 18,654,939	\$ -	\$ 119,251,393
Federal sources	31,751,680	7,190,037	5,431,999	44,373,716
Other State sources	28,166,620	3,841,282	6,893,916	38,901,818
Other local sources	54,730,068	1,210,579	2,577,995	58,518,642
Total Revenues	215,244,822	30,896,837	14,903,910	261,045,569
EXPENDITURES				
Current				
Instruction	79,065,194	-	10,411,466	89,476,660
Instruction-related activities:				
Supervision of instruction	37,034,107	-	1,935,483	38,969,590
Instructional library, media and technology	867,709	-	-	867,709
School site administration	15,188,483	-	-	15,188,483
Pupil services:				
Home-to-school transportation	4,249,626	-	-	4,249,626
Food services	1,075,198	-	-	1,075,198
All other pupil services	9,387,238	-	-	9,387,238
Administration:				
Data processing	6,414,329	-	-	6,414,329
All other administration	13,412,096	-	1,156,218	14,568,314
Plant services	13,730,651	-	1,069,351	14,800,002
Facility acquisition and construction	377,128	-	434,629	811,757
Ancillary services	135,989	-	-	135,989
Other outgo	22,195,888	28,523,993	-	50,719,881
Debt service				
Principal	12,819	-	200,000	212,819
Interest and other	4,074	-	457,144	461,218
Total Expenditures	203,150,529	28,523,993	15,664,291	247,338,813
Excess (Deficiency) of Revenues				
Over Expenditures	12,094,293	2,372,844	(760,381)	13,706,756
Other Financing Sources (Uses)				
Transfers in	-	-	18,333,973	18,333,973
Other sources	-	-	16,200,000	16,200,000
Transfers out	(1,433,973)	-	(16,900,000)	(18,333,973)
Other uses	-	-	(16,055,000)	(16,055,000)
Net Financing Sources (Uses)	(1,433,973)	-	1,578,973	145,000
NET CHANGE IN FUND BALANCES	10,660,320	2,372,844	818,592	13,851,756
Fund Balances - Beginning	113,363,448	-	27,024,617	140,388,065
Restatement	(7,948,335)	7,948,335	-	-
Fund Balances - Ending	\$ 116,075,433	\$ 10,321,179	\$ 27,843,209	\$ 154,239,821

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

ORANGE COUNTY DEPARTMENT OF EDUCATION

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2012

Total Net Change in Fund Balances - Governmental Funds **\$ 13,851,756**
Amounts Reported for Governmental Activities in the Statement of Activities are Different Because:

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

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

Depreciation expense	\$ (3,015,469)	
Capital outlays	<u>1,465,386</u>	
Net Expense Adjustment		(1,550,083)

Loss on disposal of capital assets is reported in the government-wide Statement of Net Assets, but is not recorded in the governmental funds. (7,802)

In the Statement of Activities, certain operating expenses - compensated absences (vacations) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). Vacation earned was less than the amounts paid by \$135,450. 135,450

Other postemployment benefits (OPEB): In governmental funds, OPEB costs are recognized when employer contributions are made. In the Statement of Activities, OPEB costs are recognized on the accrual basis. This year, the difference between OPEB costs and actual employer contributions was: 292,642

Proceeds received from Certificates of Participation or Sale of Bonds is a revenue in the governmental funds, but it increases long-term obligations in the Statement of Net Assets and does not affect the Statement of Activities. (145,000)

Payment of costs for the issuance of certificates of participation or bonds is an expenditure in the governmental funds, but is recorded as a prepaid expense and amortized on the Statement of Net Assets over the live of the bonds. 397,935

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

Certificates of participation	200,000
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The accompanying notes are an integral part of these financial statements.

ORANGE COUNTY DEPARTMENT OF EDUCATION

**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES (Continued)
FOR THE YEAR ENDED JUNE 30, 2012**

Interest on long-term obligations in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.

\$ 3,547

An Internal Service Fund is used by the County's management to charge the costs of the dental and vision insurance program to the individual funds. The net revenue of the Internal Service Fund is reported with governmental activities.

365,584

Change in Net Assets of Governmental Activities

\$ 13,544,029

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

ORANGE COUNTY DEPARTMENT OF EDUCATION

**PROPRIETARY FUNDS
STATEMENT OF NET ASSETS
JUNE 30, 2012**

	Governmental Activities - Internal Service Fund
ASSETS	
Current Assets	
Deposits and investments	\$ 3,071,409
Receivables	835
Total Current Assets	<u>3,072,244</u>
LIABILITIES	
Current Liabilities	
Accounts payable	118,165
Claim liabilities	341,248
Total Current Liabilities	<u>459,413</u>
NET ASSETS	
Unrestricted	2,612,831
Total Net Assets	<u>\$ 2,612,831</u>

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

ORANGE COUNTY DEPARTMENT OF EDUCATION

**PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2012**

	Governmental Activities - Internal Service Fund
	<u> </u>
OPERATING REVENUES	
Local and intermediate sources	\$ 2,014,757
Total Operating Revenues	<u>2,014,757</u>
OPERATING EXPENSES	
Payroll costs	1,576,993
Other operating cost	83,686
Total Operating Expenses	<u>1,660,679</u>
Operating Income	<u>354,078</u>
NONOPERATING REVENUES	
Interest income	11,506
Change in Net Assets	<u>365,584</u>
Total Net Assets - Beginning	<u>2,247,247</u>
Total Net Assets - Ending	<u><u>\$ 2,612,831</u></u>

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

ORANGE COUNTY DEPARTMENT OF EDUCATION

**PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2012**

	Governmental Activities - Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash receipts from customers	\$ 2,015,603
Cash payments to employees for services	(1,525,695)
Other operating cash payments	(83,686)
Net Cash Provided by Operating Activities	<u>406,222</u>
 CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	<u>11,506</u>
 Net Increase in Cash and Cash Equivalents	417,728
Cash and Cash Equivalents - Beginning	2,653,681
Cash and Cash Equivalents - Ending	<u><u>\$ 3,071,409</u></u>
 RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating income	\$ 354,078
Adjustments to reconcile operating income to net cash provided by operating activities:	
Changes in assets and liabilities:	
Receivables	846
Accrued liabilities	51,298
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u><u>\$ 406,222</u></u>

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

ORANGE COUNTY DEPARTMENT OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

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

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

Component Units

Component units are legally separate organizations for which the County is financially accountable. Component units may include organizations that are fiscally dependent on the County in that the County approves their budget, the issuance of their debt or the levying of their taxes. For financial reporting purposes, the component unit has a financial and operational relationship which meets the reporting entity definition criteria of the Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, and thus is included in the financial statements of the County. The component unit, although a legally separate entity, is reported in the financial statements using the blended presentation method as if it were part of the County's operations because the governing board of the component unit is essentially the same as the governing board of the County and because its purpose is to finance the construction of facilities to be used for the benefit of the County.

The County and the Orange County Department of Education Facilities Corporation (the Corporation) have a financial and operational relationship, which meets the reporting entity definition criteria of the GASB Codification of Governmental Accounting and Financial Reporting Standards, Section 2100, for inclusion of the Corporation as a component unit of the County.

The Corporation's financial activity is presented in the financial statements as the Special Reserve Capital Projects Fund and the Certificate of Participation (COP) Debt Service Fund. Certificates of participation issued by the Corporation are included as long-term liabilities in the government-wide financial statements.

In addition, component units are other legally separate organizations for which the County is not financially accountable but the nature and significance of the organization's relationship with the County is such that exclusion would cause the County's financial statements to be misleading or incomplete. The County has no such component units.

ORANGE COUNTY DEPARTMENT OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

Basis of Presentation - Fund Accounting

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

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

Major Governmental Funds

General Fund The General Fund is the chief operating fund for all Counties. It is used to account for the ordinary operations of the County. All transactions except those accounted for in another fund are accounted for in this fund.

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

The Special Reserve for Other Than Capital Outlay Projects is used primarily to provide for the accumulation of General Fund monies for general operating purposes other than for capital outlay (*Education Code* Section 42840).

As a result, the General Fund reflects an increase in assets, fund balance, revenues and expenditures of \$22,931,853, \$22,931,853, \$103,485, and \$-0-, respectively

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

ORANGE COUNTY DEPARTMENT OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

Non-Major Governmental Funds

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

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

Deferred Maintenance Fund The Deferred Maintenance Fund is used to account separately for State apportionments and the County's contributions for deferred maintenance purposes (*Education Code* Sections 17582-17587) and for items of maintenance approved by the State Allocation Board.

Capital Project Funds The Capital Project funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditures for capital outlays, including the acquisition or construction of capital facilities and other capital assets (other than those financed by proprietary funds and trust funds).

County School Facilities Fund The County School Facilities Fund is used primarily to account separately for State apportionments provided for construction and reconstruction of school facilities (*Education Code* Sections 17010.10-17076.10).

Special Reserve Fund for Capital Outlay Projects The Special Reserve Fund for Capital Outlay Projects exists primarily to provide for the accumulation of General Fund monies for capital outlay purposes (*Education Code* Section 42840).

Debt Service Funds The Debt Service funds are used to account for the accumulation of restricted, committed, or assigned resources for and the payment of principal and interest on general long-term obligations.

COP Debt Service Fund The COP Debt Service Fund is used to account for the interest and redemption of principal of Certificates of Participation.

Proprietary Funds Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position, and cash flows. The County applies all GASB pronouncements, as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. Proprietary funds are classified as enterprise or internal service. The County has the following proprietary fund:

Internal Service Funds Internal service funds may be used to account for any activity for which services are provided to other funds of the County on a cost-reimbursement basis. Such funds have no equity accounts since all assets are due to individuals or entities at some future time. The County operates a Dental Fund that is accounted for in an Internal Service Fund.

ORANGE COUNTY DEPARTMENT OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

Basis of Accounting - Measurement Focus

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

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each of the activities of the County and for each governmental program. Direct expenses are those that are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. The County does not allocate indirect expenses to functions in the Statement of Activities. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program or business segment is self-financing or draws from the general revenues of the County. Eliminations have been made to minimize the double counting of internal activities.

Net assets should be reported as restricted when constraints placed on net asset use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The net assets restricted for other activities result from special revenue funds and the restrictions on their net asset use.

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

Governmental Funds All governmental funds are accounted for using a flow of current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures, and changes in fund balances reports on the sources (revenues and other financing sources) and uses (expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide statements are prepared. Governmental fund financial statements therefore include reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for the governmental funds on a modified accrual basis of accounting and the current financial resources measurement focus. Under this basis, revenues are recognized in the accounting period in which they become measurable and available. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable.

Proprietary Funds Proprietary funds are accounted for using a flow of economic resources measurement focus and the accrual basis of accounting. All assets and all liabilities associated with the operation of this fund are included in the statement of net assets. The statement of changes in fund net assets presents increases (revenues) and decreases (expenses) in net total assets. The statement of cash flows provides information about how the County finances and meets the cash flow needs of its proprietary fund.

ORANGE COUNTY DEPARTMENT OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

Revenues – Exchange and Non-Exchange Transactions Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. Generally, available is defined as collectible within 60 days. However, to achieve comparability of reporting among California counties and so as not to distort normal revenue patterns, with specific respect to reimbursement grants and corrections to State-aid apportionments, the California Department of Education has defined available for counties as collectible within one year. The following revenue sources are considered to be both measurable and available at fiscal year-end: State apportionments, interest, certain grants, and other local sources.

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

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

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

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

Cash and Cash Equivalents

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

ORANGE COUNTY DEPARTMENT OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

Investments

Investments held at June 30, 2012, with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost. Fair values of investments in county and State investment pools are determined by the program sponsor.

Capital Assets and Depreciation

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

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

Capital assets in the proprietary funds are capitalized in the fund in which they are utilized. The valuation basis for proprietary fund capital assets are the same as those used for the capital assets of governmental funds.

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

Interfund Balances

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

Compensated Absences

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

ORANGE COUNTY DEPARTMENT OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

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

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities, and long-term obligations are reported in the government-wide and proprietary fund financial statements. Premiums and discounts on issuance of long-term obligations, as well as issuance costs, are deferred and amortized over the life of the related debt using the effective interest method. Long-term obligations payable are reported net of the applicable premium or discount. Issuance costs are reported as deferred charges and amortized over the term of the related debt.

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

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

Deferred Issuance Costs, Premiums and Discounts

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

Fund Balances - Governmental Funds

As of June 30, 2012, fund balances of the governmental funds are classified as follows:

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

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

ORANGE COUNTY DEPARTMENT OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

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Committed - amounts that can be used only for specific purposes determined by a formal action of the governing board. The governing board is the highest level of decision-making authority for the County. Commitments may be established, modified, or rescinded only through resolutions or other action as approved by the governing board.

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

Unassigned - all other spendable amounts.

Spending Order Policy

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

Minimum Fund Balance Policy

The governing board adopted a minimum fund balance policy for the General Fund in order to protect the County against revenue shortfalls or unpredicted on-time expenditures. The policy requires a Reserve for Economic Uncertainties consisting of unassigned amounts equal to no less than three percent of General Fund expenditures and other financing uses.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. The County has related debt outstanding as of June 30, 2012. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the County or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The County first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. Enabling legislation relates to laws passed that create a revenue source to be used for specific purposes. The government-wide financial statements report net assets restricted by enabling legislation of \$57,505,209.

Operating Revenues and Expenses

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

ORANGE COUNTY DEPARTMENT OF EDUCATION

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Interfund Activity

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

Estimates

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

Budgetary Data

The budgetary process is prescribed by provisions of the California Education Code and requires the governing board to hold a public hearing and adopt an operating budget no later than July 1 of each year. The County governing board satisfied these requirements. The adopted budget is subject to amendment throughout the year to give consideration to unanticipated revenue and expenditures primarily resulting from events unknown at the time of budget adoption with the legal restriction that expenditures cannot exceed appropriations by major object account.

The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts after all budget amendments have been accounted for. For budget purposes, on behalf payments have been included as revenue and expenditures as required under generally accepted accounting principles.

Property Tax

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

New Accounting Pronouncements

In November 2010, the GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34*. The objective of this Statement is to improve financial reporting for a governmental financial reporting entity. The requirements of GASB Statement No. 14, *The Financial Reporting Entity*, and the related financial reporting requirements of GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, were amended to better meet user needs and to address reporting entity issues that have arisen since the issuance of those Statements.

ORANGE COUNTY DEPARTMENT OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

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This Statement modifies certain requirements for inclusion of component units in the financial reporting entity. For organizations that previously were required to be included as component units by meeting the fiscal dependency criterion, a financial benefit or burden relationship also would need to be present between the primary government and that organization for it to be included in the reporting entity as a component unit. Further, for organizations that do not meet the financial accountability criteria for inclusion as component units but that, nevertheless, should be included because the primary government's management determines that it would be misleading to exclude them, this Statement clarifies the manner in which that determination should be made and the types of relationships that generally should be considered in making the determination.

This Statement also amends the criteria for reporting component units as if they were part of the primary government (that is, blending) in certain circumstances. For component units that currently are blended based on the "substantively the same governing body" criterion, it additionally requires that (1) the primary government and the component unit have a financial benefit or burden relationship or (2) management (below the level of the elected officials) of the primary government have operational responsibility (as defined in paragraph 8a) for the activities of the component unit. New criteria also are added to require blending of component units whose total debt outstanding is expected to be repaid entirely or almost entirely with resources of the primary government. The blending provisions are amended to clarify that funds of a blended component unit have the same financial reporting requirements as a fund of the primary government. Lastly, additional reporting guidance is provided for blending a component unit if the primary government is a business-type activity that uses a single column presentation for financial reporting.

This Statement also clarifies the reporting of equity interests in legally separate organizations. It requires a primary government to report its equity interest in a component unit as an asset. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2012. Early implementation is encouraged.

In June 2011, the GASB issued Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position. This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, Elements of Financial Statements, introduced and defined those elements as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities.

Concepts Statement 4 also identifies net position as the residual of all other elements presented in a statement of financial position. This Statement amends the net asset reporting requirements in Statement No. 34, Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets.

The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2011. Earlier implementation is encouraged.

ORANGE COUNTY DEPARTMENT OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

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In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined the elements included in financial statements, including deferred outflows of resources and deferred inflows of resources. In addition, Concepts Statement 4 provides that reporting a deferred outflow of resources or a deferred inflow of resources should be limited to those instances identified by the Board in authoritative pronouncements that are established after applicable due process. Prior to the issuance of this Statement, only two such pronouncements have been issued. Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, requires the reporting of a deferred outflow of resources or a deferred inflow of resources for the changes in fair value of hedging derivative instruments, and Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, requires a deferred inflow of resources to be reported by a transferor government in a qualifying service concession arrangement. This Statement amends the financial statement element classification of certain items previously reported as assets and liabilities to be consistent with the definitions in Concepts Statement 4.

This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term *deferred* in financial statement presentations.

The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. Earlier application is encouraged. Earlier implementation is encouraged.

In March 2012, the GASB issued Statement No. 66, *Technical Corrections—2012—an amendment of GASB Statements No. 10 and No. 62*. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*.

This Statement amends Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, by removing the provision that limits fund-based reporting of an entity's risk financing activities to the general fund and the internal service fund type. As a result, governments should base their decisions about fund type classification on the nature of the activity to be reported, as required in Statement 54 and Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*.

This Statement also amends Statement 62 by modifying the specific guidance on accounting for (1) operating lease payments that vary from a straight-line basis, (2) the difference between the initial investment (purchase price) and the principal amount of a purchased loan or group of loans, and (3) servicing fees related to mortgage loans that are sold when the stated service fee rate differs significantly from a current (normal) servicing fee rate. These changes clarify how to apply Statement No. 13, *Accounting for Operating Leases with Scheduled Rent Increases*, and result in guidance that is consistent with the requirements in Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, respectively.

ORANGE COUNTY DEPARTMENT OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. Earlier implementation is encouraged.

NOTE 2 – DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2012, consist of the following:

Cash on hand and in banks	\$ 2,142,787
Cash in revolving	70,000
Investments	135,183,959
Total Deposits and Investments	<u>\$ 137,396,746</u>

Policies and Practices

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

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

ORANGE COUNTY DEPARTMENT OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

General Authorizations

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

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

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The County manages its exposure to interest rate risk by investing in the County Pool and money market funds to provide the cash flow and liquidity needed for operations.

Information about the sensitivity of the fair values of the County's investments to market interest rate fluctuation is provided by the following schedule that shows the distribution of the County's investment by maturity:

Investment Type	Fair Value	Average Days to Maturity
County Treasury Investment Pool	\$ 135,375,443	347

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the actual rating as of the year-end for each investment type. The County's investment in the Orange County Investment Pool is rated Aaa by Moody's Investor Service.

ORANGE COUNTY DEPARTMENT OF EDUCATION

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

Custodial Credit Risk - Deposits

This is the risk that in the event of a bank failure, the County's deposits may not be returned to it. The County has a policy for custodial credit risk for deposits. Monies so deposited shall be in a fully insured or collateralized accounts or instruments. California Government Code requires that a financial institution secure deposits made by State or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under State law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agency. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2012, the County's bank balance was not exposed to custodial credit risk.

NOTE 3 – RECEIVABLES

Receivables at June 30, 2012, consisted of intergovernmental grants, entitlements, interest and other local sources. All receivables are considered collectible in full.

	General Fund	Special Education Pass-Through Fund	Non-Major Governmental Funds	Internal Service Funds	Total Governmental Activities
Federal Government					
Categorical aid	\$ 3,282,654	\$ 2,493,112	\$ 603,927	\$ -	\$ 6,379,693
State Government					
Apportionment	13,763,945	-	-	-	13,763,945
Categorical aid	5,980,990	547,019	248,458	-	6,776,467
Lottery	1,150,753	-	-	-	1,150,753
Local Government					
Special Education - SELPA	1,104,534	573,726	-	-	1,678,260
Due from school districts	7,479,074	897,789	-	-	8,376,863
Interest	36,841	2,533	11,423	835	51,632
Other Local Sources	2,651,583	-	16,358	-	2,667,941
Total	<u>\$ 35,450,374</u>	<u>\$ 4,514,179</u>	<u>\$ 880,166</u>	<u>\$ 835</u>	<u>\$ 40,845,554</u>

ORANGE COUNTY DEPARTMENT OF EDUCATION

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2012, was as follows:

	Balance July 1, 2011	Additions	Deductions	Balance June 30, 2012
Governmental Activities				
Capital Assets Not Being Depreciated				
Land	\$ 24,632,374	\$ -	\$ -	\$ 24,632,374
Construction in process	4,396,469	249,192	-	4,645,661
Total Capital Assets Not Being Depreciated	<u>29,028,843</u>	<u>249,192</u>	<u>-</u>	<u>29,278,035</u>
Capital Assets Being Depreciated				
Land improvements	4,511,925	20,918	-	4,532,843
Buildings and improvements	79,187,800	88,718	-	79,276,518
Furniture and equipment	8,434,429	1,106,558	145,259	9,395,728
Total Capital Assets Being Depreciated	<u>92,134,154</u>	<u>1,216,194</u>	<u>145,259</u>	<u>93,205,089</u>
Less Accumulated Depreciation				
Land improvements	1,842,944	194,987	-	2,037,931
Buildings and improvements	14,747,975	2,246,769	-	16,994,744
Furniture and equipment	5,627,851	573,713	137,457	6,064,107
Total Accumulated Depreciation Governmental Activities	<u>22,218,770</u>	<u>3,015,469</u>	<u>137,457</u>	<u>25,096,782</u>
Capital Assets, Net	<u>\$ 98,944,227</u>	<u>\$ (1,550,083)</u>	<u>\$ 7,802</u>	<u>\$ 97,386,342</u>

Depreciation expense was charged to governmental functions as follows:

Governmental Activities	
Instruction	\$ 2,713,923
Supervision of instruction	150,773
All other pupil services	150,773
Total Depreciation Expenses Governmental Activities	<u>\$ 3,015,469</u>

ORANGE COUNTY DEPARTMENT OF EDUCATION

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 5 – INTERFUND TRANSACTIONS

Interfund Receivables/Payables (Due To/Due From)

Interfund receivable and payable balances arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed. Interfund receivable and payable balances consist of amounts due for cost allocation or to cover another fund's operating deficit. Interfund receivable and payable balances at June 30, 2012, between major and non-major governmental funds, are as follows:

Due To	Due From			Total
	General Fund	Special Education Pass-Through Fund	Non-Major Governmental Funds	
General Fund	\$ -	\$ 280,024	\$ 1,095,194	\$ 1,375,218
Special Education Pass-Through Fund	2,978,347	-	-	2,978,347
Non-Major Governmental Funds	1,450,054	-	-	1,450,054
Total	\$ 4,428,401	\$ 280,024	\$ 1,095,194	\$ 5,803,619

The balance of \$2,978,347 due to the Special Education Pass-Through Fund from the General Fund is for program funding distribution.

A balance of \$463,601 due to the Child Development Fund from the General Fund is for contributions to cover program and indirect costs.

A balance of \$980,735 due to the Deferred Maintenance Fund from the General Fund is for program match.

A balance of \$5,718 due to the County School Facilities Fund from the General Fund is for reimbursement of construction costs.

The balance of \$280,024 due to the General Fund from the Special Education Pass-Through Fund is for costs related to categorical programs.

The balance of \$1,095,194 due to the General Fund from the Child Development Fund is for costs related to categorical programs.

The balances resulted from the time lag between the date that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

ORANGE COUNTY DEPARTMENT OF EDUCATION

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

Operating Transfers

Interfund transfers for the year ended June 30, 2012, consisted of the following:

Transfer To	General Fund	Transfer From Non-Major Governmental Funds	Total
Non-Major Governmental Funds	\$ 1,433,973	\$ 16,900,000	\$ 18,333,973

The General Fund transferred to the Child Development Fund to cover excess costs by program.	\$	453,238	
The General Fund transferred to the Deferred Maintenance Fund for the State match.		980,735	
The Special Reserve Fund for Capital Outlay Projects transferred to the COP Debt Service Fund for debt service payments.		16,900,000	
Total		<u>\$ 18,333,973</u>	

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

ORANGE COUNTY DEPARTMENT OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

NOTE 6 – ACCOUNTS PAYABLE

Accounts payable at June 30, 2012, consist of the following:

	General Fund	Special Education Pass-Through Fund	Non-Major Governmental Funds	Internal Service Fund	Total Governmental Activities
Vendor payables	\$ 330,980	\$ -	\$ 84	\$ -	\$ 331,064
State apportionment	283,747	-	-	-	283,747
Salaries and benefits	5,564,286	-	107,843	110,363	5,782,492
Federal categorical	-	-	296,978	-	296,978
State categorical	122,872	-	192,822	-	315,694
Services and supplies	2,101,556	-	926,041	7,802	3,035,399
Pass-through to districts	3,637,090	4,926,358	-	-	8,563,448
Construction	674,341	-	321,828	-	996,169
County of Orange	57,702	-	-	-	57,702
Total	\$ 12,772,574	\$ 4,926,358	\$ 1,845,596	\$ 118,165	\$ 19,662,693

NOTE 7 – DEFERRED REVENUE

Deferred revenue at June 30, 2012, consists of the following:

	General Fund	Special Education Pass-Through Fund	Total
Federal financial assistance	\$ 467,172	\$ 286,595	\$ 753,767
State categorical aid	153,425	-	153,425
Other local	482,146	-	482,146
Total	\$ 1,102,743	\$ 286,595	\$ 1,389,338

ORANGE COUNTY DEPARTMENT OF EDUCATION

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 8 – LONG-TERM OBLIGATIONS

Summary

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

	Balance July 1, 2011	Additions	Deductions	Balance June 30, 2012	Due in One Year
Certificates of participation	\$ 16,055,000	\$ 16,200,000	\$ 16,255,000	\$ 16,000,000	\$ 230,000
Unamortized discount	(126,000)	-	(6,000)	(120,000)	-
Accumulated vacation - net	1,738,456	-	135,450	1,603,006	-
Other postemployment benefits (OPEB)	3,892,140	-	292,642	3,599,498	-
	<u>\$ 21,559,596</u>	<u>\$ 16,200,000</u>	<u>\$ 16,677,092</u>	<u>\$ 21,082,504</u>	<u>\$ 230,000</u>

Payments for the Certificates of Participation are made by the COP Debt Service Fund. The accrued vacation will be paid by the fund for which the employee worked. Payments for OPEB are made by the General Fund.

Certificates of Participation

In June 2002, the Orange County Department of Education Facilities Corporation issued Certificates of Participation in the amount of \$20,000,000 with weekly variable interest rates. As of June 30, 2012, the principal balance outstanding was \$16,000,000.

The certificates mature through 2032 as follows:

Year Ending June 30,	Principal	Interest	Total
2013	\$ 230,000	\$ 480,000	\$ 710,000
2014	270,000	473,100	743,100
2015	310,000	465,000	775,000
2016	350,000	455,700	805,700
2017	400,000	445,200	845,200
2018-2022	2,820,000	2,014,800	4,834,800
2023-2027	4,590,000	1,492,500	6,082,500
2028-2032	7,030,000	667,500	7,697,500
Total	<u>\$ 16,000,000</u>	<u>\$ 6,493,800</u>	<u>\$ 22,493,800</u>

In February 2012, the Certificates of Participation (COP) remaining principal balance of \$16,055,000 was restructured. The amount of the COP restructuring resulted in an issuance of \$16,200,000 with weekly variable interest rates.

ORANGE COUNTY DEPARTMENT OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

Accumulated Unpaid Employee Vacation

The long-term portion of accumulated unpaid employee vacation for the County at June 30, 2012, amounted to \$1,603,006.

Other Postemployment Benefits (OPEB) Obligation

The County's annual required contribution for the year ended June 30, 2012, was \$462,037, and contributions made by the County during the year were \$738,388. Interest on the net OPEB obligation and adjustments to the annual required contribution were \$194,607 and (\$210,898), respectively, which resulted in a decrease to the net OPEB obligation of \$292,642. As of June 30, 2012, the net OPEB obligation was \$3,599,498. See Note 12 for additional information regarding the OPEB obligation and the postemployment benefits plan.

ORANGE COUNTY DEPARTMENT OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

NOTE 9 – FUND BALANCES

Fund balances are composed of the following elements:

	General Fund	Special Education Pass-Through Fund	Non-Major Governmental Funds	Total Governmental Funds
Nonspendable				
Revolving cash	\$ 70,000	\$ -	\$ -	\$ 70,000
Prepaid expenditures	3,631	-	-	3,631
Stores inventory	-	-	-	-
Total Nonspendable	<u>73,631</u>	<u>-</u>	<u>-</u>	<u>73,631</u>
Restricted				
Legally restricted programs	<u>19,340,821</u>	<u>10,321,179</u>	<u>10,386,822</u>	<u>40,048,822</u>
Committed				
Deferred maintenance program	<u>-</u>	<u>-</u>	<u>17,456,387</u>	<u>17,456,387</u>
Assigned				
ACCESS program	12,635,171	-	-	12,635,171
Mandated costs	1,877,274	-	-	1,877,274
Workshops and contracts	1,595,882	-	-	1,595,882
Various program balances	8,349,866	-	-	8,349,866
Technology projects	2,766,749	-	-	2,766,749
Other designations	10,682,472	-	-	10,682,472
Total Assigned	<u>37,907,414</u>	<u>-</u>	<u>-</u>	<u>37,907,414</u>
Unassigned				
Reserve for economic uncertainties	26,000,121	-	-	26,000,121
Remaining unassigned	<u>32,753,446</u>	<u>-</u>	<u>-</u>	<u>32,753,446</u>
Total Unassigned	<u>58,753,567</u>	<u>-</u>	<u>-</u>	<u>58,753,567</u>
Total	<u>\$ 116,075,433</u>	<u>\$ 10,321,179</u>	<u>\$ 27,843,209</u>	<u>\$ 154,239,821</u>

ORANGE COUNTY DEPARTMENT OF EDUCATION

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 10 – EXPENDITURES (BUDGET VERSUS ACTUAL)

At June 30, 2012, the following County major fund exceeded the budgeted amount in total as follows:

Funds	Expenditures and Other Uses		
	<u>Budget</u>	<u>Actual</u>	<u>Excess</u>
Special Education Pass-Through Fund	<u>\$ 28,445,721</u>	<u>\$ 28,523,993</u>	<u>\$ 78,272</u>

NOTE 11 – LEASE REVENUES

The County has property held for lease with a cost of \$10,078,223 and accumulated depreciation of \$1,914,862. Lease agreements have been entered into with various lessees for terms that exceed one year. None of the agreements contain purchase options. All of the agreements contain a termination clause providing for cancellation after a specified number of days written notice to lessees, but is unlikely that the County will cancel any of the agreements prior to their expiration date. The future minimum lease payments expected to be received under these agreements are as follows:

<u>Year Ending June 30,</u>	<u>Lease Revenue</u>
2013	\$ 1,872,238
2014	862,256
2015	523,284
2016	445,230
2017	11,631
Total	<u>\$ 3,714,639</u>

ORANGE COUNTY DEPARTMENT OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

NOTE 12 – POSTEMPLOYMENT HEALTH CARE PLAN AND OTHER POSTEMPLOYMENT BENEFITS (OPEB) OBLIGATION

Plan Description

The Plan provides medical and dental insurance benefits to eligible retirees and their spouses. The Plan consists of 83 retirees and beneficiaries currently receiving benefits, no terminated plan members entitled to but not yet receiving benefits, and 1,506 active plan members.

Contribution Information

The contribution requirements of Plan members and the County are established and may be amended by the County and the Teachers Association (CEA), the local California Service Employees Association (CSEA). The required contribution is based on projected pay-as-you-go financing requirements. For fiscal year 2011-2012, the County contributed \$738,388 to the Plan.

Annual OPEB Cost and Net OPEB Obligation

The County's 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 Statement No. 45. 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 accrued liabilities (UAAL) (or funding excess) over a period not to exceed thirty years. The following table shows the components of the County's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the County's net OPEB obligation to the Plan:

Annual required contribution	\$ 462,037
Interest on net OPEB obligation	194,607
Adjustment to annual required contribution	<u>(210,898)</u>
Annual OPEB cost (expense)	445,746
Contributions made	<u>(738,388)</u>
Decrease in net OPEB obligation	(292,642)
Net OPEB obligation, beginning of year	3,892,140
Net OPEB obligation, end of year	<u><u>\$ 3,599,498</u></u>

ORANGE COUNTY DEPARTMENT OF EDUCATION

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

Trend Information

Trend information for annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation is as follows:

Year Ended June 30,	Annual OPEB Cost	Actual Contribution	Percentage Contributed	Net OPEB Obligation
2010	\$ 426,715	\$ 149,654	35%	\$ 3,727,625
2011	427,613	263,098	62%	3,892,140
2012	445,746	738,388	166%	3,599,498

Funded Status and Funding Progress

A schedule of funding progress as of the most recent actuarial valuation is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) - Unprojected Unit Credit (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([(b - a) / c])
March 1, 2012	\$ -	\$ 4,691,739	\$4,691,739	-	\$ 102,201,957	4.59%

Actuarial valuations of an ongoing 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, investment returns, 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 with past expectations and new estimates are made about the future. The schedule of 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 is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

ORANGE COUNTY DEPARTMENT OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

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, consistent with the long-term perspective of the calculations.

In the August 1, 2010, actuarial valuation, the unprojected unit credit method was used. The actuarial assumptions included a five percent investment rate of return (net of administrative expenses), based on the plan being funded in an irrevocable employee benefit trust invested in a combined equity and fixed income portfolio. Healthcare cost trend rates reflected an ultimate rate of four percent. The UAAL may be amortized at a level dollar method for 30 years, however, the actuarial value of assets was not determined in this actuarial valuation.

NOTE 13 – RISK MANAGEMENT

The County is exposed to various risks of loss related to torts; theft, damage 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 2012. Employee health benefits are covered by a commercial insurance policy purchased by the County. 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.

Description

The County's risk management activities are recorded in the General and Self-Insurance Funds. Employee life, health, and disability programs are administered by the General Fund through the purchase of commercial insurance. The County participates in the various public entity risk pools (JPA's) for the workers' compensation, property/liability, and excess property and liability insurance programs. Refer to Note 15 for additional information regarding the JPA's. The Dental Program, for which the County retains risk of loss, is administered by the Self-Insurance Fund.

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

ORANGE COUNTY DEPARTMENT OF EDUCATION

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012

Claims Liabilities

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

Unpaid Claims Liabilities

The fund establishes a liability for both reported and unreported events, which includes estimates of both future payments of losses and related claim adjustment expenses. The following represent the changes in approximate aggregate liabilities for the County from July 1, 2010 to June 30, 2012:

	<u>Dental Care</u>
Liability Balance, July 1, 2010	\$ 318,664
Claims and changes in estimates	1,858,056
Claims payments	<u>(1,835,473)</u>
Liability Balance, June 30, 2011	341,247
Claims and changes in estimates	1,576,993
Claims payments	<u>(1,576,992)</u>
Liability Balance, June 30, 2012	<u>\$ 341,248</u>
Assets available to pay claims at June 30, 2012	<u>\$ 3,072,244</u>

NOTE 14 – EMPLOYEE RETIREMENT SYSTEMS

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

CalSTRS

Plan Description

The County contributes to CalSTRS, a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalSTRS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and survivor benefits to beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law. CalSTRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalSTRS annual financial report may be obtained from CalSTRS, 7919 Folsom Blvd., Sacramento, California 95826.

ORANGE COUNTY DEPARTMENT OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

Funding Policy

Active plan members are required to contribute 8.0 percent of their salary and the County is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by CalSTRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2011-2012 was 8.25 percent of annual payroll. The contribution requirements of the plan members are established by State statute. The County's contributions to CalSTRS for the fiscal years ending June 30, 2012, 2011, and 2010, were \$4,273,714, \$4,327,564, and \$4,367,021, respectively, and equal 100 percent of the required contributions for each year.

CalPERS

Plan Description

The County contributes to the School Employer Pool under 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 survivor benefits to plan members and beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Laws. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS' annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, California 95811.

Funding Policy

Active plan members are required to contribute 7.0 percent of their salary and the County is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2011-2012 was 10.923 percent of covered payroll. The contribution requirements of the plan members are established by State statute. The County's contributions to CalPERS for the fiscal years ending June 30, 2012, 2011, and 2010, were \$5,505,122, \$5,503,231, and \$3,774,632, respectively, and equal 100 percent of the required contributions for the year. The County was not required to contribute to CalPERS for the year ending June 30, 2012.

Alternative Retirement Program

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

ORANGE COUNTY DEPARTMENT OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

The County also contributes to the Public Agency Retirement System (PARS), which is a defined contribution pension plan. A defined contribution pension plan provides pension benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual's account are to be determined instead of specifying the amount of benefits the individual is to receive. Under a defined contribution pension plan, the benefits a participant will receive depend solely on the amount contributed to the participant's account, the returns earned on investments of those contributions, and forfeitures of other participants' benefits that may be allocated to such participant's account. During the year, the County's required and actual contributions amounted to \$115,903.

On Behalf Payments

The State of California makes contributions to CalSTRS on behalf of the County. These payments consist of State General Fund contributions to CalSTRS in the amount of \$2,515,016 (4.855 percent of annual payroll). Contributions are no longer appropriated in the annual *Budget Act* for the legislatively mandated benefits to CalPERS. Therefore, there is no on behalf contribution rate for CalPERS.). Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, these amounts have been recorded in these financial statements. On behalf payments have been excluded from the calculation of available reserves, and have not been included in the budgeted amounts reported in the *General Fund - Budgetary Comparison Schedule*.

NOTE 15 – COMMITMENTS AND CONTINGENCIES

Grants

The County received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the County at June 30, 2012.

Litigation

The County is involved in various litigation arising from the normal course of business. In the opinion of management and legal counsel, the disposition of all litigation pending is not expected to have a material adverse effect on the overall financial position of the County at June 30, 2012.

Early Retirement

The County initiated an early retirement incentive program, whereby employees who retire early will receive supplemental income. The County entered into contract that pays the employees over five to 15 years beginning in the 1994-95 fiscal year. At June 30, 2012, the County had fully funded the future supplemental income payments by purchasing an outside annuity contract.

ORANGE COUNTY DEPARTMENT OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

Operating Leases

The County has entered into various operating leases for buildings and equipment with lease terms in excess of one year. None of these agreements contain purchase options. All agreements contain a termination clause providing for cancellation after a specified number of days written notice to lessees, but it is unlikely that the County will cancel any of the agreements prior to the expiration date. Future minimum lease payments under these agreements are as follows:

Year Ending June 30,	Lease Payments
2013	\$ 3,448,613
2014	3,144,134
2015	2,798,705
2016	2,311,358
2017	1,286,464
Total	<u>\$ 12,989,274</u>

The total lease payments for the year ended June 30, 2012, were approximately \$3,780,307.

Community School Program

Pursuant to *Education Code* Section 1240(j), the Office of Financial Accountability and Information Services has informed the County of an outstanding State audit issue for 1996-97 relating to the County's Community School program. This audit issue could require the County to repay certain apportionment funds received for the Community School Program.

NOTE 16 – PARTICIPATION IN PUBLIC ENTITY RISK POOLS

The County is a member of Western Orange County Self-Funded Workers' Compensation Agency, Southern Orange County Property/Liability Self-Insurance Authority, and Schools Excess Liability Fund Workers' Compensation public entity risk pools. The County pays an annual premium to each entity for its health, workers' compensation, property liability, and excess insurance coverage. The relationships between the County and the pools are such that they are not component units of the County for financial reporting purposes.

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

During the year ended June 30, 2012, the County made payments of \$1,597,723, \$554,012, and \$45,038 to Western Orange County Self-Funded Workers' Compensation Agency, Southern Orange County Property/Liability Self-Insurance Authority, and Schools Excess Liability Fund Workers' Compensation, respectively, for services noted above.

ORANGE COUNTY DEPARTMENT OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

NOTE 17 – FISCAL ISSUES RELATING TO BUDGET REDUCTIONS

The State of California continues to suffer the effects of a recessionary economy. California school Counties are reliant on the State of California to appropriate the funding necessary to continue the level of educational services expected by the State constituency. With the implementation of education trailer bill Senate Bill 70 (Chapter 7, Statutes of 2011), 39 percent of current year funding has now been deferred to a subsequent period, creating significant cash flow management issues for districts in addition to requiring substantial budget reductions, ultimately impacting the ability of California school districts to meet their goals for educational services.

NOTE 18 – RESTATEMENT OF THE PRIOR YEAR FUND BALANCES

Certain items that occurred in the prior year fund balances have been restated as of June 30, 2012, to more accurately reflect the substance of the underlying transactions. The following table lists the reasons for the restatement.

The County's prior year fund balance for the General Fund and for the Special Education Pass-Through Fund have been restated as of June 30, 2012, to conform to the change in application of an accounting principle. The restatement does not change the total fund balance amounts reported in the County's audited financial statements.

General Fund

Fund Balance - Beginning	\$ 113,363,448
Change in accounting principles to conform to California School Accounting Manual Procedure 755	(7,948,335)
Fund Balance - Beginning as Restated	<u>\$ 105,415,113</u>

Special Education Pass-Through Fund

Fund Balance - Beginning	\$ -
Change in accounting principles to conform to California School Accounting Manual Procedure 755	7,948,335
Fund Balance - Beginning as Restated	<u>\$ 7,948,335</u>

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REQUIRED SUPPLEMENTARY INFORMATION

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ORANGE COUNTY DEPARTMENT OF EDUCATION

**GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2012**

	Budgeted Amounts		Actual (GAAP Basis)	Variances - Positive (Negative)
	Original	Final		Final to Actual
REVENUES				
Revenue limit sources	\$ 105,629,471	\$ 100,334,379	\$ 100,596,454	\$ 262,075
Federal sources	35,648,563	33,305,611	31,751,680	(1,553,931)
Other State sources	22,848,188	24,526,448	28,166,620	3,640,172
Other local sources	54,076,504	53,635,819	54,730,068	1,094,249
Total Revenues ¹	218,202,726	211,802,257	215,244,822	3,442,565
EXPENDITURES				
Current				
Certificated salaries	56,163,266	56,187,768	56,204,435	(16,667)
Classified salaries	50,506,778	50,688,916	50,087,581	601,335
Employee benefits	36,596,230	35,986,328	38,178,117	(2,191,789)
Books and supplies	7,116,202	6,988,712	6,411,188	577,524
Services and operating expenditures	32,761,160	32,197,105	29,646,306	2,550,799
Other outgo	25,561,634	23,379,390	21,039,670	2,339,720
Capital outlay	1,325,976	1,405,307	1,566,339	(161,032)
Debt service - principal	27,518	30,488	12,819	17,669
Debt service - interest	5,000	2,003	4,074	(2,071)
Total Expenditures ¹	210,063,764	206,866,017	203,150,529	3,715,488
Excess (Deficiency) of Revenues Over Expenditures	8,138,962	4,936,240	12,094,293	7,158,053
Other Financing Sources (Uses)				
Transfers out	(2,512,834)	(2,338,980)	(1,433,973)	905,007
NET CHANGE IN FUND BALANCE	5,626,128	2,597,260	10,660,320	8,063,060
Fund Balance - Beginning as Restated	82,586,746	82,586,746	105,415,113	22,828,367
Fund Balance - Ending	\$ 88,212,874	\$ 85,184,006	\$ 116,075,433	\$ 30,891,427

¹ On behalf payments of \$2,515,016 are included in the actual revenues and expenditures, but have not been included in the budgeted amounts. In addition, due to the consolidation of Fund 17, Special Reserve Fund for Other Than Capital Outlay Projects, for reporting purposes into the General Fund, additional amounts in fund balance, revenues and expenditures, however are not included in the original and final General Fund budgets.

ORANGE COUNTY DEPARTMENT OF EDUCATION

**BUDGETARY COMPARISON SCHEDULE
SPECIAL EDUCATION PASS-THROUGH FUND
FOR THE YEAR ENDED JUNE 30, 2012**

	Budgeted Amounts		Actual (GAAP Basis)	Variances -
	Original	Final		Positive
				(Negative)
				Final to Actual
REVENUES				
Revenue limit sources	\$ 18,448,146	\$ 18,656,566	\$ 18,654,939	\$ (1,627)
Federal sources	6,980,541	7,047,963	7,190,037	142,074
Other State sources	1,450,384	4,045,148	3,841,282	(203,866)
Other local sources	1,239,803	1,223,321	1,210,579	(12,742)
Total Revenues	28,118,874	30,972,998	30,896,837	(76,161)
EXPENDITURES				
Current				
Other outgo	27,905,219	28,445,721	28,523,993	(78,272)
NET CHANGE IN FUND BALANCES	213,655	2,527,277	2,372,844	(154,433)
Fund Balance - Beginning as Restated	7,948,335	7,948,335	7,948,335	-
Fund Balance - Ending	\$ 8,161,990	\$ 10,475,612	\$ 10,321,179	\$ (154,433)

ORANGE COUNTY DEPARTMENT OF EDUCATION

**SCHEDULE OF OTHER POSTEMPLOYMENT BENEFITS (OPEB) FUNDING
PROGRESS
FOR THE YEAR ENDED JUNE 30, 2012**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) - Unprojected Unit Credit (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
September 1, 2006	\$ -	\$ 3,153,235	\$ 3,153,235	0.00%	\$ 116,955,024	2.70%
March 1, 2010	-	3,727,625	3,727,625	0.00%	108,511,042	3.44%
August 1, 2010	-	4,563,675	4,563,675	0.00%	103,891,283	4.39%
March 1, 2012	-	4,691,739	4,691,739	0.00%	102,201,957	4.59%

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SUPPLEMENTARY INFORMATION

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ORANGE COUNTY DEPARTMENT OF EDUCATION

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012**

Federal Grantor/Pass-Through Grantor/Program	Federal CFDA Number	Pass-Through Entity Identifying Number	Program Expenditures
U.S. DEPARTMENT OF EDUCATION			
Direct Programs:			
Elementary and Secondary School Counseling			
Demonstration Program	84.215E	[1]	\$ 201,973
Fitness Physical Education Program	84.215F	[1]	2,121
Safe and Drug-Free Schools and Communities - National Program	84.184E	[1]	204,512
Alcohol Abuse Reduction Grant	84.184A	[1]	51,299
Orange County Youth Internet Safety Education Project	84.215K	[1]	216,354
Understanding American Citizenship	84.215X	[1]	313,114
One Nation Many Faiths - How Ideas of Religious Liberty Shaped America	84.215X	[1]	18,791
Passed Through the Regents of The University of California:			
Special Temporal Mathematics at Scale - An Innovative and Fully Developed Paradigm to Boost Math Achievement Among All Learners	84.305A	[1]	116,836
Title II, Part A - Improving Teach Quality	84.367	37792; ITQ-11-808	11,834
Title II, Part A - Improving Teach Quality	84.367	36950; ITQ-10-705	23,218
Passed Through Imperial County Office of Education:			
No Child Left Behind Act (NCLB)			
Title I Grants to Local Educational Agencies Cluster:			
Title I, Basic School Support	84.010	14416	474,585
Passed Through California Department of Education (CDE):			
No Child Left Behind Act (NCLB)			
Elementary and Secondary Education Act			
Title I - Part A	84.010	14329	3,744,799
Title I - Part D, Local Delinquent Programs	84.010	14357	2,619,052
Total Title I Grants to Local Educational Agencies Cluster			<u>6,838,436</u>
Title II - Part D, Enhancing Education Through Technology	84.318	14334	2,493
ARRA Title II - Part D, Enhancing Education Through Technology	84.365	15019	<u>20,370</u>
Total Enhancing Education Through Technology Cluster			<u>22,863</u>
Improving Teacher Quality State Grants			
Title II - Part A, Improving Teacher Quality	84.367	14341	57,348
English Language Acquisition Grants Cluster			
Title III, Immigrant Education	84.365	14346	72,439
Title III, Limited English Proficiency	84.365	10084	173,515
Total English Language Acquisition Grants Cluster			<u>245,954</u>
Title X, McKinney-Vento Homeless Assistance Grants	84.196	14332	106,517
Education Jobs Fund	84.410	24410	3,461,643
ARRA Quality Improvement Activities Race to the Top	84.412A	14130	5,574

[1] Direct award, or no number provided.

See accompanying note to supplementary information.

ORANGE COUNTY DEPARTMENT OF EDUCATION

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
FOR THE YEAR ENDED JUNE 30, 2012**

Federal Grantor/Pass-Through Grantor/Program	Federal CFDA Number	Pass-Through Entity Identifying Number	Program Expenditures
U.S. DEPARTMENT OF EDUCATION (Continued)			
Passed Through the California Department of Education (CDE):			
Carl D. Perkins Vocational and Technical Education Act of 1998			
Vocational and Applied Technology Secondary Education	84.048	14894	\$ 61,190
Passed Through the Center County Regional Occupational Program:			
Carl D. Perkins Vocational and Technical Education Act of 1998			
Postsecondary and Adult Education	84.048	14893	93,262
Total Career Technical Education			<u>154,452</u>
Passed Through the North Orange County SELPA:			
Individuals with Disabilities Act (IDEA)			
Early Intervention	84.181	23761	401,107
Individuals with Disabilities Education Act			
Special Education (IDEA) Cluster:			
Local Assistance	84.027	13379	1,627,450
Local Assistance, Private School ISPs	84.027	10115	14,418
Federal Preschool	84.173	13430	46,301
Preschool Staff Development	84.173A	13431	2,401
CPIN - Special Education	84.173A	14530	50,000
Preschool Accountability Grants	84.173A	14688	92,141
Preschool Local	84.027A	13682	32,980
Passed Through CDE Through Orange County Department of Education to School Districts:			
Individuals with Disabilities Education Act			
Local Assistance	84.027	13379	6,563,785
ARRA, Local Assistance	84.391	15003	382,717
Local Assistance, Private School ISPs	84.027	10115	27,745
Federal Preschool	84.173	13430	160,446
ARRA, Federal Preschool	84.392	15000	28,083
Preschool Local	84.027A	13682	399,351
ARRA, Preschool Local	84.391A	15002	31,201
Total Special Education (IDEA) Cluster			<u>9,459,019</u>
Passed Through Napa County Office of Education to Districts:			
State Improvement Grant, Improving Special Education Systems	84.323	37442	84,150
Passed Through Anaheim City School District:			
Title I, Part A - Program Improvement LEA Corrective Action	84.010	14957	81,809
Total U.S. Department of Education			<u>22,078,924</u>

See accompanying note to supplementary information.

ORANGE COUNTY DEPARTMENT OF EDUCATION

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
FOR THE YEAR ENDED JUNE 30, 2012**

Federal Grantor/Pass-Through Grantor/Program	Federal CFDA Number	Pass-Through Entity Identifying Number	Program Expenditures
U.S. DEPARTMENT OF AGRICULTURE			
Passed Through CDE:			
Child Nutrition Cluster:			
Commodities	10.555	[1]	\$ 24,626
National School Lunch Program	10.555	13524	354,252
Basic Breakfast	10.553	13525	14,051
Especially Needy Breakfast	10.553	13526	113,631
Total Child Nutrition Cluster			506,560
Passed Through the California Department of Health and Human Services:			
Food Stamp Cluster:			
California Nutrition Network	10.561	11-10205	1,718,962
California Nutrition Network	10.561	11-10245	263,703
Total Food Stamp Cluster			1,982,665
Total U.S. Department of Agriculture			2,489,225
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed Through CDE:			
Child Care Development Program Cluster:			
Child Development - Quality Improvement Activities	93.575	14988	26,403
Child Development - Quality Improvement Activities	93.575	14989	250,536
Child Development - Quality Improvement Activities	93.575	14990	119,701
Child Development - Quality Improvement Activities	93.575	13979	363,191
Child Development - Federal Alternative Payment	93.596	14153	1,692,872
Child Development - Federal Alternative Payment	93.596	13694	2,603,483
Child Development - Federal Local Planning Council	93.575	13946	72,623
Child Development - Federal Alternative Payment, Stage 3	93.575	13881	666,381
Total Child Care Development Program Cluster			5,795,190
Passed Through the California Department of Health and Human Services:			
Medicaid Program Cluster:			
Medi-Cal Billing Option	93.778	10013	1,538,195
Medi-Cal Administrative Activities Program	93.778	10060	12,161,924
Total Medicaid Program Cluster			13,700,119
Total U.S. Department of Health and Human Services			19,495,309
NATIONAL SCIENCE FOUNDATION			
Passed Through California State University Fullerton Foundation:			
Teachers Assisting Students to Excel in Learning Mathematics	47.076	[1]	65,084
Total National Science Foundation			65,084
Total Expenditures of Federal Awards			\$ 44,128,542

[1] Direct award, or no number provided.

See accompanying note to supplementary information.

ORANGE COUNTY DEPARTMENT OF EDUCATION

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE JUNE 30, 2012

ORGANIZATION

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.

GOVERNING BOARD

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Dr. John W. Bedell	President	2012
Ms. Elizabeth Parker	Vice President	2014
David L. Boyd	Member	2014
Dr. Ken L. Williams	Member	2012
Mr. Long Pham	Member	2012

ADMINISTRATION

Mr. William M. Habermehl	County Superintendent of Schools and Secretary to the Board
Ms. Lynn April Hartline	Deputy County Superintendent of Schools
Mr. John L. Nelson	Associate County Superintendent
Ms. Wendy N. Benkert, Ed.D.	Associate Superintendent, Business Services
Ms. Renee Hendrick	Assistant Superintendent, Administrative Services

See accompanying note to supplementary information.

ORANGE COUNTY DEPARTMENT OF EDUCATION

**SCHEDULE OF AVERAGE DAILY ATTENDANCE
FOR THE YEAR ENDED JUNE 30, 2012**

	Final Report	
	Amended Second Period Report	Amended Annual Report
<i>County Office of Education</i>		
ELEMENTARY		
Juvenile halls, home and camps	88	88
Community schools pupils - probation and expelled	306	330
Community schools pupils - homeless	80	82
Total Elementary	474	500
HIGH SCHOOL		
Juvenile halls, home and camps	1,513	1,514
Community schools pupils - probation and expelled	4,293	4,263
Community schools pupils - homeless	16	16
Total High School	5,822	5,793
Grand Total	6,296	6,293

	Final Report	
	Amended Second Period Report	Amended Annual Report
<i>County-Operated Programs for Districts</i>		
ELEMENTARY		
Community schools	1,358	1,253
Special education, including extended year	207	208
Total Elementary	1,565	1,461
HIGH SCHOOL		
Community schools	2,292	2,194
Special education, including extended year	288	288
Total High School	2,580	2,482
Grand Total	4,145	3,943

See accompanying note to supplementary information.

ORANGE COUNTY DEPARTMENT OF EDUCATION

**SCHEDULE OF INSTRUCTIONAL TIME
FOR THE YEAR ENDED JUNE 30, 2012**

Grade Level	1986-87 Minutes Requirement	Reduced 1986-87 Minutes Requirement	2011-12 Actual Minutes	Number of Days		Status
				Traditional Calendar	Multitrack Calendar	
Kindergarten	36,000	33,600	57,060	177	-	Complied
Grades 1 - 3	50,400	47,040				
Grade 1			52,860	177	-	Complied
Grade 2	-		52,860	177	-	Complied
Grade 3			52,860	177	-	Complied
Grades 4 - 6	54,000	50,400				
Grade 4			52,860	177	-	Complied
Grade 5			52,860	177	-	Complied
Grade 6			52,860	177	-	Complied
Grades 7 - 8	54,000	50,400				
Grade 7			52,860	177	-	Complied
Grade 8			52,860	177	-	Complied
Grades 9 - 12	64,800	60,480				
Grade 9			62,520	177	-	Complied
Grade 10			62,520	177	-	Complied
Grade 11			62,520	177	-	Complied
Grade 12			62,520	177	-	Complied

See accompanying note to supplementary information.

ORANGE COUNTY DEPARTMENT OF EDUCATION

**RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT WITH
AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

There were no adjustments to the Unaudited Actual Financial Report, which required reconciliation to the audited financial statements at June 30, 2012.

See accompanying note to supplementary information.

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ORANGE COUNTY DEPARTMENT OF EDUCATION

**SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2012**

	(Budget) 2013 ¹	2012 ⁴	2011	2010
GENERAL FUND				
Revenues	\$ 205,695,228	\$ 215,141,337	\$ 269,301,701	\$ 251,352,074
Other sources	-	-	621,178	-
Total Revenues and Other Sources	205,695,228	215,141,337	269,922,879	251,352,074
Expenditures	213,593,861	203,150,529	248,333,233	250,306,912
Other uses and transfers out	1,620,903	1,433,973	2,371,641	1,332,578
Total Expenditures and Other Uses	215,214,764	204,584,502	250,704,874	251,639,490
INCREASE (DECREASE) IN FUND BALANCE RESTATEMENT	(9,519,536) \$ -	10,556,835 \$ (7,948,335)	19,218,005 \$ -	(287,416) \$ -
ENDING FUND BALANCE	<u>\$ 83,624,044</u>	<u>\$ 93,143,580</u>	<u>\$ 90,535,080</u>	<u>\$ 71,317,075</u>
AVAILABLE RESERVES²	<u>\$ 25,366,570</u>	<u>\$ 58,753,567</u>	<u>\$ 53,229,488</u>	<u>\$ 49,973,789</u>
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO³	<u>11.79%</u>	<u>29.08%</u>	<u>21.46%</u>	<u>20.07%</u>
LONG-TERM OBLIGATIONS K-12 AVERAGE DAILY ATTENDANCE FUNDED AT ANNUAL	<u>N/A</u> <u>6,124</u>	<u>\$ 21,082,504</u> <u>6,293</u>	<u>\$ 21,547,596</u> <u>6,554</u>	<u>\$ 23,822,878</u> <u>6,060</u>
SECOND PERIOD FUNDED AVERAGE DAILY ATTENDANCE	<u>4,159</u>	<u>4,145</u>	<u>3,848</u>	<u>3,538</u>

The General Fund balance has increased by \$21,826,505 over the past two years. The fiscal year 2012-2013 budget projects a decrease of \$9,519,536 (10.2 percent). For a county this size, the State recommends available reserves of at least two percent of total General Fund expenditures, transfers out, and other uses (total outgo).

The County has incurred operating surpluses in two of the past three years and anticipates incurring an operating deficit during the 2012-2013 fiscal year. Total long-term obligations have decreased by \$2,740,374 over the past two years.

Average daily attendance at second period has increased by 840 over the past two years. A decline of 155 ADA is anticipated during fiscal year 2012-2013.

¹ Budget 2013 is included for analytical purposes only and has not been subjected to audit.

² Available reserves consist of all unassigned fund balances including all amounts reserved for economic uncertainties contained with the General Fund and the Special Reserve Fund for Other Than Capital Outlay Projects.

³ On behalf payments of \$2,515,016, \$2,239,735, and \$2,329,260, have been excluded from the calculation of available reserves for the fiscal years ending June 30, 2012, 2011, and 2010, respectively.

⁴ General Fund amounts do not include activity related to the consolidation of the Fund 17, Special Reserve Fund for Other Than Capital Outlay Projects as required by GASB Statement No. 54.

See accompanying note to supplementary information.

ORANGE COUNTY DEPARTMENT OF EDUCATION

NON-MAJOR GOVERNMENTAL FUNDS
 COMBINING BALANCE SHEET
 JUNE 30, 2012

	Child Development Fund	Deferred Maintenance Fund	County School Facilities Fund
ASSETS			
Deposits and investments	\$ 1,268,313	\$ 16,556,334	\$ 5,960,438
Receivables	869,592	5,037	1,813
Due from other funds	463,601	980,735	5,718
Restricted assets, investments	-	-	-
Total Assets	<u>\$ 2,601,506</u>	<u>\$ 17,542,106</u>	<u>\$ 5,967,969</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 1,506,312	\$ 85,719	\$ 39,849
Due to other funds	1,095,194	-	-
Total Liabilities	<u>2,601,506</u>	<u>85,719</u>	<u>39,849</u>
Fund Balances:			
Restricted	-	-	5,928,120
Committed	-	17,456,387	-
Total Fund Balances	<u>-</u>	<u>17,456,387</u>	<u>5,928,120</u>
Total Liabilities and Fund Balances	<u>\$ 2,601,506</u>	<u>\$ 17,542,106</u>	<u>\$ 5,967,969</u>

See accompanying note to supplementary information.

Special Reserve Capital Outlay Fund	COP Debt Service Fund	Total Non-Major Governmental Funds
\$ 2,328,248	\$ 718,334	\$ 26,831,667
3,506	218	880,166
-	-	1,450,054
1,436,151	185,961	1,622,112
<u>\$ 3,767,905</u>	<u>\$ 904,513</u>	<u>\$ 30,783,999</u>
\$ 213,716	\$ -	\$ 1,845,596
-	-	1,095,194
<u>213,716</u>	<u>-</u>	<u>2,940,790</u>
3,554,189	904,513	10,386,822
-	-	17,456,387
<u>3,554,189</u>	<u>904,513</u>	<u>27,843,209</u>
<u>\$ 3,767,905</u>	<u>\$ 904,513</u>	<u>\$ 30,783,999</u>

ORANGE COUNTY DEPARTMENT OF EDUCATION

**NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2012**

	Child Development Fund	Deferred Maintenance Fund	County School Facilities Fund
REVENUES			
Federal sources	\$ 5,431,999	\$ -	\$ -
Other State sources	7,309,216	1,039,769	(1,455,069)
Other local sources	387,002	63,488	31,328
Total Revenues	<u>13,128,217</u>	<u>1,103,257</u>	<u>(1,423,741)</u>
EXPENDITURES			
Current			
Instruction	10,411,466	-	-
Instruction-related activities:			
Supervision of instruction	1,935,483	-	-
Administration:			
All other administration	1,156,218	-	-
Plant services	78,288	-	-
Facility acquisition and construction	-	138,693	206,728
Debt service			
Principal	-	-	-
Interest and other	-	-	-
Total Expenditures	<u>13,581,455</u>	<u>138,693</u>	<u>206,728</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(453,238)</u>	<u>964,564</u>	<u>(1,630,469)</u>
Other Financing Sources (Uses)			
Transfers in	453,238	980,735	-
Other sources - proceeds for certificates	-	-	-
Transfers out	-	-	-
Other uses - payment to escrow	-	-	-
Net Financing Sources (Uses)	<u>453,238</u>	<u>980,735</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	-	1,945,299	(1,630,469)
Fund Balances - Beginning	-	15,511,088	7,558,589
Fund Balances - Ending	<u>\$ -</u>	<u>\$ 17,456,387</u>	<u>\$ 5,928,120</u>

See accompanying note to supplementary information.

Special Reserve Capital Outlay Fund	COP Debt Service Fund	Total Non-Major Governmental Funds
\$ -	\$ -	\$ 5,431,999
-	-	6,893,916
2,094,665	1,512	2,577,995
<u>2,094,665</u>	<u>1,512</u>	<u>14,903,910</u>
-	-	10,411,466
-	-	1,935,483
-	-	1,156,218
991,063	-	1,069,351
89,208	-	434,629
-	200,000	200,000
-	457,144	457,144
<u>1,080,271</u>	<u>657,144</u>	<u>15,664,291</u>
<u>1,014,394</u>	<u>(655,632)</u>	<u>(760,381)</u>
-	16,900,000	18,333,973
16,200,000	-	16,200,000
(16,900,000)	-	(16,900,000)
-	(16,055,000)	(16,055,000)
<u>(700,000)</u>	<u>845,000</u>	<u>1,578,973</u>
314,394	189,368	818,592
3,239,795	715,145	27,024,617
<u>\$ 3,554,189</u>	<u>\$ 904,513</u>	<u>\$ 27,843,209</u>

ORANGE COUNTY DEPARTMENT OF EDUCATION

**NOTE TO SUPPLEMENTARY INFORMATION
JUNE 30, 2012**

NOTE 1 – PURPOSE OF SCHEDULES

Schedule of Expenditures of Federal Awards

The accompanying Schedule of Expenditures of Federal Awards includes the Federal grant activity of the County and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of the United States Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

The following schedule provides reconciliation between revenues reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances, and the related expenditures reported on the Schedule of Expenditures of Federal Awards. The reconciling amounts consist of Medi-Cal Billing Option funds that have been recorded in the current period as revenues that have not been expended as of June 30, 2012. These unspent balances are reported as legally restricted ending balances within the General Fund.

Description	<u>CFDA Number</u>	<u>Amount</u>
Total Federal Revenues From the Statement of Revenues, Expenditures, and Changes in Fund Balances:		
Medi-Cal Billing	93.778	\$ 44,373,716 (245,174)
Total Schedule of Expenditures of Federal Awards		<u>\$ 44,128,542</u>

Local Education Agency Organization Structure

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

Schedule of Average Daily Attendance (ADA)

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

ORANGE COUNTY DEPARTMENT OF EDUCATION

NOTE TO SUPPLEMENTARY INFORMATION

JUNE 30, 2012

Schedule of Instructional Time

The County 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.

Counties must maintain their instructional minutes at either the 1982-83 actual minutes or the 1986-87 requirements, whichever is greater, as required by *Education Code* Section 46201.

Schedule of Financial Trends and Analysis

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

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

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

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INDEPENDENT AUDITORS' REPORTS

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**INDEPENDENT AUDITORS' 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 the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Orange County Department of Education as of and for the year ended June 30, 2012, which collectively comprise the County's basic financial statements and have issued our report thereon dated December 10, 2012. 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.

As discussed in the Notes to the basic financial statements, the State of California continues to suffer the effects of a recessionary economy, which directly impacts the funding requirements of the State of California to the K-12 educational community.

Internal Control Over Financial Reporting

Management of Orange County Department of Education is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Orange County Department of Education's internal control over financial reporting as a basis for designing our auditing procedures 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 Orange County Department of Education internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Orange County Department of Education's internal control over financial reporting.

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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined previously.

Compliance and Other Matters

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

This report is intended solely for the information and use of the Superintendent of Schools, the governing board, management, the California Department of Education, the State Controller's Office, Federal awarding agencies, and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Vavrinak, Irvine, Day & Co., LLP

Rancho Cucamonga, California
December 10, 2012



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL
EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

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

Compliance

We have audited Orange County Department of Education's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Orange County Department of Education's major Federal programs for the year ended June 30, 2012. Orange County Department of Education's major Federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major Federal programs is the responsibility of Orange County Department of Education's management. Our responsibility is to express an opinion on Orange County Department of Education's compliance based on our audit.

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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about Orange County Department of Education's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Orange County Department of Education's compliance with those requirements.

In our opinion, Orange County Department of Education complied, in all material respects, with the 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, 2012.

Internal Control Over Compliance

The management of Orange County Department of Education is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to Federal programs. In planning and performing our audit, we considered Orange County Department of Education's internal control over compliance with the requirements that could have a direct and material effect on a major Federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Orange County Department of Education's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a Federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or 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.

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 that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Superintendent of Schools, the governing board, management, the California Department of Education, the State Controller's Office, Federal awarding agencies, and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Vavrinak, J. & Co., LLP

Rancho Cucamonga, California
December 10, 2012



INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

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

We have audited Orange County Department of Education's compliance with the requirements as identified in the *Standards and Procedures for Audit of California K-12 Local Educational Agencies 2011-2012*, applicable to Orange County Department of Education's government programs as noted below for the year ended June 30, 2012. Compliance with the requirements referred to above is the responsibility of Orange County Department of Education's management. Our responsibility is to express an opinion on Orange County Department of Education's compliance based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2011-2012*, require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the applicable government programs noted below. An audit includes examining, on a test basis, evidence about Orange County Department of Education's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions. Our audit does not provide a legal determination of Orange County Department of Education's compliance with those requirements.

In our opinion, Orange County Department of Education complied, in all material respects, with the compliance requirements referred to above that are applicable to the government programs noted below that were audited for the year ended June 30, 2012.

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

	Procedures in Audit Guide	Procedures Performed
Attendance Accounting:		
Attendance reporting	6	Yes
Teacher Certification and Misassignments	3	Yes
Kindergarten continuance	3	Not Applicable
Independent study	23	Yes
Continuation education	10	Not Applicable

	<u>Procedures in Audit Guide</u>	<u>Procedures Performed</u>
Instructional Time:		
School districts	6	Not Applicable
County offices of education	3	Yes
Instructional Materials:		
General requirements	8	Yes
Ratios of Administrative Employees to Teachers	1	Not Applicable
Classroom Teacher Salaries	1	Not Applicable
Early Retirement Incentive	4	Not Applicable
Gann Limit Calculation	1	Yes
School Accountability Report Card	3	Yes
Public Hearing Requirement - Receipt of Funds	1	Yes
Juvenile Court Schools	8	Yes
Exclusion of Pupils - Pertussis Immunization	2	Yes
Class Size Reduction Program (including charter schools):		
General requirements	7	Not Applicable
Option one classes	3	Not Applicable
Option two classes	4	Not Applicable
Districts or charter schools with only one school serving K-3	4	Not Applicable
After School Education and Safety Program:		
General requirements	4	Not Applicable
After school	5	Not Applicable
Before school	6	Not Applicable
Charter Schools:		
Contemporaneous records of attendance	3	Not Applicable
Mode of instruction	1	Not Applicable
Non classroom-based instruction/independent study	15	Not Applicable
Determination of funding for non classroom-based instruction	3	Not Applicable
Annual instruction minutes classroom based	4	Not Applicable

This report is intended solely for the information and use of the Superintendent of Schools, the governing board, management, the California Department of Education, the State Controller's Office, the California Department of Finance, Federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Vannink, Irwin, Day & Co., LLP

Rancho Cucamonga, California
December 10, 2012

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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ORANGE COUNTY DEPARTMENT OF EDUCATION

**SUMMARY OF AUDITORS' RESULTS
FOR THE YEAR ENDED JUNE 30, 2012**

FINANCIAL STATEMENTS

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

FEDERAL AWARDS

Internal control over major programs:	
Material weakness identified?	<u>No</u>
Significant deficiency identified?	<u>None Reported</u>
Type of auditors' report issued on compliance for major programs:	<u>Unqualified</u>
Any audit findings disclosed that are required to be reported in accordance with Section .510(a) of OMB Circular A-133?	<u>No</u>
Identification of major programs:	

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.027, 84.027A, 84.173, 84.173A, 84.391 (ARRA), 84.392 (ARRA), 84.391A (ARRA)	Special Education (IDEA) Cluster (including ARRA)
84.410	Education Jobs Fund
93.778	Medicaid Program Cluster

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 1,323,856</u>
Auditee qualified as low-risk auditee?	<u>Yes</u>

STATE AWARDS

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

**FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2012**

None reported.

ORANGE COUNTY DEPARTMENT OF EDUCATION

**FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2012**

None reported.

ORANGE COUNTY DEPARTMENT OF EDUCATION

**STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2012**

None reported.

ORANGE COUNTY DEPARTMENT OF EDUCATION

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2012**

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

