



**ORANGE COUNTY
DEPARTMENT OF
EDUCATION**

ANNUAL FINANCIAL REPORT

JUNE 30, 2013

ORANGE COUNTY DEPARTMENT OF EDUCATION

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FINANCIAL SECTION



INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Orange County Department of Education (the County) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the County's basic financial statements as listed in the table of contents

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Standards and Procedures for Audits of California K-12 Local Education Agencies 2012-2013*, issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Orange County Department of Education, as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the supplementary information, such as management's discussion and analysis on pages 5 through 15, and the budgetary comparison information 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Orange County Department of Education's basic financial statements. The accompanying supplementary information such as the Schedule of Expenditures of Federal Awards, as required by the *Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations* 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 basic financial statements.

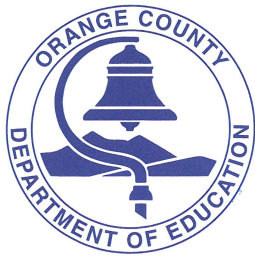
The accompanying supplementary information listed in the table of contents is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 13, 2013, on our consideration of the Orange County Department of Education's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Orange County Department of Education's internal control over financial reporting and compliance.

Varinek, Irine, Day & Co., LLP

Rancho Cucamonga, California
December 13, 2013



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KEN L. WILLIAMS, D.O.

This section of Orange County Department of Education's (the County) 2012-2013 annual financial report presents our discussion and analysis of the County's financial performance during the fiscal year that ended on June 30, 2013, with comparative information for June 30, 2012. 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, 2013

FINANCIAL HIGHLIGHTS OF THE PAST YEAR

In 2012-2013, the General Fund revenue decreased by \$14.8 million or 6.9 percent. In 2012-2013, we had a decrease of \$7.4 million in revenue limit due to an increased deficit on our State revenue limit and a decrease in Average Daily Attendance (ADA). We received a \$9.7 million decrease in Federal funding or 30.6 percent. This is due to Education Jobs funding that was received in 2011-2012 and Medi-Cal Administrative Activities (MAA) funds for claims that are deferred to FY 2013-2014. We also had an increase of \$2.6 million or 9.3 percent in State funding for categorical programs. This is due to an increase in Tobacco Use Prevention Education (TUPE) grant and an increase for the new Mandated Cost reimbursement block grant program. Finally, local revenue for 2012-2013, decreased \$380 thousand due to the reduction in the Inside the Outdoors programs and lower interagency fees, workshop fees and registrations.

The General Fund expenditures decreased by \$5.2 million or 2.6 percent, the major decrease was due to pass through expenditures required to be reported in Fund 10 and numerous other factors. In 2012-2013, all bargaining units received a zero percent salary increase but the Department did pay for the increase in health benefits. Salaries and benefits increased by \$1.4 million due to the increase in health benefits and some reductions in staffing. Books and supplies increased by 5.5 percent and operating expenditures decreased by 2.4 percent, which is mostly due to decreases in lease costs due to classroom closures. In 2012-2013, we had a decrease of \$6.3 million, or 28.2 percent in other outgo and pass-through to districts that is now required to be reported in Fund 10. We also experienced a decrease in capital outlay due to lower equipment replacement expenditures.

In 2012-2013, we expected an ADA increase of 59 in our Alternative Education Program based on current enrollment. As the year progressed, we actually decreased by 609 ADA which included a combination of most programs declining offset by growth in the Semester one Secondary (S1S) program. In addition, the Special Schools Program declined by 21 ADA for an overall decrease of 631 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, 2013

Mission

- We partner with our districts to provide over 500,000 students with world class education in safe learning environments focused on Common Core State Standards that prepare students for success in college, careers, and the global economy.
- The County provides over 150,000 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, Career Technical Education, Special Education, and Student Programs.
- We serve in a leadership role and as a connecting agency among Orange County school districts; community college districts; institutes of higher education; career technical programs; local, state and federal governmental agencies; businesses; and community organizations.
- We respond to district and community requests for administrative, business, and educational support services and professional development.
- We collaborate with families, businesses, and the community to promote the success and well-being of Orange County students.

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 decreased by 631 ADA a 6 percent decline from last year. County-wide enrollment decreased slightly with a decrease of 0.2 percent County-wide.

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 2012-2013, we met our goal with a minimum 3.0 percent Reserve for Economic Uncertainties.

REPORTING THE COUNTY AS A WHOLE

The Statement of Net Position and the Statement of Activities

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

ORANGE COUNTY DEPARTMENT OF EDUCATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2013

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

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

Governmental Activities - All of the County's services are reported in this category. This includes the education of kindergarten through grade twelve students, adult education students, the operation of child development activities, and the on-going effort to improve and maintain buildings and sites. Property taxes, State income taxes, user fees, interest income, Federal, State, and local grants finance these activities.

REPORTING THE COUNTY'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds - not the County as a whole. Some funds are required to be established by State law and by bond covenants. However, management establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain 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, 2013**

THE COUNTY AS A WHOLE

Net Position

The County's net position was \$241.0 million for the fiscal year ended June 30, 2013. Of this amount, \$98.5 million was unrestricted. Restricted net position is reported separately to show legal constraints from debt covenants, grantors, constitutional provisions, and enabling legislation that limit the governing board's ability to use net position for day-to-day operations. Our analysis below, in summary form, focuses on the net position (Table 1) and change in net position (Table 2) of the County's governmental activities.

Table 1

(Amounts in millions)	Governmental Activities	
	2013	2012
Assets		
Current and other assets	\$ 190.3	\$ 179.1
Capital assets	99.4	97.4
Total Assets	289.7	276.5
Liabilities		
Current liabilities	27.8	21.4
Long-term obligations	20.9	21.1
Total Liabilities	48.7	42.5
Net Position		
Net investment in capital assets	84.6	82.4
Restricted	57.9	57.5
Unrestricted	98.5	94.1
Total Net Position	\$ 241.0	\$ 234.0

The \$98.5 million in unrestricted net position of governmental activities represents the accumulated results of all past years' operations. Unrestricted net position – the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements – increased by 4.7 percent (\$98.5 million compared to \$94.1 million).

ORANGE COUNTY DEPARTMENT OF EDUCATION

**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2013**

Changes in Net Position

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

Table 2

(Amounts in millions)	Governmental Activities	
	2013	2012
Revenues		
Program revenues:		
Charges for services	\$ 35.7	\$ 35.2
Operating grants and contributions	47.5	52.0
Capital grants and contributions	4.0	(1.4)
General revenues:		
Federal and State aid not restricted	60.3	80.5
Property taxes	85.1	73.6
Other general revenues	21.5	47.3
Total Revenues	254.1	287.2
Expenses		
Instruction-related	147.6	146.6
Student support services	14.6	14.7
Administration	20.5	20.4
Maintenance and operations	13.6	14.8
Other	50.9	77.2
Total Expenses	247.2	273.7
Change in Net Position	\$ 6.9	\$ 13.5

Governmental Activities

As reported in the Statement of Activities on page 17, the cost of all of our governmental activities this year was \$247.2 million. However, the amount that our taxpayers ultimately financed for these activities through local taxes was only \$85.1 million because the cost was paid by those who benefited from the programs \$35.7 million or by other governments and organizations who subsidized certain programs with grants and contributions of \$51.5 million. We paid for the remaining 'public benefit' portion of our governmental activities with \$81.8 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, 2013

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)

	<u>Total Cost of Services</u>		<u>Net Cost of Services</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Instruction	\$ 90.0	\$ 91.8	\$ 61.1	\$ 63.3
Instruction-related activities:				
Instructional library, media, and technology	0.8	0.9	0.8	0.9
Supervision of instruction	40.7	38.8	21.0	19.1
School site administration	16.1	15.1	14.3	13.2
Home-to-school transportation	3.5	4.2	(0.2)	-
Other pupil services	11.2	10.5	4.9	3.2
General administration	20.5	20.4	15.9	15.4
Maintenance and operations	13.6	14.8	12.7	13.8
Interest on long-term obligations	0.5	0.1	0.5	0.1
Other	50.3	77.1	28.9	58.9
Total	\$ 247.2	\$ 273.7	\$ 159.9	\$ 187.9

ORANGE COUNTY DEPARTMENT OF EDUCATION

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2013

THE COUNTY'S FUNDS

As the County completed this year, our governmental funds reported a combined fund balance of \$158.5 million, which is an increase of \$4.3 million (Table 4).

Table 4

(Amounts in millions)	Balances and Activity			
	July 1, 2012	Revenues	Expenditures	June 30, 2013
General Fund	\$ 116.1	\$ 200.4	\$ 199.6	\$ 116.9
Special Education Pass-Through Fund	10.3	32.6	31.5	11.4
Child Development Fund	-	12.6	12.6	-
Deferred Maintenance Fund	17.5	2.1	0.4	19.2
County School Facilities Fund	5.9	4.6	4.2	6.3
Special Reserve Fund for Capital Outlay Projects	3.5	2.0	1.7	3.8
COP Debt Service Fund	0.9	0.7	0.7	0.9
Total	\$ 154.2	\$ 255.0	\$ 250.7	\$ 158.5

The General Fund is our principal operating fund. The fund balance in the General Fund increased by \$800 thousand to total \$116.9 million due to:

1. We had budgeted for possible mid-year reductions if Proposition 30 did not pass. With the passage of Proposition 30, we increased our revenue but did not increase expenditures as a result.
2. Major staffing reductions over the last few years which have helped to decrease our on-going expenditures.

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 12, 2013. (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, 2013

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets (net of depreciation)

At June 30, 2013, the County had \$99.4 million in a broad range of capital assets, including land, buildings, and furniture and equipment.

Table 5

(Amounts in millions)

	Governmental Activities	
	2013	2012
Land and construction in process	\$ 33.5	\$ 29.3
Buildings and improvements	61.9	64.8
Furniture and equipment	4.0	3.3
Total	\$ 99.4	\$ 97.4

The \$2 million increase in capital assets was the result of \$6.3 million in capital purchases offset by \$3.4 million in depreciation for the year. We also disposed of \$1 million in obsolete equipment and related accumulated depreciation.

Long-Term Obligations

At the end of this fiscal year, the County had a decrease of \$0.2 million in long-term obligations. This decrease was due to normal annual debt reduction payments.

Table 6

(Amounts in millions)

	Governmental Activities	
	2013	2012
Certificates of participation	\$ 15.7	\$ 15.9
Accumulated vacation - net	1.6	1.6
Other postemployment benefits	3.6	3.6
Total	\$ 20.9	\$ 21.1

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, 2013

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The 2013-2014 State budget has the largest change in education funding formulas in over forty years. This budget is the first budget that incorporates the new Local Control Funding Formula. As a County Office of Education we will continue to adjust our budget and revenue projections as we receive more clarity regarding our funding model.

The key assumptions in our revenue forecast are:

1. The State formula for funding education has changed to the Local Control Funding Formula (LCFF) from the Revenue Limit (RL) model. Overall we project a decrease of \$8,423,732 in formerly Revenue Limit sources. We project a \$28,474,824 increase in State funding due to the LCFF funding formula offset by a \$25,218,728 decrease in Alternative Education and Special Schools funding for District referred students. We project a decrease of \$6,685,144 due to a decline of 634 ADA in Alternative Education. We also project a decrease of \$4,474,531 in property tax due to one-time redevelopment funding.
2. Federal revenue will increase by \$5,476,796. We project an increase of \$7,156,060 for the Medi-Cal Administrative Activities, Race to the Top, and other Federal programs. A decrease of \$1,417,868 due to the ending of the Network for Healthy California grant. A decrease of \$261,396 for decreases in various Federal programs.
3. State revenue is anticipated to decrease by \$19,857,014 due to a decrease of \$20,658,946 in Tier III categorical funding now included in the LCFF funding model. An increase of \$1,437,600 in Common Core State Standards Implementation funds. An increase of \$158,374 for Special Education cost of living increase from the state. A decrease of \$794,042 for various state grants.
4. Local income will increase by \$21,174,339. We project an increase of \$24,342,017 in District contracts for District referred Alternative and Special Education students previously funded in Revenue Limit. A decrease of \$2,624,991 in Community Redevelopment funding that was one-time in 2012-13, a decrease of \$2,384,554 in fees for Prevention and Early Intervention (PEI) grant that ended. A decrease of \$1,649,177 for Inside the Outdoors due to a decline in student participation.

Expenditures are based on the following forecasts:

1. A total decrease in salaries of \$405,862 is the result of increases 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 2013-2014.
2. A decrease of \$41,449 for Health and Welfare benefits is a result of an increase in the projected benefit rate for 2013-2014 plan year, plus the cost of filling vacant and new positions offset by a decrease in the state unemployment rate, positions that were eliminated during the 2012-2013 fiscal year, and PERS Reduction being eliminated in LCFF funding model.
3. As of November 2013, we have completed negotiations with the Orange County School Educators Association (OCSEA) the Department did pay the increase in health and welfare benefits without raising the cap, but no salary increases were given. . Negotiations with our classified employees (CSEA) are continuing and no benefit increases have been budgeted and some employees are paying the increased cost.

ORANGE COUNTY DEPARTMENT OF EDUCATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2013

4. There is an increase in General Fund Other Outgo of \$5,674,013 due to the increase of pass-through for Medi-Cal Administrative Activities due to deferred payments from 2012-2013. An increase in tuition transfers to school districts for Career Technical Education partnership (CTEp)

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

The State's significant change in the way education will be funded. The LCFF is a comprehensive change from the Revenue Limit funding model. Budget projections on the LCFF rely on rules and regulations that are still being developed by the State. We are in the process of preparing our Local Control Accountability Plan and the need to address new and improved services to our students. As we prepare our First Interim Budget Report, our ADA indicates we may have the largest decline in ADA in our program history. We continue to monitor ADA and to establish better control over staffing ratios at each site.

The new LCFF changes how students are assigned to County Offices. County Offices will only be funded directly from the state for students that reside in Juvenile Hall, are probation referred or expelled. This change requires us to bill school districts for students in community schools and special schools. We will now be billing districts over \$30 million which may have cash flow consequences for our office. We will continue to monitor our expenditures and will concentrate on evaluating our multi-year projections to ensure that we have fiscal stability for future years.

The State of California passed new legislation increasing the oversight responsibilities for county offices. . The new Local Control Funding Formula requires that County Offices review and give technical assistance for school districts with their Local Control Accountability Plan (LCAP). In addition to approving the LCAP the County is required to ensure that the district's budget is aligned with the services required in their plan. This year, financial oversight will continue to be a significant issue, as every school district will have a different funding under LCFF and they have to address the needs in their LCAP. We have successfully completed the seventh round of school inspections for the Williams Settlement. The Williams Settlement required visits to over 86 schools within Orange County that were in deciles one through three in 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.

ORANGE COUNTY DEPARTMENT OF EDUCATION

**STATEMENT OF NET POSITION
JUNE 30, 2013**

	Governmental Activities
ASSETS	
Deposits and investments	\$ 155,822,787
Receivables	33,620,314
Prepaid expenses	3,631
Deferred charges	861,412
Capital assets	
Land and construction in process	33,462,356
Other capital assets	93,655,041
Less: accumulated depreciation	<u>(27,763,680)</u>
Total Capital Assets	<u>99,353,717</u>
Total Assets	<u>289,661,861</u>
LIABILITIES	
Accounts payable	26,313,886
Interest payable	19,713
Deferred revenue	1,258,284
Other current liabilities	277,963
Long-term obligations	
Current portion of long-term obligations	270,000
Noncurrent portion of long-term obligations	<u>20,591,923</u>
Total Long-Term Obligations	<u>20,861,923</u>
Total Liabilities	<u>48,731,769</u>
NET POSITION	
Net investment in capital assets	84,559,129
Restricted for:	
Debt service	896,582
Capital projects	10,142,778
Educational programs	16,277,089
Other activities	30,570,864
Unrestricted	<u>98,483,650</u>
Total Net Position	<u>\$ 240,930,092</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, 2013**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Governmental Activities:				
Instruction	\$ 90,005,042	\$ 10,610,781	\$ 14,360,263	\$ 3,977,209
Instruction-related activities:				
Supervision of instruction	40,659,865	6,493,824	13,151,000	-
Instructional library, media, and technology	826,722	-	-	-
School site administration	16,133,226	1,379,350	497,083	-
Pupil services:				
Home-to-school transportation	3,467,507	2,024,618	1,626,119	-
Food services	1,125,279	5,243	322,614	-
All other pupil services	10,047,543	3,039,729	2,926,509	-
Administration:				
Data processing	6,049,599	-	-	-
All other administration	14,427,779	1,985,440	2,639,955	-
Plant services	13,588,592	638,389	252,959	-
Ancillary services	122,718	-	-	-
Interest on long-term obligations	554,760	-	-	-
Other outgo	50,219,402	9,569,074	11,773,239	-
Total Governmental Activities	<u>\$247,228,034</u>	<u>\$ 35,746,448</u>	<u>\$ 47,549,741</u>	<u>\$ 3,977,209</u>

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 Position

Net Position - Beginning

Net Position - Ending

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

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

**Governmental
Activities**

\$ (61,056,789)

(21,015,041)

(826,722)

(14,256,793)

183,230

(797,422)

(4,081,305)

(6,049,599)

(9,802,384)

(12,697,244)

(122,718)

(554,760)

(28,877,089)

(159,954,636)

82,416,785

2,624,991

60,338,112

459,886

21,000,529

166,840,303

6,885,667

234,044,425

\$ 240,930,092

ORANGE COUNTY DEPARTMENT OF EDUCATION

**GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2013**

	General Fund	Special Education Pass-Through Fund	Non Major Governmental Funds	Total Governmental Funds
ASSETS				
Deposits and investments	\$ 113,413,299	\$ 8,903,994	\$ 30,089,822	\$ 152,407,115
Receivables	25,943,176	6,693,165	983,418	33,619,759
Due from other funds	18,814,637	23,254,721	1,953,309	44,022,667
Prepaid expenditures	3,631	-	-	3,631
Total Assets	\$ 158,174,743	\$ 38,851,880	\$ 33,026,549	\$ 230,053,172
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 14,842,764	\$ 9,331,103	\$ 2,122,465	\$ 26,296,332
Due to other funds	25,208,030	18,113,352	701,285	44,022,667
Deferred revenue	1,258,284	-	-	1,258,284
Total Liabilities	41,309,078	27,444,455	2,823,750	71,577,283
Fund Balances:				
Nonspendable	73,631	-	-	73,631
Restricted	16,277,089	11,407,425	11,039,360	38,723,874
Committed	-	-	19,163,439	19,163,439
Assigned	38,535,499	-	-	38,535,499
Unassigned	61,979,446	-	-	61,979,446
Total Fund Balances	116,865,665	11,407,425	30,202,799	158,475,889
Total Liabilities and Fund Balances	\$ 158,174,743	\$ 38,851,880	\$ 33,026,549	\$ 230,053,172

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

ORANGE COUNTY DEPARTMENT OF EDUCATION

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JUNE 30, 2013**

Total Fund Balance - Governmental Funds		\$ 158,475,889
Amounts Reported for Governmental Activities in the Statement of Net Position are Different Because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.		
The cost of capital assets is:	\$ 127,117,397	
Accumulated depreciation is:	<u>(27,763,680)</u>	
Net Capital Assets		99,353,717
Expenditures relating to issuance of debt of next fiscal year were recognized on modified accrual basis, but are not recognized on the accrual basis.		861,412
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.		(19,713)
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.		3,120,710
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	15,656,000	
Compensated absences (vacations)	1,586,690	
Net OPEB obligation	<u>3,619,233</u>	
Total Long-Term Obligations		<u>(20,861,923)</u>
Total Net Position - Governmental Activities		<u>\$ 240,930,092</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, 2013**

	General Fund	Special Education Fund	Non-Major Governmental Funds	Total Governmental Funds
REVENUES				
Revenue limit sources	\$ 93,238,106	\$ 20,679,281	\$ -	\$ 113,917,387
Federal sources	22,046,896	8,077,737	5,890,415	36,015,048
Other State sources	30,783,961	2,458,162	10,941,522	44,183,645
Other local sources	54,347,867	1,425,214	2,444,612	58,217,693
Total Revenues	200,416,830	32,640,394	19,276,549	252,333,773
EXPENDITURES				
Current				
Instruction	77,726,336	-	9,646,655	87,372,991
Instruction-related activities:				
Supervision of instruction	39,088,056	-	1,856,235	40,944,291
Instructional library, media and technology	847,140	-	-	847,140
School site administration	16,200,915	-	-	16,200,915
Pupil services:				
Home-to-school transportation	3,468,563	-	-	3,468,563
Food services	1,182,702	-	-	1,182,702
All other pupil services	9,912,751	-	-	9,912,751
Administration:				
Data processing	6,910,921	-	-	6,910,921
All other administration	13,434,841	-	1,050,927	14,485,768
Plant services	13,223,573	-	689,159	13,912,732
Facility acquisition and construction	(123,661)	-	4,635,806	4,512,145
Ancillary services	122,718	-	-	122,718
Other outgo	15,937,396	31,554,148	-	47,491,544
Debt service				
Principal	17,757	-	230,000	247,757
Interest and other	4,767	-	480,000	484,767
Total Expenditures	197,954,775	31,554,148	18,588,782	248,097,705
Excess (Deficiency) of Revenues Over Expenditures	2,462,055	1,086,246	687,767	4,236,068
Other Financing Sources (Uses)				
Transfers in	-	-	2,727,858	2,727,858
Transfers out	(1,671,823)	-	(1,056,035)	(2,727,858)
Net Financing Sources (Uses)	(1,671,823)	-	1,671,823	-
NET CHANGE IN FUND BALANCES	790,232	1,086,246	2,359,590	4,236,068
Fund Balances - Beginning	116,075,433	10,321,179	27,843,209	154,239,821
Fund Balances - Ending	\$ 116,865,665	\$ 11,407,425	\$ 30,202,799	\$ 158,475,889

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, 2013

Total Net Change in Fund Balances - Governmental Funds **\$ 4,236,068**
Amounts Reported for Governmental Activities in the Statement of Activities are Different Because:

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

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

Capital outlays	\$ 6,303,834	
Depreciation expense	<u>(3,379,900)</u>	
Net Expense Adjustment		2,923,934

Loss on disposal of capital assets is reported in the government-wide Statement of Net Position, but is not recorded in the governmental funds. (956,559)

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 \$16,316. 16,316

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: (19,735)

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 Position over the live of the bonds. (52,523)

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 Position and does not affect the Statement of Activities:

Certificates of participation	230,000
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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, 2013**

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.

\$ 287

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.

507,879

Change in Net Position of Governmental Activities

\$ 6,885,667

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

ORANGE COUNTY DEPARTMENT OF EDUCATION

**PROPRIETARY FUNDS
STATEMENT OF NET POSITION
JUNE 30, 2013**

	<u>Governmental Activities - Internal Service Fund</u>
ASSETS	
Current Assets	
Deposits and investments	\$ 3,415,672
Receivables	555
Total Current Assets	<u>3,416,227</u>
LIABILITIES	
Current Liabilities	
Accounts payable	17,554
Claim liabilities	277,963
Total Current Liabilities	<u>295,517</u>
NET POSITION	
Unrestricted	3,120,710
Total Net Position	<u>\$ 3,120,710</u>

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

ORANGE COUNTY DEPARTMENT OF EDUCATION

**PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET POSITION
FOR THE YEAR ENDED JUNE 30, 2013**

	<u>Governmental Activities - Internal Service Fund</u>
OPERATING REVENUES	
Local and intermediate sources	\$ 2,035,497
Total Operating Revenues	<u>2,035,497</u>
OPERATING EXPENSES	
Payroll costs	1,421,001
Other operating cost	<u>115,246</u>
Total Operating Expenses	<u>1,536,247</u>
Operating Income	<u>499,250</u>
NONOPERATING REVENUES	
Interest income	<u>8,629</u>
Change in Net Position	507,879
Total Net Position - Beginning	<u>2,612,831</u>
Total Net Position - Ending	<u>\$ 3,120,710</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, 2013**

	Governmental Activities - Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash receipts from customers	\$ 2,035,777
Cash payments to employees for services	(1,584,897)
Other operating cash payments	(115,246)
Net Cash Provided by Operating Activities	<u>335,634</u>
 CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	<u>8,629</u>
 Net Increase in Cash and Cash Equivalents	344,263
Cash and Cash Equivalents - Beginning	<u>3,071,409</u>
Cash and Cash Equivalents - Ending	<u><u>\$ 3,415,672</u></u>
 RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating income	\$ 499,250
Adjustments to reconcile operating income to net cash provided by operating activities:	
Changes in assets and liabilities:	
Receivables	280
Accrued liabilities	(163,896)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u><u>\$ 335,634</u></u>

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

ORANGE COUNTY DEPARTMENT OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

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, 2013

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, and revenues of \$22,999,888, \$22,999,888, and \$68,036, 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, 2013

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 position, 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, 2013

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 position should be reported as restricted when constraints placed on net asset use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The net position restricted for other activities result from special revenue funds and the 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 position. The statement of changes in fund net position presents increases (revenues) and decreases (expenses) in net total assets. The statement of cash flows provides information about how the County finances and meets the cash flow needs of its proprietary fund.

ORANGE COUNTY DEPARTMENT OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

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, 2013

Investments

Investments held at June 30, 2013, 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 position. The valuation basis for general capital assets are historical cost, or where historical cost is not available, estimated historical cost based on replacement cost. Donated capital assets are capitalized at estimated fair market value on the date donated.

Capital assets in the proprietary funds are capitalized in the fund in which they are utilized. The valuation basis for proprietary fund capital assets is 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 position.

Compensated Absences

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

ORANGE COUNTY DEPARTMENT OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

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 position. 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, 2013, 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

JUNE 30, 2013

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 Position

Net position represents the difference between assets and liabilities. Net position 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, 2013. Net position 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 position is 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 position restricted by enabling legislation of \$57,887,313.

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

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

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.

Changes in Accounting Principles

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.

ORANGE COUNTY DEPARTMENT OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

Concepts Statement No. 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 position.

The County has implemented the provisions of this Statement for the year ended June 30, 2013.

New Accounting Pronouncements

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. Early implementation is encouraged.

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

ORANGE COUNTY DEPARTMENT OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, Pension Disclosures, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 27 and 50 remain applicable for pensions that are not covered by the scope of this Statement.

The scope of this Statement addresses accounting and financial reporting for pensions that are provided to the employees of state and local governmental employers through pension plans that are administered through trusts that have the following characteristics:

- Contributions from employers and non-employer contributing entities to the pension plan and earnings on those contributions are irrevocable.
- Pension plan assets are dedicated to providing pensions to plan members in accordance with the benefit terms.
- Pension plan assets are legally protected from the creditors of employers, non-employer contributing entities, and the pension plan administrator. If the plan is a defined benefit pension plan, plan assets also are legally protected from creditors of the plan members.

This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures. For defined benefit pensions, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service.

Note disclosure and required supplementary information requirements about pensions also are addressed. Distinctions are made regarding the particular requirements for employers based on the number of employers whose employees are provided with pensions through the pension plan and whether pension obligations and pension plan assets are shared. Employers are classified in one of the following categories for purposes of this Statement:

- Single employers are those whose employees are provided with defined benefit pensions through single-employer pension plans—pension plans in which pensions are provided to the employees of only one employer (as defined in this Statement).
- Agent employers are those whose employees are provided with defined benefit pensions through agent multiple-employer pension plans—pension plans in which plan assets are pooled for investment purposes but separate accounts are maintained for each individual employer so that each employer's share of the pooled assets is legally available to pay the benefits of only its employees.
- Cost-sharing employers are those whose employees are provided with defined benefit pensions through cost-sharing multiple-employer pension plans—pension plans in which the pension obligations to the employees of more than one employer are pooled and plan assets can be used to pay the benefits of the employees of any employer that provides pensions through the pension plan.

ORANGE COUNTY DEPARTMENT OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

In addition, this Statement details the recognition and disclosure requirements for employers with liabilities (payables) to a defined benefit pension plan and for employers whose employees are provided with defined contribution pensions. This Statement also addresses circumstances in which a non-employer entity has a legal requirement to make contributions directly to a pension plan.

This Statement is effective for fiscal years beginning after June 15, 2014. Early implementation is encouraged.

NOTE 2 – DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2013, are classified in the accompanying financial statements as follows:

Governmental activities	<u>\$ 155,822,787</u>
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Deposits and investments as of June 30, 2013, consist of the following:

Cash on hand and in banks	\$ 3,118,152
Cash in revolving	70,000
Investments	<u>152,634,635</u>
Total Deposits and Investments	<u>\$ 155,822,787</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, 2013**

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.

ORANGE COUNTY DEPARTMENT OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

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:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Average Days to Maturity</u>
County Treasury Investment Pool	<u>\$ 152,545,006</u>	300

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.

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, 2013, the County's bank balance was not exposed to custodial credit risk.

ORANGE COUNTY DEPARTMENT OF EDUCATION

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 3 – RECEIVABLES

Receivables at June 30, 2013, 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	\$ 3,540,428	\$ 4,556,522	\$ 889,534	\$ -	\$ 8,986,484
State Government					
Apportionment	7,118,909	-	-	-	7,118,909
Categorical aid	2,907,437	590,358	81,830	-	3,579,625
Lottery	1,207,702	-	-	-	1,207,702
Local Government					
Special Education - SELPA	4,345,364	1,164,081	-	-	5,509,445
Due from school districts	5,020,742	380,469	-	-	5,401,211
Interest	26,509	1,735	4,959	555	33,758
Other Local Sources	1,776,085	-	7,095	-	1,783,180
Total	<u>\$ 25,943,176</u>	<u>\$ 6,693,165</u>	<u>\$ 983,418</u>	<u>\$ 555</u>	<u>\$ 33,620,314</u>

ORANGE COUNTY DEPARTMENT OF EDUCATION

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2013, was as follows:

	Balance July 1, 2012	Additions	Deductions	Balance June 30, 2013
Governmental Activities				
Capital Assets Not Being Depreciated				
Land	\$ 24,632,374	\$ 4,008,941	\$ -	\$ 28,641,315
Construction in process	4,645,661	175,380	-	4,821,041
Total Capital Assets Not Being Depreciated	<u>29,278,035</u>	<u>4,184,321</u>	<u>-</u>	<u>33,462,356</u>
Capital Assets Being Depreciated				
Land improvements	4,532,843	-	20,918	4,511,925
Buildings and improvements	79,276,518	208,318	1,247,735	78,237,101
Furniture and equipment	9,395,728	1,911,195	400,908	10,906,015
Total Capital Assets Being Depreciated	<u>93,205,089</u>	<u>2,119,513</u>	<u>1,669,561</u>	<u>93,655,041</u>
Less Accumulated Depreciation				
Land improvements	2,037,931	188,275	-	2,226,206
Buildings and improvements	16,994,744	2,207,520	588,926	18,613,338
Furniture and equipment	6,064,107	984,105	124,076	6,924,136
Total Accumulated Depreciation	<u>25,096,782</u>	<u>3,379,900</u>	<u>713,002</u>	<u>27,763,680</u>
Governmental Activities Capital Assets, Net	<u>\$ 97,386,342</u>	<u>\$ 2,923,934</u>	<u>\$ 956,559</u>	<u>\$ 99,353,717</u>

Depreciation expense was charged to governmental functions as follows:

Governmental Activities	
Instruction	\$ 3,041,910
All other pupil services	168,995
Data processing	168,995
Total Depreciation Expenses Governmental Activities	<u>\$ 3,379,900</u>

ORANGE COUNTY DEPARTMENT OF EDUCATION

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

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, 2013, 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	\$ -	\$ 18,113,352	\$ 701,285	\$ 18,814,637
Special Education Pass-Through Fund	23,254,721	-	-	23,254,721
Non-Major Governmental Funds	1,953,309	-	-	1,953,309
Total	<u>\$ 25,208,030</u>	<u>\$ 18,113,352</u>	<u>\$ 701,285</u>	<u>\$ 44,022,667</u>

The balance of \$23,254,721 due to the Special Education Pass-Through Fund from the General Fund is for program funding distribution of taxes.

A balance of \$972,574 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.

The balance of \$18,113,352 due to the General Fund from the Special Education Pass-Through Fund is for costs related to categorical programs and program distribution.

The balance of \$701,285 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, 2013**

Operating Transfers

Interfund transfers for the year ended June 30, 2013, consisted of the following:

Transfer To	Transfer From		Total
	General Fund	Non-Major Governmental Funds	
Non-Major Governmental Funds	\$ 1,671,823	\$ 1,056,035	\$ 2,727,858

The General Fund transferred to the Child Development Fund to cover excess costs by program.	\$ 430,014
The General Fund transferred to the Deferred Maintenance Fund for the State match.	980,735
The General Fund transferred to the County School Facilities Fund to reimburse various construction costs.	261,074
The Special Reserve Non-Capital Fund transferred to the County School Facilities Fund to reimburse various construction costs.	356,035
The Special Reserve Fund for Capital Outlay Projects transferred to the COP Debt Service Fund for debt service payments.	700,000
Total	<u>\$ 2,727,858</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, 2013**

NOTE 6 – ACCOUNTS PAYABLE

Accounts payable at June 30, 2013, consist of the following:

	General Fund	Special Education Pass-Through Fund	Non-Major Governmental Funds	Internal Service Fund	Total Governmental Activities
Vendor payables	\$ 119,048	\$ -	\$ -	\$ 17,554	\$ 136,602
State apportionment	224,618	-	-	-	224,618
Salaries and benefits	5,187,752	-	98,490	-	5,286,242
Federal categorical	-	-	62,511	-	62,511
State categorical	-	-	649,266	-	649,266
Services and supplies	2,551,146	-	1,292,667	-	3,843,813
Pass-through to districts	5,104,590	9,331,103	-	-	14,435,693
Special schools allocation	1,487,324	-	-	-	1,487,324
Construction	58,848	-	19,531	-	78,379
County of Orange	109,438	-	-	-	109,438
Total	<u>\$ 14,842,764</u>	<u>\$ 9,331,103</u>	<u>\$ 2,122,465</u>	<u>\$ 17,554</u>	<u>\$ 26,313,886</u>

NOTE 7 – DEFERRED REVENUE

Deferred revenue at June 30, 2013, consists of the following:

	General Fund
Federal financial assistance	\$ 523,516
State categorical aid	5,582
Other local	729,186
Total	<u>\$ 1,258,284</u>

ORANGE COUNTY DEPARTMENT OF EDUCATION

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 8 – LONG-TERM OBLIGATIONS

Summary

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

	Balance			Balance	Due in
	July 1, 2012	Additions	Deductions	June 30, 2013	One Year
Certificates of participation	\$ 16,000,000	\$ -	\$ 230,000	\$ 15,770,000	\$ 270,000
Unamortized discount	(120,000)	-	(6,000)	(114,000)	-
Accumulated vacation - net	1,603,006	-	16,316	1,586,690	-
Other postemployment benefits (OPEB)	3,599,498	19,735	-	3,619,233	-
	<u>\$ 21,082,504</u>	<u>\$ 19,735</u>	<u>\$ 240,316</u>	<u>\$ 20,861,923</u>	<u>\$ 270,000</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. In February 2012, the Certificates of Participation (COP) was restructured. As of June 30, 2013, the principal balance outstanding was \$15,770,000.

The certificates mature through 2032 as follows:

Year Ending June 30,	Principal	Interest	Total
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	450,000	433,200	883,200
2019-2023	3,130,000	1,930,200	5,060,200
2024-2028	5,010,000	1,354,800	6,364,800
2029-2032	5,850,000	456,600	6,306,600
Total	<u>\$ 15,770,000</u>	<u>\$ 6,013,800</u>	<u>\$ 21,783,800</u>

Accumulated Unpaid Employee Vacation

The long-term portion of accumulated unpaid employee vacation for the County at June 30, 2013, amounted to \$1,586,690.

ORANGE COUNTY DEPARTMENT OF EDUCATION

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

Other Postemployment Benefits (OPEB) Obligation

The County's annual required contribution for the year ended June 30, 2013, was \$462,037, and contributions made by the County during the year were \$427,236. Interest on the net OPEB obligation and adjustments to the annual required contribution were \$179,975 and (\$195,041), respectively, which resulted in an increase to the net OPEB obligation of \$19,735. As of June 30, 2013, the net OPEB obligation was \$3,619,233. See Note 11 for additional information regarding the OPEB obligation and the postemployment benefits plan.

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
Total Nonspendable	<u>73,631</u>	<u>-</u>	<u>-</u>	<u>73,631</u>
Restricted				
Legally restricted programs	<u>16,277,089</u>	<u>11,407,425</u>	<u>11,039,360</u>	<u>38,723,874</u>
Committed				
Deferred maintenance program	<u>-</u>	<u>-</u>	<u>19,163,439</u>	<u>19,163,439</u>
Assigned				
ACCESS program	11,596,408	-	-	11,596,408
Mandated costs	2,699,037	-	-	2,699,037
Workshops and contracts	1,364,626	-	-	1,364,626
Various program balances	6,595,774	-	-	6,595,774
Technology projects	3,952,996	-	-	3,952,996
Other designations	<u>12,326,658</u>	<u>-</u>	<u>-</u>	<u>12,326,658</u>
Total Assigned	<u>38,535,499</u>	<u>-</u>	<u>-</u>	<u>38,535,499</u>
Unassigned				
Reserve for economic uncertainties	27,542,174	-	-	27,542,174
Remaining unassigned	<u>34,437,272</u>	<u>-</u>	<u>-</u>	<u>34,437,272</u>
Total Unassigned	<u>61,979,446</u>	<u>-</u>	<u>-</u>	<u>61,979,446</u>
Total	<u>\$ 116,865,665</u>	<u>\$ 11,407,425</u>	<u>\$ 30,202,799</u>	<u>\$ 158,475,889</u>

ORANGE COUNTY DEPARTMENT OF EDUCATION

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 10 – 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:

Year Ending June 30,	Lease Revenue
2014	\$ 1,388,404
2015	1,143,220
2016	1,016,741
2017	581,816
2018	244,268
Total	<u>\$ 4,374,449</u>

NOTE 11 – 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 61 retirees and beneficiaries currently receiving benefits, no terminated plan members entitled to but not yet receiving benefits, and 1,156 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 2012-2013, the County contributed \$427,236 to the Plan.

ORANGE COUNTY DEPARTMENT OF EDUCATION

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

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	179,975
Adjustment to annual required contribution	<u>(195,041)</u>
Annual OPEB cost (expense)	446,971
Contributions made	<u>(427,236)</u>
Decrease in net OPEB obligation	19,735
Net OPEB obligation, beginning of year	<u>3,599,498</u>
Net OPEB obligation, end of year	<u><u>\$ 3,619,233</u></u>

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 <u>June 30,</u>	Annual OPEB <u>Cost</u>	Actual <u>Contribution</u>	Percentage <u>Contributed</u>	Net OPEB <u>Obligation</u>
2011	\$ 427,613	\$ 263,098	62%	\$ 3,892,140
2012	445,746	738,388	166%	3,599,498
2013	446,971	427,236	96%	3,619,233

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 Accrued 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	\$ -	\$ 102,101,277	4.60%

ORANGE COUNTY DEPARTMENT OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

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.

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 12 – 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 2013. 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.

ORANGE COUNTY DEPARTMENT OF EDUCATION

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013

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.

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, 2011 to June 30, 2013:

	<u>Dental Care</u>
Liability Balance, July 1, 2011	\$ 341,247
Claims and changes in estimates	1,576,993
Claims payments	<u>(1,576,992)</u>
Liability Balance, June 30, 2012	341,248
Claims and changes in estimates	1,357,722
Claims payments	<u>(1,421,007)</u>
Liability Balance, June 30, 2013	<u>\$ 277,963</u>
Assets available to pay claims at June 30, 2013	<u>\$ 3,416,227</u>

NOTE 13 – 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).

ORANGE COUNTY DEPARTMENT OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

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, 100 Waterfront Place, West Sacramento, California 95605.

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 2012-2013 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, 2013, 2012, and 2011, were \$4,269,538, \$4,273,714, and \$4,327,564, 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 2012-2013 was 11.417 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, 2013, 2012, and 2011, were \$5,748,380, \$5,505,122, and \$5,503,231, respectively, and equal 100 percent of the required contributions for the year.

ORANGE COUNTY DEPARTMENT OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

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.

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 \$124,822.

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 \$2,716,604 (5.176 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 14 – COMMITMENTS AND CONTINGENCIES

Grants

The County received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the 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, 2013.

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, 2013.

ORANGE COUNTY DEPARTMENT OF EDUCATION

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013

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, 2013, the County had fully funded the future supplemental income payments by purchasing an outside annuity contract.

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
2014	\$ 3,693,542
2015	2,900,116
2016	2,457,213
2017	1,207,296
2018	997,670
Total	<u>\$ 11,255,837</u>

The total lease payments for the year ended June 30, 2013, were approximately \$4,009,036.

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 15 – 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.

ORANGE COUNTY DEPARTMENT OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

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, 2013, the County made payments of \$1,752,069, \$511,013, and \$47,232 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.

REQUIRED SUPPLEMENTARY INFORMATION

ORANGE COUNTY DEPARTMENT OF EDUCATION

**GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2013**

	Budgeted Amounts		Actual (GAAP Basis)	Variances -
	Original	Final		Positive (Negative)
				Final to Actual
REVENUES				
Revenue limit sources	\$ 91,950,891	\$ 94,159,041	\$ 93,238,106	\$ (920,935)
Federal sources	32,555,723	22,185,195	22,046,896	(138,299)
Other State sources	26,518,270	27,580,965	30,783,961	3,202,996
Other local sources	54,670,344	54,261,481	54,347,867	86,386
Total Revenues ¹	205,695,228	198,186,682	200,416,830	2,230,148
EXPENDITURES				
Current				
Certificated salaries	57,560,749	55,861,232	55,614,202	247,030
Classified salaries	51,163,308	51,218,276	50,802,179	416,097
Employee benefits	37,845,771	36,605,219	39,489,186	(2,883,967)
Books and supplies	9,334,650	7,321,359	6,763,690	557,669
Services and operating expenditures	32,244,745	30,142,190	28,925,755	1,216,435
Other outgo	24,058,579	17,129,488	14,886,468	2,243,020
Capital outlay	1,353,568	1,812,262	1,450,771	361,491
Debt service - principal	30,488	12,819	17,757	(4,938)
Debt service - interest	2,003	4,074	4,767	(693)
Total Expenditures ¹	213,593,861	200,106,919	197,954,775	2,152,144
Excess (Deficiency) of Revenues Over Expenditures	(7,898,633)	(1,920,237)	2,462,055	4,382,292
Other Financing Sources (Uses)				
Transfers out	(1,620,903)	(1,725,762)	(1,671,823)	53,939
NET CHANGE IN FUND BALANCE	(9,519,536)	(3,645,999)	790,232	4,436,231
Fund Balance - Beginning	85,184,006	85,184,006	116,075,433	30,891,427
Fund Balance - Ending	\$ 75,664,470	\$ 81,538,007	\$ 116,865,665	\$ 35,327,658

¹ On behalf payments of \$2,716,604 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, 2013**

	Budgeted Amounts		Actual (GAAP Basis)	Variances -
	Original	Final		Positive (Negative)
				Final to Actual
REVENUES				
Revenue limit sources	\$ 18,586,939	\$ 22,958,629	\$ 20,679,281	\$(2,279,348)
Federal sources	7,598,823	7,913,629	8,077,737	164,108
Other State sources	3,319,697	51,169	2,458,162	2,406,993
Other local sources	1,202,490	1,425,939	1,425,214	(725)
Total Revenues	30,707,949	32,349,366	32,640,394	291,028
EXPENDITURES				
Current				
Other outgo	29,979,280	31,697,286	31,554,148	143,138
Total Expenditures	29,979,280	31,697,286	31,554,148	143,138
NET CHANGE IN FUND BALANCE	728,669	652,080	1,086,246	434,166
Fund Balance - Beginning	10,321,179	10,321,179	10,321,179	-
Fund Balance - Ending	\$ 11,049,848	\$ 10,973,259	\$ 11,407,425	\$ 434,166

ORANGE COUNTY DEPARTMENT OF EDUCATION

**SCHEDULE OF OTHER POSTEMPLOYMENT BENEFITS (OPEB) FUNDING
PROGRESS
FOR THE YEAR ENDED JUNE 30, 2013**

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	\$ -	\$ 116,955,024	2.70%
March 1, 2010	-	3,727,625	3,727,625	-	108,511,042	3.44%
August 1, 2010	-	4,563,675	4,563,675	-	103,891,283	4.39%
March 1, 2012	-	4,691,739	4,691,739	-	102,101,277	4.60%

SUPPLEMENTARY INFORMATION

ORANGE COUNTY DEPARTMENT OF EDUCATION

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2013**

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]	\$ 403,450
Fitness Physical Education Program	84.215F	[1]	24,685
Understanding American Citizenship	84.215X	[1]	268,138
One Nation Many Faiths - How Ideas of Religious Liberty Shaped America	84.215X	[1]	7,628
Passed through Santa Ana Unified School District:			
No Child Left Behind Act (NCLB) Safe and Drug-Free Schools and Communities - National Program	84.184E	[1]	10,749
Passed Through the Regents of The University of California:			
Spatial Temporal Mathematics at Scale - An Innovative and Fully Developed Paradigm to Boost Math Achievement Among All Learners	84.305A	[1]	103,903
Title II, Part A - Improving Teach Quality	84.367	37792; ITQ-11-808	23,010
Title II, Part A - Improving Teach Quality	84.367	36950; ITQ-10-705	3,077
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	488,164
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	3,172,765
Title I - Part D, Local Delinquent Programs	84.010	14357	2,368,831
Total Title I Grants to Local Educational Agencies Cluster			<u>6,029,760</u>
Improving Teacher Quality State Grants Title II - Part A, Improving Teacher Quality	84.367	14341	82,939
English Language Acquisition Grants Title III, Limited English Proficiency	84.365	10084	342,468
Passed Through the California Department of Education (CDE):			
Title X, McKinney-Vento Homeless Assistance Grants	84.196	14332	174,724
CCDF Race to the Top - Early Learning Challenge	84.412A	15181	593,826
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	67,271

[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, 2013**

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 Center County Regional Occupational Program:			
Carl D. Perkins Vocational and Technical Education Act of 1998			
Postsecondary and Adult Education	84.048	14893	\$ 75,859
Total Career Technical Education			<u>143,130</u>
Passed Through the North Orange County SELPA:			
Individuals with Disabilities Act (IDEA)			
Early Intervention	84.181	23761	426,107
Individuals with Disabilities Education Act			
Special Education (IDEA) Cluster:			
Local Assistance	84.027	13379	1,481,966
Local Assistance, Private School ISPs	84.027	10115	367
Federal Preschool	84.173	13430	45,388
Preschool Staff Development	84.173A	13431	2,584
CPIN - Special Education	84.173A	14530	50,000
Preschool Accountability Grants	84.173A	14688	114,488
Preschool Local	84.027A	13682	30,773
Passed Through CDE Through Orange County Department of Education to School Districts:			
Individuals with Disabilities Education Act			
Local Assistance	84.027	13379	6,378,957
Local Assistance, Private School ISPs	84.027	10115	41,375
Federal Preschool	84.173	13430	156,110
Preschool Local	84.027A	13682	389,334
Mental Health Allocation Plan	84.027	14468	1,111,961
Total Special Education (IDEA) Cluster			<u>9,803,303</u>
Passed Through Napa County Office of Education to Districts:			
State Improvement Grant, Improving Special Education Systems	84.323	37442	129,100
Total U.S. Department of Education			<u>18,569,997</u>
U.S. DEPARTMENT OF AGRICULTURE			
Passed Through CDE:			
Child Nutrition Cluster:			
Commodities	10.555	[1]	27,861
National School Lunch Program	10.555	13524	252,612
Especially Needy Breakfast	10.553	13526	116,538
Total Child Nutrition Cluster			<u>397,011</u>
Passed Through the California Department of Health and Human Services:			
Food Stamp Cluster:			
California Nutrition Network	10.561	11-10205	1,898,230
California Nutrition Network	10.561	11-10245	330,277
Total Food Stamp Cluster			<u>2,228,507</u>
Total U.S. Department of Agriculture			<u>2,625,518</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, 2013**

Federal Grantor/Pass-Through Grantor/Program	Federal CFDA Number	Pass-Through Entity Identifying Number	Program Expenditures
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	1,728,365
Child Development - Federal Alternative Payment	93.596	13694	3,020,262
Child Development - Federal Local Planning Council	93.575	13946	72,623
Child Development - Federal Alternative Payment, Stage 3	93.575	13881	672,525
Total Child Care Development Program Cluster			<u>6,253,606</u>
Passed Through the California Department of Health and Human Services:			
Medicaid Program Cluster:			
Medi-Cal Billing Option	93.778	10013	1,718,653
Medi-Cal Administrative Activities Program	93.778	10060	6,151,989
Total Medicaid Program Cluster			<u>7,870,642</u>
Passed Through the County of Orange:			
Alcohol and Other Drug Prevention Services Friday Night Live Partne	93.959	[1]	350,000
Alcohol and Other Drug Abuse Prevention Services	93.958	[1]	156,448
Total U.S. Department of Health and Human Services			<u>14,630,696</u>
U.S. DEPARTMENT OF JUSTICE			
Passed through Santa Ana Unified School District Police Department Community Oriented Policing Services			
Alcohol and Other Drug Prevention Services Friday Night Live Partne	16.710	[1]	207,093
Total U.S. Department of Justice			<u>207,093</u>
Total Expenditures of Federal Awards			<u><u>\$ 36,033,304</u></u>

[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, 2013

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. Ken L. Williams	President	2016
David L. Boyd	Vice President	2014
Dr. John W. Bedell	Member	2016
Mr. Robert Hammond	Member	2016
Ms. Elizabeth Parker	Member	2014

ADMINISTRATION

Dr. Al Mijares	County Superintendent of Schools and Secretary to the Board
Ms. Lynn April Hartline	Deputy County Superintendent of Schools
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, 2013**

	Final Report	
	Amended Second Period Report	Amended Annual Report
<i>County Office of Education</i>		
ELEMENTARY		
Juvenile halls, home and camps	75	75
Community schools pupils - probation and expelled	230	247
Community schools pupils - homeless	82	80
Total Elementary	387	402
HIGH SCHOOL		
Juvenile halls, home and camps	1,296	1,200
Community schools pupils - probation and expelled	3,649	3,519
Community schools pupils - homeless	19	19
Total High School	4,964	4,738
Grand Total	5,351	5,140

	Final Report	
	Amended Second Period Report	Amended Annual Report
<i>County-Operated Programs for Districts</i>		
ELEMENTARY		
Community schools	1,449	1,323
Special education, including extended year	199	198
Total Elementary	1,648	1,521
HIGH SCHOOL		
Community schools	2,727	2,481
Special education, including extended year	275	276
Total High School	3,002	2,757
Grand Total	4,650	4,278

See accompanying note to supplementary information.

ORANGE COUNTY DEPARTMENT OF EDUCATION

**SCHEDULE OF INSTRUCTIONAL TIME
FOR THE YEAR ENDED JUNE 30, 2013**

Grade Level	1986-87	Reduced 1986-87	2012-13	Number of Days		Status
	Minutes Requirement	Minutes Requirement	Actual Minutes	Traditional Calendar	Multitrack Calendar	
Kindergarten	36,000	35,000	60,730	182	-	Complied
Grades 1 - 3	50,400	49,000				
Grade 1			53,610	182	-	Complied
Grade 2	-		53,610	182	-	Complied
Grade 3			53,610	182	-	Complied
Grades 4 - 6	54,000	52,500				
Grade 4			53,610	182	-	Complied
Grade 5			53,610	182	-	Complied
Grade 6			53,610	182	-	Complied
Grades 7 - 8	54,000	52,500				
Grade 7			54,360	182	-	Complied
Grade 8			54,360	182	-	Complied
Grades 9 - 12	64,800	63,000				
Grade 9			64,287	182	-	Complied
Grade 10			64,287	182	-	Complied
Grade 11			64,287	182	-	Complied
Grade 12			64,287	182	-	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, 2013**

There were no adjustments to the Unaudited Actual Financial Report, which required reconciliation to the audited financial statements at June 30, 2013.

See accompanying note to supplementary information.

ORANGE COUNTY DEPARTMENT OF EDUCATION

**SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2013**

	(Budget)			
	2014 ¹	2013 ⁴	2012	2011
GENERAL FUND				
Revenues	\$195,974,717	\$197,604,329	\$215,141,337	\$269,301,701
Other sources	-	-	-	621,178
Total Revenues and Other Sources	<u>195,974,717</u>	<u>197,604,329</u>	<u>215,141,337</u>	<u>269,922,879</u>
Expenditures	204,298,103	195,210,310	203,150,529	248,333,233
Other uses and transfers out	2,626,455	1,671,823	1,433,973	2,371,641
Total Expenditures and Other Uses	<u>206,924,558</u>	<u>196,882,133</u>	<u>204,584,502</u>	<u>250,704,874</u>
INCREASE (DECREASE) IN FUND BALANCE RESTATEMENT	<u>(10,949,841)</u>	<u>722,196</u>	<u>10,556,835</u>	<u>19,218,005</u>
ENDING FUND BALANCE	<u>\$ 82,915,936</u>	<u>\$ 93,865,777</u>	<u>\$ 93,143,581</u>	<u>\$ 90,535,080</u>
AVAILABLE RESERVES²	<u>\$ 14,493,782</u>	<u>\$ 38,979,558</u>	<u>\$ 58,753,567</u>	<u>\$ 53,229,488</u>
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO³	<u>7.00%</u>	<u>20.05%</u>	<u>29.08%</u>	<u>21.46%</u>
LONG-TERM OBLIGATIONS	<u>N/A</u>	<u>\$ 20,861,923</u>	<u>\$ 21,082,504</u>	<u>\$ 21,547,596</u>
K-12 AVERAGE DAILY ATTENDANCE FUNDED AT ANNUAL	<u>4,747</u>	<u>5,140</u>	<u>6,293</u>	<u>6,554</u>
SECOND PERIOD FUNDED AVERAGE DAILY ATTENDANCE	<u>4,641</u>	<u>4,650</u>	<u>4,145</u>	<u>3,848</u>

The General Fund balance has increased by \$3,330,697 over the past two years. The fiscal year 2013-2014 budget projects a decrease of \$10,949,841 (11.7 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 all of the past three years but anticipates incurring an operating deficit during the 2013-2014 fiscal year. Total long-term obligations have decreased by \$685,673 over the past two years.

Average daily attendance has decreased by 612 over the past two years. An additional decline of 402 ADA is anticipated during fiscal year 2013-2014.

¹ Budget 2014 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 \$2,716,604, \$2,515,016, and \$2,239,735, has been excluded from the calculation of available reserves for the fiscal years ending June 30, 2013, 2012, and 2011, 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, 2013**

	Child Development Fund	Deferred Maintenance Fund	County School Facilities Fund
ASSETS			
Deposits and investments	\$ 572,862	\$ 18,292,485	\$ 6,371,968
Receivables	976,680	3,392	695
Due from other funds	972,574	980,735	-
Restricted assets, investments	-	-	-
Total Assets	\$ 2,522,116	\$ 19,276,612	\$ 6,372,663
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 1,820,831	\$ 113,173	\$ 9,195
Due to other funds	701,285	-	-
Total Liabilities	2,522,116	113,173	9,195
Fund Balances:			
Restricted	-	-	6,363,468
Committed	-	19,163,439	-
Total Fund Balances	-	19,163,439	6,363,468
Total Liabilities and Fund Balances	\$ 2,522,116	\$ 19,276,612	\$ 6,372,663

See accompanying note to supplementary information.

Special Reserve Capital Outlay Fund	COP Debt Service Fund	Total Non-Major Governmental Funds
\$ 3,956,035	\$ 594,058	\$ 29,787,408
2,541	110	983,418
-	-	1,953,309
-	302,414	302,414
<u>\$ 3,958,576</u>	<u>\$ 896,582</u>	<u>\$ 33,026,549</u>
\$ 179,266	\$ -	\$ 2,122,465
-	-	701,285
<u>179,266</u>	<u>-</u>	<u>2,823,750</u>
3,779,310	896,582	11,039,360
-	-	19,163,439
<u>3,779,310</u>	<u>896,582</u>	<u>30,202,799</u>
<u>\$ 3,958,576</u>	<u>\$ 896,582</u>	<u>\$ 33,026,549</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, 2013**

	Child Development Fund	Deferred Maintenance Fund	County School Facilities Fund
REVENUES			
Federal sources	\$ 5,890,415	\$ -	\$ -
Other State sources	5,943,918	1,037,213	3,960,391
Other local sources	368,213	50,005	16,820
Total Revenues	<u>12,202,546</u>	<u>1,087,218</u>	<u>3,977,211</u>
EXPENDITURES			
Current			
Instruction	9,646,655	-	-
Instruction-related activities:			
Supervision of instruction	1,856,235	-	-
Administration:			
All other administration	1,050,927	-	-
Plant services	78,743	-	-
Facility acquisition and construction	-	360,901	4,158,972
Debt service			
Principal	-	-	-
Interest and other	-	-	-
Total Expenditures	<u>12,632,560</u>	<u>360,901</u>	<u>4,158,972</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(430,014)</u>	<u>726,317</u>	<u>(181,761)</u>
Other Financing Sources (Uses)			
Transfers in	430,014	980,735	617,109
Transfers out	-	-	-
Net Financing Sources (Uses)	<u>430,014</u>	<u>980,735</u>	<u>617,109</u>
NET CHANGE IN FUND BALANCES	-	1,707,052	435,348
Fund Balances - Beginning	-	17,456,387	5,928,120
Fund Balances - Ending	<u>\$ -</u>	<u>\$ 19,163,439</u>	<u>\$ 6,363,468</u>

See accompanying note to supplementary information.

Special Reserve Capital Outlay Fund	COP Debt Service Fund	Total Non-Major Governmental Funds
\$ -	\$ -	\$ 5,890,415
-	-	10,941,522
2,007,505	2,069	2,444,612
<u>2,007,505</u>	<u>2,069</u>	<u>19,276,549</u>
-	-	9,646,655
-	-	1,856,235
-	-	1,050,927
610,416	-	689,159
115,933	-	4,635,806
-	230,000	230,000
-	480,000	480,000
<u>726,349</u>	<u>710,000</u>	<u>18,588,782</u>
<u>1,281,156</u>	<u>(707,931)</u>	<u>687,767</u>
-	700,000	2,727,858
<u>(1,056,035)</u>	<u>-</u>	<u>(1,056,035)</u>
<u>(1,056,035)</u>	<u>700,000</u>	<u>1,671,823</u>
225,121	(7,931)	2,359,590
<u>3,554,189</u>	<u>904,513</u>	<u>27,843,209</u>
<u>\$ 3,779,310</u>	<u>\$ 896,582</u>	<u>\$ 30,202,799</u>

ORANGE COUNTY DEPARTMENT OF EDUCATION

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2013

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, 2013. 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:		\$ 36,015,048
Medi-Cal Billing	93.778	<u>18,256</u>
Total Schedule of Expenditures of Federal Awards		<u>\$ 36,033,304</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.

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.

ORANGE COUNTY DEPARTMENT OF EDUCATION

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2013

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.

INDEPENDENT AUDITORS' REPORTS



**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, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Orange County Department of Education (the County) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Orange County Department of Education's basic financial statements, and have issued our report thereon dated December 13, 2013.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of This Report

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

Varrinck, Irine, Day + Co., LLP

Rancho Cucamonga, California
December 13, 2013



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR
EACH MAJOR PROGRAM AND REPORT ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

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

Report on Compliance for Each Major Federal Program

We have audited Orange County Department of Education's compliance with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement that could have a direct and material effect on each of Orange County Department of Education's (the County) major Federal programs for the year ended June 30, 2013. Orange County Department of Education's major Federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its Federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Orange County Department of Education's major Federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and 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 on compliance for each major Federal program. However, our audit does not provide a legal determination of Orange County Department of Education's compliance.

Opinion on Each Major Federal Program

In our opinion, Orange County Department of Education complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the year ended June 30, 2013.

Report on Internal Control Over Compliance

Management of Orange County Department of Education is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Orange County Department of Education's internal control over compliance with the types of requirements that could have a direct and material effect on each major Federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major Federal program and to test and report on internal control over compliance in accordance with 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 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. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a Federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Varrinck, Irine, Day & Co., LLP

Rancho Cucamonga, California
December 13, 2013



INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

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

Report on State Compliance

We have audited Orange County Department of Education's compliance with the types of compliance requirements as identified in the Standards and Procedures for Audit of California K-12 Local Educational Agencies 2012-2013 that could have a direct and material effect on each of the Orange County Department of Education's State government programs as noted below for the year ended June 30, 2013.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its State's programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance of each of the Orange County Department of Education's State programs based on our audit of the types of compliance requirements referred to above. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2012-2013*. These standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the applicable government programs noted below. An audit includes examining, on a test basis, evidence about Orange County Department of Education's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Orange County Department of Education's compliance with those requirements.

Unmodified Opinion on Each of the Other Programs

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, 2013.

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

	<u>Procedures in Audit Guide</u>	<u>Procedures Performed</u>
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
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
Juvenile Court Schools	8	Yes
Class Size Reduction Program (including in 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	1	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

Varinick, Irine, Day & Co., LLP

Rancho Cucamonga, California
December 13, 2013

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

ORANGE COUNTY DEPARTMENT OF EDUCATION

**SUMMARY OF AUDITORS' RESULTS
FOR THE YEAR ENDED JUNE 30, 2013**

FINANCIAL STATEMENTS

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

FEDERAL AWARDS

Internal control over major 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>Unmodified</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, and 84.173A	<u>Special Education (IDEA) Cluster</u>
<u>10.561</u>	<u>California Nutrition Network</u>

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 1,080,999</u>
Auditee qualified as low-risk auditee?	<u>Yes</u>

STATE AWARDS

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

**FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2013**

None reported.

ORANGE COUNTY DEPARTMENT OF EDUCATION

**FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013**

None reported.

ORANGE COUNTY DEPARTMENT OF EDUCATION

**STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013**

None reported.

ORANGE COUNTY DEPARTMENT OF EDUCATION

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2013**

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