

ORANGE COUNTY DEPARTMENT OF EDUCATION

**REPORT ON AUDIT OF FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
INCLUDING REPORTS ON COMPLIANCE**

June 30, 2014



ORANGE COUNTY DEPARTMENT OF EDUCATION

AUDIT REPORT

June 30, 2014

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ORANGE COUNTY DEPARTMENT OF EDUCATION

AUDIT REPORT

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INDEPENDENT AUDITOR'S REPORT

Superintendent of Schools
Orange County Department of Education
200 Kalmus Drive
Costa Mesa, CA 92626

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, 2014, and the related notes to the financial statements, which collectively comprise the County's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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.

Superintendent of Schools
Orange County Department of Education

Opinions

In our opinion, the financial statements listed in the aforementioned table of contents present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Orange County Department of Education as of June 30, 2014, and the respective changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 15 to the basic financial statements, in 2014 the County adopted new accounting guidance, GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information and schedule of funding progress 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 supplementary schedules and combining non-major fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements.

Superintendent of Schools
Orange County Department of Education

The supplementary section, including the schedule of expenditures of federal awards, and the combining non-major fund financial statements, are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the 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 information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 9, 2014 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Orange County Department of Education's internal control over financial reporting and compliance.



VICENTI, LLOYD & STUTZMAN LLP
Glendora, California
December 9, 2014

ORANGE COUNTY DEPARTMENT OF EDUCATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Fiscal Year Ended June 30, 2014

This section of Orange County Department of Education's (the County) 2013-2014 annual financial report presents our discussion and analysis of the County's financial performance during the fiscal year that ended on June 30, 2014, with comparative information for June 30, 2013. 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

For the Fiscal Year Ended June 30, 2014

FINANCIAL HIGHLIGHTS OF THE PAST YEAR

In 2013-2014, the State budget saw the biggest change in education funding in over forty years and was the first year that incorporates the new Local Control Funding Formula (LCFF). The change to LCFF created a shift in how revenue object codes were classified and created shifts in funding; overall, County School Service Fund revenue in 2013-2014 decreased by \$2.6 million or 1.3 percent. We had an increase of \$346 thousand in LCFF revenue over the 2012-2013 Revenue Limit funding due to an \$8.9 million increase in principal in secured taxes offset by a \$5.2 million decrease in education protection account (EPA) and \$6.1 million decrease in community development revenues. We received a \$4.9 million decrease in Federal funding or 22.1 percent, due to a reduction in Medi-Cal Administrative Activities (MAA) claims that have been deferred to 2014-2015. The LCFF change also had an impact on Other State revenue resulting in a decrease of \$19.3 million or 68.8 percent, due to a decrease of \$17.2 million in categorical revenues and \$1.6 million in transportation funding, which is now included in LCFF funding. Finally, local revenue for 2013-2014, increased \$21.2 million as a result of the LCFF model which includes a \$24.2 million increase in tuition that was offset by a \$1.0 million decrease in redevelopment, a \$1.2 million decrease in registration fees and \$680 thousand decrease in interagency fees.

The County School Service Fund expenditures decreased by \$8.9 million or 4.5 percent. In 2013-2014, all bargaining units received a zero percent salary increase but the Department did pay for the increase in health benefits. There was a \$6.0 million decrease in salaries and benefits due to reductions in both Certificated and Classified staff. There was a \$1.2 million decrease in books and supplies and a \$1.6 million decrease in services due to a reduction in consulting services and decreases in lease costs due to classroom closures. The LCFF changed the funding method for Career Technical Education (CTE) resulting in an increase of \$4.5 million in tuition expenditures offset by a \$4.9 million decrease in other transfers to districts.

In 2013-2014, we expected an average daily attendance (ADA) decrease of 598 in our Alternative Education Program based on current enrollment. As the year progressed, we actually decreased by 1,274 ADA. In addition, the Special Schools Program increased by 34 ADA for an overall decrease of 1,240 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.

ORANGE COUNTY DEPARTMENT OF EDUCATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Fiscal Year Ended June 30, 2014

FINANCIAL HIGHLIGHTS OF THE PAST YEAR (continued)

Values

The Orange County Department of Education (OCDE) is a public organization dedicated to the fundamental human values of honesty, commitment, responsibility, respect, integrity, and professional ethics. Our priority is service to students, school districts, and the community members who look to us for support and educational leadership. We believe that the public deserves our complete candor and objectivity in the delivery of all services.

We provide a safe, caring, courteous, and professional environment 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.

Mission

We partner with Orange County school 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.

We provide students with county-operated programs and services in the areas of alternative and correctional education, career technical education, child care services, outdoor science, 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.

ORANGE COUNTY DEPARTMENT OF EDUCATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Fiscal Year Ended June 30, 2014

FINANCIAL HIGHLIGHTS OF THE PAST YEAR (continued)

Enrollment

A primary source of revenue for the County is generated by the 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 1,240 ADA a 12.7 percent decline from last year. County-wide enrollment experienced an increase of 0.03 percent.

Solvency

The County is required to maintain a two percent Reserve for Economic Uncertainties and strives to meet a budgetary reserve of three percent. In 2013-2014, 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.

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

ORANGE COUNTY DEPARTMENT OF EDUCATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Fiscal Year Ended June 30, 2014

REPORTING THE COUNTY AS A WHOLE (continued)

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 Departments of Education.

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

ORANGE COUNTY DEPARTMENT OF EDUCATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2014

THE COUNTY AS A WHOLE

Net Position

The County's net position was \$246.5 million for the fiscal year ended June 30, 2014. Of this amount, \$134.8 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)

Summary of Statement of Net Position

	2012-13	2013-14
Non-Capital Assets	\$ 190,308,144	\$ 203,574,179
Capital Assets	99,353,717	96,689,740
Total Assets	\$ 289,661,861	\$ 300,263,919
Current Liabilities	\$ 27,869,846	\$ 32,800,184
Long Term Liabilities	20,861,923	20,950,710
Total Liabilities	\$ 48,731,769	\$ 53,750,894
Net Position Invested in Capital Assets	\$ 84,559,129	\$ 81,297,740
Net Position Legally Restricted	57,887,313	30,437,351
Net Position Unrestricted	98,483,650	134,777,934
Total Net Position	\$ 240,930,092	\$ 246,513,025

The \$134.8 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 36.9 percent (\$98.4 million compared to \$134.8 million).

ORANGE COUNTY DEPARTMENT OF EDUCATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Fiscal Year Ended June 30, 2014

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

(Table 2)

Summary of Statement of Activities

	<u>2012-13</u>	<u>2013-14</u>
Program Revenues		
Charges for Services	\$ 35,746,448	\$ 34,147,772
Operating Grants	47,549,741	45,694,018
Capital Grants	3,977,209	15,265
Subtotal Program Revenues	<u>87,273,398</u>	<u>79,857,055</u>
General Revenues	<u>166,840,303</u>	<u>163,312,871</u>
Total Revenues	<u>254,113,701</u>	<u>243,169,926</u>
 Expenses		
Instruction and Related Services	147,624,855	132,668,406
Pupil Services	14,640,329	15,159,889
General Administration	20,477,378	21,630,197
Plant Services	13,588,592	14,842,235
Ancillary Services	122,718	
Debt Service	554,760	520,661
Other Outgo	46,839,502	48,526,903
Depreciation	3,379,900	3,377,290
Total Expenses	<u>247,228,034</u>	<u>236,725,581</u>
 Change in Net Position	<u>6,885,667</u>	<u>6,444,345</u>
 Net position at beginning of year, as originally stated	234,044,425	240,930,092
Cumulative effect of change in accounting principle		(861,412)
Net position at beginning of year, as restated	<u>234,044,425</u>	<u>240,068,680</u>
 Net Position at end of year	<u>\$ 240,930,092</u>	<u>\$ 246,513,025</u>

ORANGE COUNTY DEPARTMENT OF EDUCATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Fiscal Year Ended June 30, 2014

Governmental Activities

As reported in the Statement of Activities on page 2, the cost of all of our governmental activities this year was \$236.7 million. However, the amount that our taxpayers ultimately financed for these activities through local taxes was only \$83.9 million because the cost paid by those who benefited from the programs and by other governments and organizations who subsidized certain programs with grants and contributions of \$34.1 million and \$45.7 million, respectively. We paid for the remaining 'public benefit' portion of our governmental activities with \$79.4 million in State funds and with other revenues, like interest and general entitlements.

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)

	Total Cost of Services		Net Cost of Services	
	2013	2014	2013	2014
Instruction and Related Services	\$ 147,624,855	\$ 132,668,406	\$ 97,155,345	\$ 87,129,932
Pupil Services	14,640,329	15,159,889	4,695,497	7,751,544
General Administration	20,477,378	21,630,197	15,851,983	16,331,416
Plant Services	13,588,592	14,842,235	12,697,244	14,455,832
Ancillary Services	122,718		122,718	
Debt Service	554,760	520,661	554,760	520,661
Other Outgo	46,839,502	48,526,903	25,499,799	27,301,851
Depreciation	3,379,900	3,377,290	3,377,290	3,377,290
Total	<u>\$ 247,228,034</u>	<u>\$ 236,725,581</u>	<u>\$ 159,954,636</u>	<u>\$ 156,868,526</u>

ORANGE COUNTY DEPARTMENT OF EDUCATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2014

THE COUNTY'S FUNDS

As the County completed this year, our governmental funds reported a combined fund balance of \$167.6 million, which is an increase of \$9.1 million (Table 4).

(Table 4)

	Balances and Activity			
	July 1, 2013	Revenues	Expenditures	June 30, 2014
County School Service Fund	\$ 116,865,665	\$ 195,053,223	\$ 187,943,474	\$ 123,975,414
Special Education Pass-Through Fund	11,407,425	33,687,131	33,034,961	12,059,595
Child Development Fund		12,058,442	12,058,442	
Deferred Maintenance Fund	19,163,439	2,066,647	39,182	21,190,904
County School Facilities Fund	6,363,468	15,265	651,797	5,726,936
Special Reserve Fund for Capital				
Outlay Projects	3,779,310	1,767,192	1,862,550	3,683,952
COP Debt Service Fund	896,582	802,295	743,100	955,777
Total	<u>\$ 158,475,889</u>	<u>\$ 245,450,195</u>	<u>\$ 236,333,506</u>	<u>\$ 167,592,578</u>

The County School Service Fund is our principal operating fund. The fund balance in the County School Service Fund increased by \$7.1 million to total \$124.0 million due to the implementation of the Local Control Funding Formula and staff reductions.

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 June 18, 2014. (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 42).

ORANGE COUNTY DEPARTMENT OF EDUCATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Fiscal Year Ended June 30, 2014

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets (net of depreciation)

At June 30, 2014, the County had \$96.7 million in a broad range of capital assets, including land, buildings, and furniture and equipment.

(Table 5)

	<u>2012-13</u>	<u>2013-14</u>
Land and construction in progress	\$ 33,462,356	\$ 32,931,023
Buildings and improvements	61,909,482	59,669,255
Furniture and equipment	3,981,879	4,089,462
Total	<u>\$ 99,353,717</u>	<u>\$ 96,689,740</u>

The \$2.6 million decrease in capital assets was the result of \$3.1 million in capital purchases offset by \$2.3 million decrease in construction in progress and \$3.4 million in depreciation for the year. We also disposed of \$120 thousand in obsolete equipment and related accumulated depreciation.

Long-Term Obligations

At the end of this fiscal year, the County had an increase of \$89 thousand in long-term obligations. This increase was due to normal annual debt reduction payments offset by an increase in compensated absences.

(Table 6)

	<u>2012-13</u>	<u>2013-14</u>
Certificates of participation	\$ 15,656,000	\$ 15,392,000
Compensated absences	1,586,690	1,732,438
Postemployment benefits other than pension	3,619,233	3,826,272
Total	<u>\$ 20,861,923</u>	<u>\$ 20,950,710</u>

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

ORANGE COUNTY DEPARTMENT OF EDUCATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Fiscal Year Ended June 30, 2014

CAPITAL ASSET AND DEBT ADMINISTRATION

Other obligations include compensated absences payable, (not including health benefits). We present more detailed information regarding our long-term obligations in Note 9 of the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The 2014-2015 State budget continues implementation of the Local Control Funding Formula (LCFF). As a County Office of Education we will be fully funded by the LCFF in 2014-2015. We will continue to adjust our budget and revenue projections as we receive more clarity on attendance and legislative changes effecting the funding model.

The key assumptions in our revenue forecast are:

1. Overall we project an increase of \$315,923 in State revenue from LCFF due to an \$8,106,621 increase of in formula model adjustment of the funding target which is offset by a decrease of \$7,447,953 due to a decline of 453 ADA in Alternative Education. We also project a decrease of \$425,663 in property tax for North Orange County Special Education Local Plan Area (SELPA).
2. Federal revenue will decrease by \$255,890. We project an increase of \$1,257,325 for Title I which is mostly deferred revenue from 2013-2014. A decrease of \$1,429,768 in the Medi-Cal Administrative Activities (MAA). A decrease of \$679,645 for decreases in various Federal programs.
3. State revenue is anticipated to increase by \$3,533,044 due to an increase of \$6,196,462 in new California Career Pathways Trust grant, a \$1,444,520 decrease in one-time Common Core State Standards Implementation funds. A decrease of \$1,218,898 for various state grants.
4. Local income will decrease by \$2,509,942. We project \$989,335 increase in various local income programs. An increase of \$822,170 in contract fees for Special Education billings, an increase of \$380,822 in contract fees for Alternative Education Stuart Foundation grant for Foster Youth. And a decrease of \$2,827,990 for Inside the Outdoors due to a decline in student participation (closing the Outdoor residential program in 2014-2015).

ORANGE COUNTY DEPARTMENT OF EDUCATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Fiscal Year Ended June 30, 2014

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Expenditures are based on the following forecasts:

1. A total increase in salaries of \$1,670,740 is the result of a 3% negotiated salary increase for 2014-2015, 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.
2. An increase of \$2,570,756 for Health and Welfare benefits is a result of an increase in the projected benefit rate for 2014-2015 plan year, plus the cost of filling vacant and new positions, and an increase in the CalSTRS employer rate offset by a decrease in positions that were eliminated during the 2014-2015 fiscal year.
3. As of May 2014, we have completed 2014-15 negotiations with both bargaining units (OCSEA and CSEA). The Department negotiated a salary increase of 2% on-schedule and 1% off-schedule and picked up the increase in health and welfare benefits without raising the cap.
4. We project an increase of \$3,757,170 in Books and Supplies and an increase of \$4,215,601 in Services & Other Operating due to the implementation of programs awaiting guidelines and increased pass through sub-agreements for various grants and categorical programs.

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

2014-15 is the first year of our Local Control Accountability Plan and the need to address increased and improved services to our students. As we prepare our First Interim Budget Report, our ADA continues to decline and 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. Probation and the County of Orange continue to implement alternative to incarceration programs which have a significant impact on our Juvenile Court population. Because of the changes in the LCFF funding model we are now required to bill school districts for students in community schools and special schools. We 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.

ORANGE COUNTY DEPARTMENT OF EDUCATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Fiscal Year Ended June 30, 2014

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES (continued)

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.

FINANCIAL SECTION

ORANGE COUNTY DEPARTMENT OF EDUCATION

STATEMENT OF NET POSITION

June 30, 2014

	Governmental Activities
	<hr/>
<u>Assets</u>	
Cash in county treasury	\$ 148,795,465
Cash on hand and in banks	2,634
Cash in revolving fund	70,000
Cash collections awaiting deposit	1,684,380
Cash with fiscal agent	2,191,126
Accounts receivable:	
Federal and state governments	46,647,314
Miscellaneous	4,183,260
Land	28,641,315
Construction in progress	4,289,708
Depreciable assets, net	63,758,717
Total Assets	<hr/> 300,263,919 <hr/>
 <u>Liabilities</u>	
Accounts payable and other current liabilities	31,035,967
Interest payable	38,750
Unearned revenue	1,725,467
Current portion of long-term liabilities:	
Certificates of participation	310,000
Non-current portion of long-term liabilities:	
Compensated absences	1,732,438
Postemployment benefits other than pensions	3,826,272
Certificates of participation	15,082,000
Total Liabilities	<hr/> 53,750,894 <hr/>
 <u>Net Position</u>	
Invested in capital assets, net of related debt	81,297,740
Restricted for:	
Educational programs	32,130,281
Capital projects	9,410,888
Debt service	955,777
Unrestricted	122,718,339
Total Net Position	<hr/> \$ 246,513,025 <hr/>

See the accompanying notes to the financial statements.

ORANGE COUNTY DEPARTMENT OF EDUCATION

**STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2014**

Functions	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental activities:					
Instruction	\$ 77,920,820	\$ 10,405,281	\$ 13,414,870	\$	\$ (54,100,669)
Instruction-related services	54,747,586	7,012,241	14,706,082		(33,029,263)
Pupil services	15,159,889	3,309,861	4,098,484		(7,751,544)
General administration	21,630,197	2,651,080	2,647,701		(16,331,416)
Plant services	14,842,235		371,138	15,265	(14,455,832)
Debt service	520,661				(520,661)
Other outgoing	48,526,903	10,769,309	10,455,743		(27,301,851)
Depreciation (unallocated)	3,377,290				(3,377,290)
Total Governmental Activities	\$ 236,725,581	\$ 34,147,772	\$ 45,694,018	\$ 15,265	(156,868,526)
General revenues:					
Property taxes levied for:					
					82,300,636
					1,606,329
					39,284,915
					445,120
					8,325,322
					31,350,549
					<u>163,312,871</u>
					Change in Net Position
					<u>6,444,345</u>
					Net position at beginning of year, as originally stated
					240,930,092
					Cumulative effect of change in accounting principle (see note 15)
					<u>(861,412)</u>
					Net position at beginning of year, as restated
					<u>240,068,680</u>
					Net position at ending of year
					<u>\$ 246,513,025</u>

See the accompanying notes to the financial statements.

ORANGE COUNTY DEPARTMENT OF EDUCATION

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2014

	County School Service Fund	Special Education Pass- Through Fund	Non-major Governmental Funds	Total Governmental Funds
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
<u>Assets</u>				
Cash in county treasury	\$ 107,870,354	\$ 9,744,515	\$ 27,792,493	\$ 145,407,362
Cash on hand and in banks	2,634			2,634
Cash in revolving fund	70,000			70,000
Cash collections awaiting deposit	1,684,380			1,684,380
Cash with fiscal agent			1,987,406	1,987,406
Accounts receivable:				
Federal and state governments	41,035,795	4,439,316	1,172,203	46,647,314
Miscellaneous	3,056,625	1,117,151	8,487	4,182,263
Due from other funds	<u>1,178,678</u>	<u>4,368,860</u>	<u>3,381,580</u>	<u>8,929,118</u>
Total Assets	<u>\$ 154,898,466</u>	<u>\$ 19,669,842</u>	<u>\$ 34,342,169</u>	<u>\$ 208,910,477</u>
 <u>Liabilities and Fund Balances</u>				
Liabilities				
Accounts payable	\$ 21,271,589	\$ 7,471,518	\$ 1,920,207	\$ 30,663,314
Due to other funds	7,925,996	138,729	864,393	8,929,118
Unearned revenue	<u>1,725,467</u>			<u>1,725,467</u>
Total Liabilities	<u>30,923,052</u>	<u>7,610,247</u>	<u>2,784,600</u>	<u>41,317,899</u>
 Fund Balances				
Nonspendable	70,000			70,000
Restricted	20,070,686	12,059,595	10,366,665	42,496,946
Committed			21,190,904	21,190,904
Assigned	65,394,370			65,394,370
Unassigned	<u>38,440,358</u>			<u>38,440,358</u>
Total Fund Balances	<u>123,975,414</u>	<u>12,059,595</u>	<u>31,557,569</u>	<u>167,592,578</u>
Total Liabilities and Fund Balances	<u>\$ 154,898,466</u>	<u>\$ 19,669,842</u>	<u>\$ 34,342,169</u>	<u>\$ 208,910,477</u>

See the accompanying notes to the financial statements.

ORANGE COUNTY DEPARTMENT OF EDUCATION

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

June 30, 2014

Total fund balances - governmental funds \$ 167,592,578

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

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

Land	\$ 28,641,315	
Construction in progress	4,289,708	
Depreciable assets, net	<u>63,758,717</u>	96,689,740

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

Certificates of participation	(15,500,000)	
Unamortized discount on certificates of participation	108,000	
Compensated absences	(1,732,438)	
Postemployment benefits other than pensions	<u>(3,826,272)</u>	(20,950,710)

Accrued interest on long term debt, that is the amount of interest due from the
last payment made until the end of the fiscal period June 30, 2014, consist of:

Interest due on Certificates of participation		(38,750)
-----------------------------------------------	--	----------

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

3,220,167

Total net position - governmental activities \$ 246,513,025

See the accompanying notes to the financial statements.

ORANGE COUNTY DEPARTMENT OF EDUCATION

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

For the Fiscal Year Ended June 30, 2014

	<u>County School Service Fund</u>	<u>Special Education Pass-Through Fund</u>	<u>Non-major Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues				
Local control funding formula sources				
State apportionments	\$ 33,920,548	\$	\$ 1,039,769	\$ 34,960,317
Local sources	<u>59,663,178</u>	<u>22,637,458</u>		<u>82,300,636</u>
Total local control funding formula sources	93,583,726	22,637,458	1,039,769	117,260,953
Federal sources	17,161,033	7,188,879	5,715,192	30,065,104
Other state sources	8,753,382	2,457,972	5,512,095	16,723,449
Other local sources	<u>75,555,082</u>	<u>1,402,822</u>	<u>2,162,518</u>	<u>79,120,422</u>
Total Revenues	<u>195,053,223</u>	<u>33,687,131</u>	<u>14,429,574</u>	<u>243,169,928</u>
Expenditures				
Instruction	68,715,605		9,111,858	77,827,463
Instruction-related services	52,807,639		1,868,202	54,675,841
Pupil services	15,139,319			15,139,319
General administration	20,559,792		999,677	21,559,469
Plant services	13,726,384		1,832,234	15,558,618
Debt service	22,531		743,100	765,631
Other outgo	<u>15,491,937</u>	<u>33,034,961</u>		<u>48,526,898</u>
Total Expenditures	<u>186,463,207</u>	<u>33,034,961</u>	<u>14,555,071</u>	<u>234,053,239</u>
Excess (deficiency) of revenues over expenditures	<u>8,590,016</u>	<u>652,170</u>	<u>(125,497)</u>	<u>9,116,689</u>
Other Financing Sources (Uses)				
Interfund transfers in			2,280,267	2,280,267
Interfund transfers out	<u>(1,480,267)</u>		<u>(800,000)</u>	<u>(2,280,267)</u>
Total Other Financing Sources (Uses)	<u>(1,480,267)</u>	<u>-</u>	<u>1,480,267</u>	<u>-</u>
Net changes in fund balances	7,109,749	652,170	1,354,770	9,116,689
Fund Balances - Beginning of Year	<u>116,865,665</u>	<u>11,407,425</u>	<u>30,202,799</u>	<u>158,475,889</u>
Fund Balances - End of Year	<u>\$ 123,975,414</u>	<u>\$ 12,059,595</u>	<u>\$ 31,557,569</u>	<u>\$ 167,592,578</u>

See the accompanying notes to the 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 Fiscal Year Ended June 30, 2014

Net change in fund balances-total governmental funds \$ 9,116,689

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

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

Capital outlay	\$ 3,077,829	
Depreciation expense	<u>(3,377,290)</u>	(299,461)

Disposal of assets and construction projects no longer deemed viable (2,364,516)

The governmental funds report proceeds from issuance of debt as an other financing source, while repayment of debt principal is reported as an expenditure. Interest is recognized as an expenditure in the governmental funds when it is due. In the statement of activities, interest expense is recognized as it accrues, regardless of when it is due. The net effect of these differences in the treatment of debt and related items is as follows:

Repayment of certificates of participation	270,000	
Discount on certificates of participation	(6,000)	
Net increase in accrued interest expense	<u>(19,037)</u>	244,963

In the statement of activities, certain operating expenses 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). The changes to these activities consist of:

Net increase in postemployment benefits other than pensions	(207,039)	
Net increase in compensated absences	<u>(145,748)</u>	(352,787)

An internal service fund is used by the County's management to fund and pay for the cost of dental insurance premiums. The net income of the internal service fund is reported with governmental activities.

99,457

Change in net position of governmental activities **\$ 6,444,345**

See the accompanying notes to the financial statements.

ORANGE COUNTY DEPARTMENT OF EDUCATION

STATEMENT OF FUND NET POSITION - PROPRIETARY FUND

For the Fiscal Year Ended June 30, 2014

	Governmental Activities: Internal Service Fund
	Self Insurance Fund
<u>ASSETS</u>	
Cash in county treasury	\$ 3,388,103
Cash with fiscal agent	203,720
Accounts receivable	997
TOTAL ASSETS	<u>3,592,820</u>
<u>LIABILITIES</u>	
Accounts payable	113,921
Claim liabilities	258,732
TOTAL LIABILITIES	<u>372,653</u>
<u>NET POSITION</u>	
Unrestricted	<u>3,220,167</u>
TOTAL NET POSITION	<u>\$ 3,220,167</u>

See the accompanying notes to the financial statements.

ORANGE COUNTY DEPARTMENT OF EDUCATION

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

For the Fiscal Year Ended June 30, 2014

	Governmental Activities: Internal Service Fund
	Self Insurance Fund
OPERATING REVENUES	
Local and intermediate sources	\$ 1,852,375
TOTAL OPERATING REVENUES	<u>1,852,375</u>
OPERATING EXPENSES	
Payroll costs	1,670,326
Other operating cost	91,007
TOTAL OPERATING EXPENSES	<u>1,761,333</u>
Operating income	<u>91,042</u>
NON-OPERATING REVENUES	
Interest income	<u>8,415</u>
TOTAL NON-OPERATING REVENUES	<u>8,415</u>
Change in net position	99,457
Net Position at Beginning of Year	<u>3,120,710</u>
Net Position at End of Year	<u><u>\$ 3,220,167</u></u>

See the accompanying notes to the financial statements.

ORANGE COUNTY DEPARTMENT OF EDUCATION

**STATEMENT OF CASH FLOWS - PROPRIETARY FUND
For the Fiscal Year Ended June 30, 2014**

	Governmental Activities: Internal Service Fund
	Self Insurance Fund
CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from premiums and other revenues	\$ 1,852,375
Cash payments to employees for services	(1,670,326)
Other operating cash payments	<u>(13,871)</u>
Net cash provided by operating activities	<u>168,178</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest income	<u>7,973</u>
Net cash provided by investing activities	<u>7,973</u>
Net increase in cash	176,151
Cash - July 1, 2013	<u>3,415,672</u>
Cash - June 30, 2014	<u>\$ 3,591,823</u>
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities	
OPERATING INCOME	\$ 91,042
Adjustments to reconcile operating income to net cash provided by operating activities:	
Increase in accounts payable	<u>77,136</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 168,178</u>
Cash balances at June 30, 2014 consisted of the following:	
Cash in county treasury	\$ 3,388,103
Cash with fiscal agent	<u>203,720</u>
Total cash balances at June 30, 2014	<u>\$ 3,591,823</u>

See the accompanying notes to the financial statements.

ORANGE COUNTY DEPARTMENT OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

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

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

A. BASIS OF PRESENTATION:

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

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

1. Government-wide Financial Statements:

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

ORANGE COUNTY DEPARTMENT OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

A. BASIS OF PRESENTATION: (continued)

1. Government-wide Financial Statements: (continued)

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

2. Fund Financial Statements:

During the year, the County segregates transactions related to certain County functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the County at this more detailed level. The focus of governmental fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. The proprietary funds are reported by type.

ORANGE COUNTY DEPARTMENT OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

A. BASIS OF PRESENTATION: (continued)

2. Fund Financial Statements: (continued)

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

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

Instruction-related services – includes supervision of instruction, instructional library, media and technology, and school site administration.

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

General administration – includes data processing services and all other general administration services.

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

Debt service – includes principal and interest payments for long term debt.

Other outgo – includes transfers to other agencies.

The proprietary fund expenditures are presented by natural classification.

ORANGE COUNTY DEPARTMENT OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

B. FUND ACCOUNTING:

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

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

GOVERNMENTAL FUNDS - MAJOR

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

The Special Reserve for Other Than Capital Outlay Projects is used primarily to provide for the accumulation of monies for general operating purposes other than for capital outlay. Based on the requirements of GASB Statement No. 54, the fund no longer meets the definition of a special revenue fund as it is not primarily composed of restricted or committed revenue sources. Therefore, all activities of this fund are reported in the County School Service Fund.

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

ORANGE COUNTY DEPARTMENT OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

B. FUND ACCOUNTING: (continued)

GOVERNMENTAL FUNDS – NON-MAJOR

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

1. Child Development Fund - used to account for resources committed to child development programs.
2. Deferred Maintenance Fund - used for the purpose of major repair or replacement of County property. The County has taken formal action to commit state apportionment funding from local control funding formula to this fund for the continued operation of the original program. The fund therefore meets the requirements to be reported as a Special Revenue fund.

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

1. County School Facilities Fund – used to account for the School Facility Program grants awarded for modernization and new construction of various sites.
2. Special Reserve Fund for Capital Outlay Projects – used to account for specific board-approved capital expenditures.

ORANGE COUNTY DEPARTMENT OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

B. FUND ACCOUNTING: (continued)

GOVERNMENTAL FUNDS – NON-MAJOR (continued)

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

PROPRIETARY FUNDS

Self-Insurance Fund

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

C. BASIS OF ACCOUNTING:

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

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

ORANGE COUNTY DEPARTMENT OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

C. BASIS OF ACCOUNTING: (continued)

1. Cash and Cash Equivalents

The County's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. Cash in the County Treasury is recorded at cost, which approximates fair value.

2. Receivables

Receivables are generally recorded when the amount is earned and can be estimated. All material receivables are considered fully collectible. Per Education Code Section 33128.1, a local education agency may recognize for budgetary and financial reporting purposes any amount of state appropriations deferred from the current fiscal year and appropriated from the subsequent fiscal year for payment of current year costs as a receivable in the current year. The County has recognized receivables in accordance with this standard, the most notable being for the final P-2 and annual apportionments.

3. Capital Assets

Generally, capital assets result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the Statement of Net Position, but are not reported in the fund financial statements. Capital assets in the proprietary fund are capitalized in that fund. The valuation basis for proprietary fund capital assets is the same as those used for the capital assets of governmental funds.

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The County maintains a capitalization threshold of \$5,000. The County does not own any infrastructure as defined by GASB. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

ORANGE COUNTY DEPARTMENT OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

C. BASIS OF ACCOUNTING: (continued)

3. Capital Assets (continued)

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

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

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

4. Unearned Revenue

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

5. Compensated Absences

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

ORANGE COUNTY DEPARTMENT OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

C. BASIS OF ACCOUNTING: (continued)

5. Compensated Absences (continued)

Sick leave benefits are accumulated without limit for each employee at the rate of one day for each month worked. The employees do not gain a vested right to accumulated sick leave, therefore accumulated employee sick leave benefits are not recognized as a liability of the County. The County's policy is to record sick leave as an operating expense in the period taken; however, credit for unused sick leave is applicable to all classified school members who retire after January 1, 1999. Unused sick leave is added to the creditable service period at the rate of .004 year of service credit for each day of unused sick leave for calculation of retirement benefits when the employee retires. Credit for unused sick leave is applicable to all certificated employees and is determined by dividing the number of unused sick days by the number of base service days required to complete the last school year, if employed full-time.

6. Long-Term Obligations

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

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

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as debt issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures.

ORANGE COUNTY DEPARTMENT OF EDUCATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

C. BASIS OF ACCOUNTING: (continued)

7. 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 improvements of those assets. Net position is reported as restricted when there are limitations imposed on use through external restrictions imposed by donors, grantors, laws or regulations of other governments or by enabling legislation adopted by the County.

8. Fund Balance Classification

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

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

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

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

ORANGE COUNTY DEPARTMENT OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

C. BASIS OF ACCOUNTING: (continued)

8. Fund Balance Classification (continued)

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

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

9. Spending Order Policy

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

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

10. Minimum Fund Balance Policy:

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

ORANGE COUNTY DEPARTMENT OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

C. BASIS OF ACCOUNTING: (continued)

11. State Apportionments

Certain current year apportionments from the State are based upon various financial and statistical information of the previous year. Second period to annual corrections for local control funding formula and other state apportionments (either positive or negative) are accrued at the end of the fiscal year. See Note 1 C 2.

12. Property Taxes

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. Unsecured property taxes are payable in one installment on or before August 31.

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

13. On-Behalf Payments

GAAP requires that direct on-behalf payments for fringe benefits and salaries made by one entity to a third party recipient for the employees of another, legally separate entity be recognized as revenue and expenditures by the employer government. The State of California makes direct on-behalf payments for retirement benefits to the State Teachers' Retirement System on behalf of County offices and school districts in California. However, a fiscal advisory was issued by the California Department of Education instructing these organizations not to record revenue and expenditures for these on-behalf payments. The amount of on-behalf payments made for the County is estimated at \$2,660,700 for STRS.

ORANGE COUNTY DEPARTMENT OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

C. BASIS OF ACCOUNTING: (continued)

14. Contributed Services

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

15. Classification of Revenues – Proprietary Funds

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

16. Estimates

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

ORANGE COUNTY DEPARTMENT OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

D. REPORTING ENTITY:

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

The County considered its financial and operational relationships with potential component units under the reporting entity definition of GASB Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units* and GASB Statement No. 61, *The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34*.

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

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

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

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

ORANGE COUNTY DEPARTMENT OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

D. REPORTING ENTITY: (continued)

3. The economic resources received or held by an individual organization that the County, or its component units, is entitled to, or has the ability to otherwise access, are significant to the County.

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

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

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

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

NOTE 2 - BUDGETS:

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

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

ORANGE COUNTY DEPARTMENT OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE 2 - BUDGETS: (continued)

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

NOTE 3 - DEPOSITS AND INVESTMENTS:

A. Deposits

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the County's deposits may not be returned to it. The County has established a policy for custodial risk that follows requirements as set forth in Education Code 41002.5. At various times throughout the year, the County's bank balances may be in excess of the FDIC insured limit. The County has not experienced any loss in such accounts and believes it is not exposed to any significant credit risk related to these deposits.

Cash in County

In accordance with Education Code Section 41001, the County maintains substantially all of its cash in the Orange County Treasury as part of the common investment pool. These pooled funds are carried at amortized cost which approximates fair value. The fair market value of the County's deposits in this pool as of June 30, 2014, as provided by the County Treasurer, was \$148,646,818 based upon the County's pro-rata share of the fair value for the entire portfolio (in relation to the amortized cost of the portfolio).

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

ORANGE COUNTY DEPARTMENT OF EDUCATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE 3 - DEPOSITS AND INVESTMENTS: (continued)

A. Deposits (continued)

Cash with Fiscal Agent

The County has cash and cash equivalent balances held with fiscal agents related to long-term debt and self-insurance program. As of June 30, 2014, \$1,987,406 was held with U.S. Bank and First Republic Bank for the Esplanade Certificates of Participation refunding and for the Esplanade real estate property services. \$203,720 was held with Alameda County Schools Insurance Group for estimated claims related to the County's self-insured dental program.

NOTE 4 - INTERFUND TRANSACTIONS:

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

A. Interfund Receivables/Payables

Individual interfund receivable and payable balances at June 30, 2014 are temporary loans and are detailed as follows:

<u>Fund</u>	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
County School Service Fund	\$ 1,178,678	\$ 7,925,996
Special Education Pass-Through Fund	4,368,860	138,729
Special Revenue Funds:		
Child Development Fund	716,496	864,393
Deferred Maintenance	<u>2,665,084</u>	<u> </u>
Totals	<u>\$ 8,929,118</u>	<u>\$ 8,929,118</u>

ORANGE COUNTY DEPARTMENT OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE 4 - INTERFUND TRANSACTIONS: (continued)

B. Interfund Transfers

Interfund transfers consist of operating transfers from funds receiving revenue to funds through which the resources are to be expended. Interfund transfers for the 2013-14 fiscal year are as follows:

Transfer from the County School Service Fund to the Child Development Fund to cover excess costs for programs	\$ 499,532
Transfer from the County School Service Fund to the Deferred Maintenance Fund for State match	980,735
Transfer from the Special Reserve Fund for Capital Outlay Projects to the COP Debt Service Fund for debt service payments	<u>800,000</u>
Total	\$ <u>2,280,267</u>

NOTE 5 – CAPITAL ASSETS AND DEPRECIATION – SCHEDULE OF CHANGES:

Capital asset activity for the year ended June 30, 2014 is shown below.

	Balance July 1, 2013	Additions	Deletions	Balance June 30, 2014
Capital assets not depreciated:				
Land	\$ 28,641,315	\$	\$	\$ 28,641,315
Construction in progress	<u>4,821,041</u>	<u>1,811,465</u>	<u>2,342,798</u>	<u>4,289,708</u>
Total capital assets not depreciated	<u>33,462,356</u>	<u>1,811,465</u>	<u>2,342,798</u>	<u>32,931,023</u>
Capital assets depreciated:				
Land improvements	4,511,925			4,511,925
Buildings and improvements	78,237,101	143,087	15,734	78,364,454
Furniture and equipment	<u>10,906,015</u>	<u>1,123,277</u>	<u>103,481</u>	<u>11,925,811</u>
Total capital assets depreciated	<u>93,655,041</u>	<u>1,266,364</u>	<u>119,215</u>	<u>94,802,190</u>
Less accumulated depreciation for:				
Land improvements	2,226,206	188,275		2,414,481
Buildings and improvements	18,613,338	2,179,305		20,792,643
Furniture and equipment	<u>6,924,136</u>	<u>1,009,710</u>	<u>97,497</u>	<u>7,836,349</u>
Total accumulated depreciation	<u>27,763,680</u>	<u>3,377,290</u>	<u>97,497</u>	<u>31,043,473</u>
Governmental activities capital assets, net	\$ <u>99,353,717</u>	\$ <u>(299,461)</u>	\$ <u>2,364,516</u>	\$ <u>96,689,740</u>

ORANGE COUNTY DEPARTMENT OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE 6 - FUND BALANCES:

The following amounts were nonspendable, restricted, committed, assigned or unassigned as shown below:

	<u>County School Service Fund</u>	<u>Special Education Pass- Through Fund</u>	<u>Non-major Governmental Funds</u>	<u>Total Governmental Funds</u>
Nonspendable				
Revolving cash	\$ 70,000	\$	\$	\$ 70,000
Total Nonspendable	<u>70,000</u>	<u>-</u>	<u>-</u>	<u>70,000</u>
Restricted				
Legally restricted programs	20,070,686	12,059,595	955,777	33,086,058
Capital projects			9,410,888	9,410,888
Total Restricted	<u>20,070,686</u>	<u>12,059,595</u>	<u>10,366,665</u>	<u>42,496,946</u>
Committed				
Deferred maintenance program			21,190,904	21,190,904
Total Committed	<u>-</u>	<u>-</u>	<u>21,190,904</u>	<u>21,190,904</u>
Assigned				
Special Reserve Fund for Other Than Capital Outlay Projects	23,058,906			23,058,906
ACCESS program	23,842,290			23,842,290
Mandated costs	3,544,014			3,544,014
Workshops and contracts	2,223,367			2,223,367
Various program balances	1,571,843			1,571,843
Technology projects	2,460,107			2,460,107
Other assignments	8,693,843			8,693,843
Total Assigned	<u>65,394,370</u>	<u>-</u>	<u>-</u>	<u>65,394,370</u>
Unassigned				
Economic uncertainties	25,547,981			25,547,981
Unassigned	12,892,377			12,892,377
Total Unassigned	<u>38,440,358</u>	<u>-</u>	<u>-</u>	<u>38,440,358</u>
Total fund balances	<u>\$ 123,975,414</u>	<u>\$ 12,059,595</u>	<u>\$ 31,557,569</u>	<u>\$ 167,592,578</u>

ORANGE COUNTY DEPARTMENT OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE 7 - LEASES:

A. Operating Leases

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

<u>Fiscal Year</u>	<u>Lease Payment</u>
2015	\$ 3,838,841
2016	3,567,181
2017	1,947,064
2018	<u>1,324,845</u>
Total	<u>\$10,677,931</u>

Current year expenditures for operating leases is approximately \$6,228,000. The County will receive no sublease rental revenues nor pay any contingent rentals for these properties.

B. Lease Revenues

The County has property held for lease with a combined cost of land and buildings of approximately \$17 million and accumulated depreciation of approximately \$2 million. Lease agreements have been entered into with various lessees, including internal County programs, for terms that exceed one year. None of the agreements contain purchase options. All of the agreements contain a termination clause providing for cancellation after a specified number of days written notice to lessees, but is unlikely that the County will cancel any of these agreements prior to their expiration date.

ORANGE COUNTY DEPARTMENT OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE 7 - LEASES:

B. Lease Revenues (continued)

The future minimum lease payments expected to be received under these agreements are as follows:

<u>Fiscal Year</u>	<u>Lease Payment</u>
2015	\$ 1,486,027
2016	1,224,051
2017	696,779
2018	584,887
2019	<u>174,539</u>
Total	<u>\$ 4,166,283</u>

NOTE 8 - CERTIFICATES OF PARTICIPATION:

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

The Corporation's funds for acquiring these items were generated by the issuance of \$20,000,000 of Certificates of Participation (COPs). In February 2012, the COPs were restructured as a private issue in the amount of \$16,200,000 with an interest rate of 3%.

Lease Payments - Lease payments are required to be made by the County under the lease agreement on each June 1 and December 1 for use and possession of the equipment for the period commencing June 1, 2012 and terminating June 1, 2032. Lease payments will be funded in part from the proceeds of the Certificates.

ORANGE COUNTY DEPARTMENT OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE 8 - CERTIFICATES OF PARTICIPATION: (continued)

The outstanding long-term debt is:

Year Ended June 30	Principal	Interest	Total Payments
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	500,000	419,700	919,700
2020-2024	3,460,000	1,836,300	5,296,300
2025-2029	5,470,000	1,204,500	6,674,500
2030-2032	4,560,000	281,100	4,841,100
 Total	 <u>\$15,500,000</u>	 <u>\$ 5,540,700</u>	 <u>\$21,040,700</u>

Debt in excess of proceeds received is deducted from the maturity amount and amortized to interest expense over the life of the debt. The COPs included a total discount of \$180,000. This amount is amortized using the straight-line method. Amortization of \$6,000 was recognized during the 2013-14 year.

NOTE 9 – LONG-TERM DEBT – SCHEDULE OF CHANGES:

A schedule of changes in long-term debt for the year ended June 30, 2014 is shown below.

	Balance July 1, 2013	Additions	Deductions	Balance June 30, 2014	Amount Due in One Year
Certificates of Participation	\$15,770,000	\$	\$ 270,000	\$ 15,500,000	\$ 310,000
Unamortized Discount	(114,000)		(6,000)	(108,000)	
Compensated Absences	1,586,690	145,748		1,732,438	
Postemployment Benefits					
Other Than Pension (OPEB)	3,619,233	207,039		3,826,272	
Totals	<u>\$20,861,923</u>	<u>\$ 352,787</u>	<u>\$ 264,000</u>	<u>\$ 20,950,710</u>	<u>\$ 310,000</u>

ORANGE COUNTY DEPARTMENT OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE 9 – LONG-TERM DEBT – SCHEDULE OF CHANGES: (continued)

Liabilities for the Certificates of Participation are liquidated by the COP Debt Service Fund. The compensated absences liability is liquidated by the fund for which the employee worked. Payments for OPEB obligations are made by the County School Service Fund.

NOTE 10 – RISK MANAGEMENT:

The County is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; life and health of employees; and natural disasters. The County purchases commercial insurance for property damage with coverage up to a maximum of \$300 million, subject to various policy sublimits generally ranging from \$1 million to \$50 million and deductibles ranging from \$25,000 to \$300,000 per occurrence. The County also purchases commercial insurance for general liability claims with coverage up to \$1 million per occurrence and \$2 million aggregate, with excess liability coverage over \$25 million, all subject to various deductibles up to \$20,000 per occurrence and per employee policy limit, subject to a deductible of \$100,000 per occurrence per claim up to a maximum of \$1.5 million for 2014.

The County's risk management activities are recorded in the County School Service and Self-Insurance Fund. Employee life, health and disability programs are administered by the County School Service Fund through the purchase of commercial insurance. The County provides health insurance benefits to County employees electing to participate in the plan by paying a monthly premium based on the number of County employees participating in the plan. The County administers a dental program through their dental self-insurance fund described in Note 11.

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

ORANGE COUNTY DEPARTMENT OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE 11 – INTERNAL SERVICE FUND:

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

At June 30, 2014, the County accrued the claims liability in accordance with GAAP which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Changes in the reported liability are shown below:

	<u>Beginning Fiscal Year Liability</u>	<u>Current Year Claims and Changes in Estimates</u>	<u>Claim Payments</u>	<u>Ending Fiscal Year Liability</u>
Dental Program	\$ 277,963	\$ 1,651,095	\$ 1,670,326	\$ 258,732

NOTE 12 - EMPLOYEE RETIREMENT PLANS:

Qualified employees are covered under multiple-employer defined benefit pension plans maintained by agencies of the State of California. Academic employees are members of the State Teachers' Retirement System (STRS), classified employees are members of the Public Employees' Retirement System (PERS), and part-time, seasonal and temporary employees and employees not covered by STRS or PERS are members of the Public Agency Retirement System (PARS).

State Teachers' Retirement System (STRS)

Plan Description

The County contributes to the State Teachers' Retirement System (STRS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by STRS. The plan provides retirement, disability and survivor benefits to beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law. STRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the STRS annual financial report may be obtained from STRS, 7667 Folsom Boulevard, and Sacramento, CA 95826.

ORANGE COUNTY DEPARTMENT OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE 12 - EMPLOYEE RETIREMENT PLANS: (continued)

State Teachers' Retirement System (STRS) (continued)

Funding Policy

Active plan members are required to contribute 8.0% 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 STRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2013-14 was 8.25% of annual payroll. The contribution requirements of the plan members are established and may be amended by State statute.

Public Employees' Retirement System (PERS)

Plan Description

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

CalPERS issues a separate and required supplementary information. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, CA 95814.

Funding Policy

Active plan members are required to contribute 7.0% 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 2013-14 was 11.442% of annual payroll. The contribution requirements of the plan members are established and may be amended by State statute.

ORANGE COUNTY DEPARTMENT OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE 12 - EMPLOYEE RETIREMENT PLANS: (continued)

Contributions to STRS and PERS

The County's contributions to STRS and PERS for each of the last three fiscal years are as follows:

<u>Year Ended</u> <u>June 30,</u>	<u>STRS</u>		<u>PERS</u>	
	<u>Required</u> <u>Contribution</u>	<u>Percent</u> <u>Contributed</u>	<u>Required</u> <u>Contribution</u>	<u>Percent</u> <u>Contributed</u>
2012	\$ 4,273,714	100%	\$ 5,505,122	100%
2013	4,269,538	100%	5,748,380	100%
2014	4,057,461	100%	5,690,541	100%

Public Agency Retirement System (PARS)

Plan Description

The Public Agency Retirement System (PARS) is a defined contribution plan qualifying under §401(a) and §501 of the Internal Revenue Code. The plan covers part-time, seasonal and temporary employees and employees not covered by §3121(b)(7)(F) of the Internal Revenue Code. The benefit provisions and contribution requirements of plan members and the County are established and may be amended by the PARS Board of Trustees.

Funding Policy

Contributions of 3.75% of covered compensation of eligible employees are made by the employer and employee. Total contributions, employer and employee combined, were made in the amount of \$229,317 during the fiscal year. The total amount of covered compensation was \$3,057,533. Total contributions made are 100% of the amount of contributions required for fiscal year 2013-14.

ORANGE COUNTY DEPARTMENT OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE 13 – POSTEMPLOYMENT HEALTHCARE BENEFITS:

Plan Description and Eligibility

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

Funding Policy

The County currently finances benefits on a pay-as-you-go basis. The retirees pay the cost of current year premiums for eligible retired plan members and their spouses as applicable. For fiscal year ended 2014, retirees paid \$293,593 to the plan for current year premiums.

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 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 liabilities (or funding excess) over a period not to exceed thirty years.

ORANGE COUNTY DEPARTMENT OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE 13 – POSTEMPLOYMENT HEALTHCARE BENEFITS: (continued)

Annual OPEB Cost and Net OPEB Obligation (continued)

The following table shows the components of the County’s annual OPEB cost for the year, the amount actually contributed, and changes in the OPEB obligation:

Annual required contribution (ARC)	\$ 489,690
Interest on net OPEB obligation	180,962
Adjustment to annual required contribution	<u>(170,020)</u>
Annual OPEB cost	500,632
Contributions made	<u>(293,593)</u>
Change in net OPEB obligation	207,039
Net OPEB obligation - beginning of year	<u>3,619,233</u>
Net OPEB obligation - end of year	<u>\$ 3,826,272</u>

Annual OPEB Cost and Net OPEB Obligation (continued)

The County’s annual OPEB cost for the year, the percentage of annual OPEB cost contributed, and the net OPEB obligation for each of the last three fiscal years is as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Actual Contribution</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
6/30/2012	\$ 445,746	\$ 738,388	165.7%	\$3,599,498
6/30/2013	446,971	427,236	95.6%	3,619,233
6/30/2014	500,632	293,593	58.6%	3,826,272

ORANGE COUNTY DEPARTMENT OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE 13 – POSTEMPLOYMENT HEALTHCARE BENEFITS: (continued)

Funding Status and Funding Progress

As of March 1, 2014, the most recent actuarial valuation date, the plan was unfunded. The actuarial accrued liability for benefits as well as the unfunded actuarial accrued liability (UAAL) was \$4,135,596. There is no covered payroll as employees enroll at date of retirement and pay benefits month-to-month as long as they wish to retain benefits. Currently, the County is using the pay-as-you-go method to fund the existing fiscal year payments. Although the plan has no segregated assets, \$3,153,235 has been set aside for retiree health care costs in the Special Reserve Fund for Other than Capital Outlay at June 30, 2014.

Actuarial valuations of an ongoing benefit plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of postemployment healthcare benefits funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets, if any, is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

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

In the March 1, 2014 actuarial valuation, the entry age normal cost method was used. The actuarial assumptions included a 4.5 percent investment rate of return and an annual healthcare cost trend rate of 4.0 percent. Both rates included a 2.75 percent inflation assumption. There were no plan assets on the valuation date. The UAAL is being amortized as a level dollar of projected payroll on a closed basis over thirty years for the initial UAAL and on an open basis over thirty years for any residual UAAL.

ORANGE COUNTY DEPARTMENT OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE 14 - JOINT POWERS AGREEMENTS:

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

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

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

Each JPA is independently accountable for its fiscal matters. Members share surpluses and deficits proportionately to their participation in the JPA. Separate financial statements for each JPA may be obtained from the respective entity.

The relationships between the County and the JPAs are such that the JPAs are not component units of the County for financial reporting purposes.

The most current condensed financial information available is as follows:

	(Audited) 6/30/2013 <u>WOCSWCA</u>	(Audited) 6/30/2013 <u>SOCPJPA</u>	(Audited) 6/30/2014 <u>SELF</u>
Total Assets	\$ 17,890,602	\$ 1,936,667	\$ 162,746,000
Total Liabilities	<u>13,750,135</u>	<u>339,259</u>	<u>118,853,000</u>
Net Position	<u>\$ 4,140,467</u>	<u>\$ 1,597,408</u>	<u>\$ 43,893,000</u>
Total Revenues	\$ 3,630,232	\$ 450,720	\$ 11,812,000
Total Expenditures	<u>3,362,806</u>	<u>480,469</u>	<u>4,199,000</u>
Net Increase (Decrease) in Net Position	<u>\$ 267,426</u>	<u>\$ (29,749)</u>	<u>\$ 7,613,000</u>

ORANGE COUNTY DEPARTMENT OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE 15 – CHANGE IN ACCOUNTING PRINCIPLE:

The beginning net position of the government-wide financial statements has been decreased by \$861,412 to write-off the balance of deferred issue costs in accordance with the implementation of GASB Statement No. 65. The charges were prepaid Certificates of Participation issue costs that are now required to be expensed in the period incurred.

NOTE 16 – COMMITMENTS AND CONTINGENCIES:

A. Litigation

The County is involved in claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the County's financial statements.

B. State and Federal Allowances, Awards, and Grants

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

C. County School Facilities Fund

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

D. Purchase Commitments

As of June 30, 2014, the County was committed under various capital expenditure purchase agreements for construction and modernization projects totaling approximately \$390,000. Projects will be funded through State Deferred Maintenance Allocations, Special Reserve Fund for Capital Outlay and County School Service Funds.

ORANGE COUNTY DEPARTMENT OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

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

The Governmental Accounting Standards Board (GASB) has issued pronouncements prior to June 30, 2014, that have effective dates that may impact future financial presentations; however, the impact of the implementation of each of the statements below to the County's financial statements has not been assessed at this time.

Governmental Accounting Standards Board Statement No. 68 and No. 71

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*. This statement is designed 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 provided by other entities. This statement replaces the requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, and GASB Statement No. 50, *Pension Disclosures*. This statement is effective for fiscal year 2014-15 financial statements.

In November 2013, the GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 8*. This statement addresses an issue regarding application of the transition provision of Statement No. 68. This statement is effective simultaneously with GASB No. 68.

Governmental Accounting Standards Board Statement No. 69

In January 2013, the GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*. This statement provides guidance on the measurement of assets and liabilities in a government merger or when a government acquires another entity, or its operations, in exchange for significant consideration. This statement also provides guidance for transfers of operations that do not constitute entire legally separate entities and in which no significant consideration is exchanged. This statement is effective for fiscal year 2014-15 financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

ORANGE COUNTY DEPARTMENT OF EDUCATION

**SCHEDULE OF BUDGETARY COMPARISON FOR THE COUNTY SCHOOL SERVICE FUND
For the Fiscal Year Ended June 30, 2014**

	Budgeted Amounts -		Actual Amounts	(a) Fund Basis to	
	County School Service Fund			GAAP	Actual Amounts
	Original	Final	County School Service Fund		GAAP Basis
Revenues					
Local control funding formula sources	\$ 84,814,374	\$ 91,034,114	\$ 93,583,726	\$	\$ 93,583,726
Federal sources	27,495,832	16,890,948	17,161,033		17,161,033
Other state sources	8,210,343	8,995,061	8,753,382		8,753,382
Other local sources	<u>75,454,168</u>	<u>75,095,934</u>	<u>75,496,065</u>	<u>59,017</u>	<u>75,555,082</u>
Total Revenues	<u>195,974,717</u>	<u>192,016,057</u>	<u>194,994,206</u>	<u>59,017</u>	<u>195,053,223</u>
Expenditures					
Certificated salaries	54,566,538	53,146,175	52,872,836		52,872,836
Classified salaries	51,443,980	50,411,729	49,702,078		49,702,078
Employee benefits	36,703,272	35,273,901	34,589,564		34,589,564
Books and supplies	10,453,490	6,716,716	5,553,247		5,553,247
Contracted services	28,623,436	29,394,973	27,349,926		27,349,926
Capital outlay	1,861,705	1,263,490	1,880,763		1,880,763
Tuition	21,611,409	14,100,771	15,491,937		15,491,937
Debt service	22,524	73,203	22,531		22,531
Direct support-indirect cost	<u>(988,251)</u>	<u>(1,043,995)</u>	<u>(999,675)</u>		<u>(999,675)</u>
Total Expenditures	<u>204,298,103</u>	<u>189,336,963</u>	<u>186,463,207</u>	<u>-</u>	<u>186,463,207</u>
Excess (deficiency) of revenues over expenditures	<u>(8,323,386)</u>	<u>2,679,094</u>	<u>8,530,999</u>	<u>59,017</u>	<u>8,590,016</u>
Other Financing Uses					
Interfund transfers out	<u>(2,626,455)</u>	<u>(1,553,187)</u>	<u>(1,480,267)</u>		<u>(1,480,267)</u>
Total Other Financing Uses	<u>(2,626,455)</u>	<u>(1,553,187)</u>	<u>(1,480,267)</u>	<u>-</u>	<u>(1,480,267)</u>
Net change in fund balance	<u><u>\$(10,949,841)</u></u>	<u><u>\$ 1,125,907</u></u>	<u><u>\$ 7,050,732</u></u>	<u><u>\$ 59,017</u></u>	<u><u>7,109,749</u></u>
Fund Balances - Beginning of Year					<u>116,865,665</u>
Fund Balance - End of Year					<u><u>\$ 123,975,414</u></u>

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

See the accompanying notes to the required supplementary information.

ORANGE COUNTY DEPARTMENT OF EDUCATION

SCHEDULE OF BUDGETARY COMPARISON FOR THE SPECIAL EDUCATION PASS-THROUGH FUND

For the Fiscal Year Ended June 30, 2014

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>
	<u>Original</u>	<u>Final</u>	<u>GAAP Basis</u>
Revenues			
Local control funding formula sources	\$ 19,970,657	\$ 22,025,037	\$ 22,637,458
Federal sources	7,573,805	7,188,877	7,188,879
Other state sources	2,769,973	1,819,725	2,457,972
Other local sources	1,218,999	1,401,502	1,402,822
Total Revenues	<u>31,533,434</u>	<u>32,435,141</u>	<u>33,687,131</u>
Expenditures			
Other outgo	<u>29,878,924</u>	<u>30,814,666</u>	<u>33,034,961</u>
Total Expenditures	<u>29,878,924</u>	<u>30,814,666</u>	<u>33,034,961</u>
Excess of revenues over expenditures	<u>\$ 1,654,510</u>	<u>\$ 1,620,475</u>	652,170
Fund Balances - Beginning of Year			<u>11,407,425</u>
Fund Balance - End of Year			<u>\$ 12,059,595</u>

See the accompanying notes to the required supplementary information.

ORANGE COUNTY DEPARTMENT OF EDUCATION

**SCHEDULE OF POSTEMPLOYMENT HEALTHCARE BENEFITS FUNDING PROGRESS
For the Fiscal Year Ended June 30, 2014**

Actuarial Valuation Date	Actuarial Value of Assets (AVA)	Actuarial Accrued Liability (Unit Cost Method) (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funding Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
8/1/2010	\$ -	\$ 4,563,675	\$ 4,563,675	0.0%	N/A*	N/A*
3/1/2012	-	4,691,739	4,691,739	0.0%	N/A*	N/A*
3/1/2014	-	4,135,596	4,135,596	0.0%	N/A*	N/A*

Although the plan has no segregated assets, \$3,153,235 has been set aside for retiree health care costs in the Special Reserve Fund for Other than Capital Outlay at June 30, 2014.

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

See the accompanying notes to the required supplementary information.

ORANGE COUNTY DEPARTMENT OF EDUCATION

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
For the Fiscal Year Ended June 30, 2014**

NOTE 1 - PURPOSE OF SCHEDULES:

A. Schedule of Budgetary Comparison For The County School Service Fund and Special Education Pass-Through Fund

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

B. Schedule of Postemployment Healthcare Benefits Funding Progress

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

NOTE 2 – EXCESS OF EXPENDITURES OVER APPROPRIATIONS:

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

County School Service Fund:	
Capital Outlay	\$ 617,273
Tuition	1,389,394
Special Education Pass-Through Fund:	
Other Outgo	\$ 2,220,295

SUPPLEMENTARY INFORMATION

ORANGE COUNTY DEPARTMENT OF EDUCATION

HISTORY AND ORGANIZATION

June 30, 2014

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

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

The Board of Education and the County Administrators for the fiscal year ended June 30, 2014 were as follows:

BOARD OF EDUCATION

<u>Member</u>	<u>Office</u>	<u>Term Expires</u>
Mr. David L. Boyd	President	2018
Dr. John W. Bedell	Vice President	2016
Mr. Robert Hammond	Member	2016
Ms. Elizabeth Parker	Member	2014*
Dr. Ken L. Williams	Member	2016

DISTRICT ADMINISTRATORS

Dr. Al Mijares	County Superintendent of Schools and Board Secretary
Dr. Jeff Hittenberger	Chief Academic Officer
Ms. Wendy N. Benkert, Ed. D.	Associate Superintendent, Business Services
Ms. Renee Hendrick	Assistant Superintendent, Administrative Services

*Ms. Parker's term ended June 30, 2014. Ms. Linda Linhdholm was elected June 2014 to a term beginning July 1, 2014 and ending June 30, 2018.

ORANGE COUNTY DEPARTMENT OF EDUCATION
SCHEDULE OF AVERAGE DAILY ATTENDANCE (ADA)
For the Fiscal Year Ended June 30, 2014

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

ADA statistics reported to the State for the fiscal year ended June 30, 2014 are as follows:

County Superintendent's Report of Schools & Classes:

	<u>Second Period</u>	<u>Annual</u>
Elementary:		
Juvenile Halls, Homes and Camps	87	89
Probation Referred, On Probation or Parole, Expelled Pursuant to EC 48915 (a) or (c)	<u>190</u>	<u>201</u>
Total Elementary ADA	<u>277</u>	<u>290</u>
Secondary:		
Juvenile Halls, Homes and Camps	776	762
Probation Referred, On Probation or Parole, Expelled Pursuant to EC 48915 (a) or (c)	<u>3,193</u>	<u>3,063</u>
Total Secondary ADA	<u>3,969</u>	<u>3,825</u>
Total ADA from County Office of Education:	<u><u>4,246</u></u>	<u><u>4,115</u></u>

See the accompanying notes to supplementary information.

ORANGE COUNTY DEPARTMENT OF EDUCATION
SCHEDULE OF AVERAGE DAILY ATTENDANCE (ADA)
For the Fiscal Year Ended June 30, 2014

District Funded County Programs:

	<u>Second</u> <u>Period</u>	<u>Annual</u>
Grades transitional kindergarten through third		
County community schools	544	496
Special education - special day class	65	67
Extended year special education	<u>7</u>	<u>7</u>
Total grades kindergarten through third ADA	<u>616</u>	<u>570</u>
Grades fourth through sixth		
County community schools	410	374
Special education - special day class	49	49
Extended year special education	<u>5</u>	<u>5</u>
Total grades fourth through sixth ADA	<u>464</u>	<u>428</u>
Grades seventh through eighth		
County community schools	351	325
Special education - special day class	59	60
Extended year special education	<u>6</u>	<u>6</u>
Total grades seventh through eighth ADA	<u>416</u>	<u>391</u>
Grades ninth through twelfth		
County community schools	2,678	2,395
Special education - special day class	219	218
Extended year special education	<u>27</u>	<u>27</u>
Total grades ninth through twelfth ADA	<u>2,924</u>	<u>2,640</u>
Total ADA for District Funded County Programs	<u>4,420</u>	<u>4,029</u>

See the accompanying notes to supplementary information.

ORANGE COUNTY DEPARTMENT OF EDUCATION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Fiscal Year Ended June 30, 2014

<u>PROGRAM NAME</u>	<u>Federal Catalog Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>			
Direct Programs:			
Elementary and Secondary School Counseling	84.215E	(1)	\$ 391,896
Understanding American Citizenship	84.215X	(1)	269,583
Fitness Physical Education Program: America on Track	84.215F	(1)	175,880
Subtotal Direct Programs			<u>837,359</u>
Pass Through Programs From:			
California Department of Education			
No Child Left Behind (NCLB) Title I Cluster:			
Title I, Part A	84.010	14329	3,326,924
Title I, Part D Local Delinquent Programs	84.010	14357	2,402,310
Imperial County Office of Education			
Title I, Basic School Support	84.010	14416	486,093
Subtotal Title I Cluster			<u>6,215,327</u>
California Department of Education			
No Child Left Behind (NCLB) Title II Cluster:			
Title II, Part A, Improving Teacher Quality	84.367	14341	69,851
Title II, Part A, Administrator Training	84.367	14344	2,472
Regents of The University of California			
Title II, Part A, Improving Teacher Quality	84.367	37792: ITQ-11-808	21,717
Title II, Part A, Improving Teacher Quality	84.367	36950: ITQ-10-705	15,156
Subtotal Title II Cluster			<u>109,196</u>
California Department of Education			
No Child Left Behind (NCLB)			
Title III, Limited English Proficient (LEP) Student Program	84.365	14346	248,359
Title II, Part B, CA Mathematics and Science Partnerships	84.366B	14512	34,843
Special Education Cluster:			
Local Assistance	84.027	13379	7,498,162
Local Assistance - Private Schools	84.027	10115	28,841
Preschool Local Entitlements	84.173	13430	195,250
Preschool Accountability Grants	84.173A	14688	60,912
Preschool Local Entitlement Part B	84.027A	13682	400,781
Mental Health Allocation Plan	84.027	14468	587,359
Preschool Staff Development	84.173A	13431	2,576
Subtotal Special Education Cluster			<u>8,773,881</u>
Special Education IDEA Early Intervention	84.181	23761	49,107
Carl D. Perkins Carrer and Technical Education: Adult, Section 132	84.048	14893	68,285
Title X, McKinney-Vento Homeless Assistance Grants	84.196	14332	167,270
CCDF Race to the Top - Early Learning Challenge	84.412A	15181	1,007,719

See the accompanying notes to supplementary information.

ORANGE COUNTY DEPARTMENT OF EDUCATION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Fiscal Year Ended June 30, 2014

<u>PROGRAM NAME</u>	<u>Federal Catalog Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
<u>U.S. DEPARTMENT OF EDUCATION</u> (continued)			
Pass Through Programs From:			
Napa County Office of Education			
State Improvement Grant, Improving Special Education Systems	84.323	37442	10,800
Subtotal U.S. Department of Education			<u>17,522,146</u>
<u>U.S. DEPARTMENT OF AGRICULTURE</u>			
Pass-Through Programs From:			
California Department of Education			
Child Nutrition Cluster			
National School Lunch Program	10.555	13664	232,734
Especially Needy Breakfast	10.553	10044	120,019
Subtotal Child Nutrition Cluster			<u>352,753</u>
California Department of Health and Human Services:			
California Nutrition Network	10.561	(1)	857,718
Pass-Through County of Orange Healthcare Agency			
Nutrition Services Network	(1)	(1)	638,728
Subtotal U.S. Department of Agriculture			<u>1,849,199</u>
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>			
Pass-Through Programs From:			
California Department of Education			
Child Care Development Program Cluster:			
Child Development Quality Improvement Activities	93.575	14988	809,857
Child Development Federal Alternative Payment	93.596	14153	4,192,602
Child Development Local Planning Councils	93.575	13946	72,623
Child Development, Federal Alternative Payment, Stage 3	93.575	13881	1,053,301
Subtotal Child Care and Development Cluster			<u>6,128,383</u>
California Department of Health Services			
Medi-Cal Billing Option	93.778	10013	1,593,725
County of Orange			
Alcohol and Other Drug Prevention Services Friday Night Live	93.959	(1)	350,000
Subtotal U.S. Department of Health and Human Services			<u>8,072,108</u>
Total Federal Programs Expenditures			27,443,453
Excess revenues over expenditures:			
Medi-Cal Administrative Activities			1,435,768
Medi-Cal Billing Option			1,185,883
Total Program Revenues			<u>\$ 30,065,104</u>

(1) Information not available or not applicable

See the accompanying notes to supplementary information.

ORANGE COUNTY DEPARTMENT OF EDUCATION

SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS

For the Fiscal Year Ended June 30, 2014

	2012*		2013*		2014		2015 (Budgeted)	
	Amount	%	Amount	%	Amount	%	Amount	%
COUNTY SCHOOL SERVICE FUND:								
Revenue:								
Local control funding formula**	\$ 100,596,453	49.8	\$ 93,238,106	47.3	\$ 93,583,726	49.8	\$ 93,899,649	47.5
Federal	31,723,952	15.7	22,019,036	11.2	17,161,033	9.1	16,905,144	8.5
State**	25,651,606	12.7	28,067,357	14.3	8,753,382	4.7	12,286,425	6.2
County and local	<u>54,629,684</u>	<u>27.0</u>	<u>54,279,829</u>	<u>27.6</u>	<u>75,496,065</u>	<u>40.2</u>	<u>72,986,123</u>	<u>36.9</u>
Total Revenues	<u>212,601,695</u>	<u>105.2</u>	<u>197,604,328</u>	<u>100.4</u>	<u>194,994,206</u>	<u>103.8</u>	<u>196,077,341</u>	<u>99.1</u>
Expenditures:								
Certificated salaries	56,204,435	27.8	55,614,202	28.2	52,872,836	28.1	53,398,016	27.0
Classified salaries	50,087,581	24.8	50,802,178	25.8	49,702,078	26.4	50,847,638	25.7
Employee benefits	35,663,103	17.6	36,744,721	18.7	34,589,564	18.4	37,160,320	18.8
Books and supplies	6,386,562	3.2	6,763,690	3.4	5,553,247	3.0	9,310,417	4.7
Contracted services	29,646,306	14.7	28,925,754	14.7	27,349,926	14.6	31,565,527	16.0
Capital outlay	1,566,338	0.8	1,450,771	0.7	1,880,763	1.0	2,194,764	1.1
Tuition and other outgo	22,195,887	11.0	15,937,396	8.1	15,491,937	8.2	12,659,593	6.4
Debt service	16,893	0.0	22,524	0.0	22,531	0.0	22,524	0.0
Interfund transfers out	1,433,973	0.7	1,671,823	0.9	1,480,267	0.8	1,680,672	0.8
Direct support-indirect cost	<u>(1,156,218)</u>	<u>(0.6)</u>	<u>(1,050,927)</u>	<u>(0.5)</u>	<u>(999,675)</u>	<u>(0.5)</u>	<u>(1,020,965)</u>	<u>(0.5)</u>
Total Expenditures	<u>202,044,860</u>	<u>100.0</u>	<u>196,882,132</u>	<u>100.0</u>	<u>187,943,474</u>	<u>100.0</u>	<u>197,818,506</u>	<u>100.0</u>
Change in Fund Balance	10,556,835	5.2	722,196	0.4	7,050,732	3.8	(1,741,165)	(0.9)
Restatement	<u>(7,948,335)</u>	<u>(3.9)</u>		-		-		-
Ending Fund Balance	<u>\$ 93,143,581</u>	<u>46.1</u>	<u>\$ 93,865,777</u>	<u>47.7</u>	<u>\$ 100,916,509</u>	<u>53.7</u>	<u>\$ 99,175,344</u>	<u>50.1</u>
Available Reserve Balance	<u>\$ 58,753,567</u>	<u>29.1</u>	<u>\$ 38,979,558</u>	<u>19.8</u>	<u>\$ 38,440,358</u>	<u>20.5</u>	<u>\$ 16,147,474</u>	<u>8.2</u>
Recommended Reserve Level		<u>2.0</u>		<u>2.0</u>		<u>2.0</u>		<u>2.0</u>
Average Daily Attendance	<u>6,293</u>		<u>5,140</u>		<u>4,115</u>		<u>3,686</u>	
Total Long-Term Debt	<u>\$ 21,082,504</u>		<u>\$ 20,861,923</u>		<u>\$ 20,950,710</u>		<u>\$ 20,646,700</u>	

IMPORTANT NOTES:

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

All percentages are of total expenditures. The available reserve percentage does not include pass through to Districts.

The 2015 budget is the original adopted budget.

Average daily attendance is based on the annual report.

* 2012 and 2013 audits were performed by another audit firm.

**In 2013-14, the state changed its primary funding method from revenue limit to local control funding formula, which combined the previous revenue limit and other state funding sources (Tier III Categorical, Economic Impact Aid) into the local control funding formula.

See the accompanying notes to supplementary information.

ORANGE COUNTY DEPARTMENT OF EDUCATION

**SCHEDULE OF CHARTER SCHOOLS
For the Fiscal Year Ended June 30, 2014**

<u>Charter School</u>	<u>Included in District Audit Report</u>
The Academy	No

See the accompanying notes to supplementary information.

ORANGE COUNTY DEPARTMENT OF EDUCATION
RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET
REPORT WITH AUDITED FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2014

There were no differences between the fund balances reported on the June 30, 2014 Annual Financial and Budget Report for the governmental funds and the audited financial statements.

See the accompanying notes to supplementary information.

ORANGE COUNTY DEPARTMENT OF EDUCATION

**NOTES TO SUPPLEMENTARY INFORMATION
For the Fiscal Year Ended June 30, 2014**

NOTE 1 - PURPOSE OF SCHEDULES:

A. Schedule of Average Daily Attendance (ADA)

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

B. Schedule of Expenditures of Federal Awards

OMB Circular A-133 requires a disclosure of the financial activities of all federally funded programs and is presented on the modified accrual basis of accounting.

Of the federal expenditures presented on the schedule, the County provided federal sub-awards to sub-recipients as follows:

Pass Through to Sub-recipients:

Local Assistance	\$ 6,053,711
Local Assistance - Private Schools	28,613
Preschool Local Entitlements	149,586
Preschool Local Entitlement Part B	369,610
Mental Health Allocation Plan	<u>587,359</u>
Total Pass Through to Sub-recipients	<u>\$ 7,188,879</u>

C. Schedule of Financial Trends and Analysis

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

ORANGE COUNTY DEPARTMENT OF EDUCATION

NOTES TO SUPPLEMENTARY INFORMATION

For the Fiscal Year Ended June 30, 2014

NOTE 1 - PURPOSE OF SCHEDULES: (continued)

D. Schedule of Charter Schools

The *Standards and Procedures for Audits of California K-12 Local Education Agencies* requires that this schedule list all charter schools chartered by the County and inform the users whether or not the charter school information is included in the County's financial statements.

E. Reconciliation of Annual Financial and Budget Report with Audited Financial Statements

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

OPTIONAL SUPPLEMENTARY INFORMATION

ORANGE COUNTY DEPARTMENT OF EDUCATION

NON-MAJOR GOVERNMENTAL FUNDS

COMBINING BALANCE SHEET

June 30, 2014

	Child Development Fund	Deferred Maintenance Fund	County School Facilities Fund	Special Reserve Fund for Capital Outlay Projects	COP Debt Service Fund	Total Non-major Governmental Funds
<u>Assets</u>						
Cash in county treasury	\$ 632,508	\$ 18,586,386	\$ 5,732,526	\$ 2,244,784	\$ 596,289	\$ 27,792,493
Cash with fiscal agent				1,628,092	359,314	1,987,406
Accounts receivable:						
Federal and state governments	1,172,203					1,172,203
Miscellaneous	571	5,417	1,671	654	174	8,487
Due from other funds	716,496	2,665,084				3,381,580
Total Assets	\$ 2,521,778	\$ 21,256,887	\$ 5,734,197	\$ 3,873,530	\$ 955,777	\$ 34,342,169
<u>Liabilities and Fund Balances</u>						
Liabilities						
Accounts payable	\$ 1,657,385	\$ 65,983	\$ 7,261	\$ 189,578		\$ 1,920,207
Due to other funds	864,393					864,393
Total Liabilities	2,521,778	65,983	7,261	189,578	-	2,784,600
Fund Balances						
Restricted			5,726,936	3,683,952	955,777	10,366,665
Committed		21,190,904				21,190,904
Total Fund Balances	-	21,190,904	5,726,936	3,683,952	955,777	31,557,569
Total Liabilities and Fund Balances	\$ 2,521,778	\$ 21,256,887	\$ 5,734,197	\$ 3,873,530	\$ 955,777	\$ 34,342,169

See the accompanying notes to the optional supplementary information.

ORANGE COUNTY DEPARTMENT OF EDUCATION

**NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
For the Fiscal Year Ended June 30, 2014**

	<u>Child Development Fund</u>	<u>Deferred Maintenance Fund</u>	<u>County School Facilities Fund</u>	<u>Reserve Fund for Capital Outlay Projects</u>	<u>COP Debt Service Fund</u>	<u>Total Non- major Governmental Funds</u>
Revenues						
Local control funding formula sources						
State apportionments	\$	\$ 1,039,769	\$	\$	\$	\$ 1,039,769
Total local control funding formula sources		1,039,769				1,039,769
Federal sources	5,715,192					5,715,192
Other state sources	5,512,095					5,512,095
Other local sources	331,623	46,143	15,265	1,767,192	2,295	2,162,518
Total Revenues	<u>11,558,910</u>	<u>1,085,912</u>	<u>15,265</u>	<u>1,767,192</u>	<u>2,295</u>	<u>14,429,574</u>
Expenditures						
Instruction	9,111,858					9,111,858
Instruction - related services	1,868,202					1,868,202
General administration	999,677					999,677
Plant services	78,705	39,182	65,1797	1,062,550		1,832,234
Debt service					743,100	743,100
Total Expenditures	<u>12,058,442</u>	<u>39,182</u>	<u>65,1797</u>	<u>1,062,550</u>	<u>743,100</u>	<u>14,555,071</u>
Excess (deficiency) of revenues over expenditures	<u>(499,532)</u>	<u>1,046,730</u>	<u>(636,532)</u>	<u>704,642</u>	<u>(740,805)</u>	<u>(125,497)</u>
Other Financing Sources (Uses)						
Interfund transfers in	499,532	980,735			800,000	2,280,267
Interfund transfers out				(800,000)		(800,000)
Total Other Financing Sources (Uses)	<u>499,532</u>	<u>980,735</u>		<u>(800,000)</u>	<u>800,000</u>	<u>1,480,267</u>
Net changes in fund balances	-	2,027,465	(636,532)	(95,358)	59,195	1,354,770
Fund Balances - Beginning of Year	-	19,163,439	6,363,468	3,779,310	896,582	30,202,799
Fund Balances - End of Year	<u>\$ -</u>	<u>\$ 21,190,904</u>	<u>\$ 5,726,936</u>	<u>\$ 3,683,952</u>	<u>\$ 955,777</u>	<u>\$ 31,557,569</u>

See the accompanying notes to the optional supplementary information.

ORANGE COUNTY DEPARTMENT OF EDUCATION
NOTES TO OPTIONAL SUPPLEMENTARY INFORMATION
For the Fiscal Year Ended June 30, 2014

NOTE 1 - PURPOSE OF SCHEDULES:

Combining Fund Financial Statements

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

OTHER INDEPENDENT AUDITOR'S REPORTS



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

Superintendent of Schools
Orange County Department of Education
200 Kalmus Drive
Costa Mesa, CA 92626

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Orange County Department of Education (the County), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated December 9, 2014.

Internal Control Over Financial Reporting

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

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

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

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as Finding 2014-001, that we consider to be a significant deficiency.

Compliance and Other Matters

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

District's Response to Findings

Orange County Department of Education's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The County's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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



VICENTI, LLOYD & STUTZMAN LLP

Glendora, California

December 9, 2014

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

Superintendent of Schools
Orange County Department of Education
200 Kalmus Drive
Costa Mesa, CA 92626

Report on Compliance for Each Major Federal Program

We have audited Orange County Department of Education's (the County) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of the County's major federal programs for the year ended June 30, 2014. The County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with 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 the County's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and 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 the County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the County's compliance.

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

Opinion on Each Major Federal Program

In our opinion, the County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

Report on Internal Control Over Compliance

Management of the County is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the County's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance, for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

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

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

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

Purpose of this Report

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



VICENTI, LLOYD & STUTZMAN LLP
Glendora, California
December 9, 2014



INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Superintendent of Schools
Orange County Department of Education
200 Kalmus Drive
Costa Mesa, CA 92626

We have audited the Orange County Department of Education's compliance with the types of compliance requirements described in the *2013-14 Standards and Procedures for Audits of California K-12 Local Education Agencies*, published by the Education Audit Appeals Panel for the year ended June 30, 2014. The County's State compliance requirements are identified in the table below.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on the County's compliance based on our audit of the types of compliance requirements referred to below. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the *2013-14 Standards and Procedures for Audits of California K-12 Local Education Agencies*, published by the Education Audit Appeals Panel. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the specific areas listed below has occurred. An audit includes examining, on a test basis, evidence about the County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion on State compliance. However, our audit does not provide a legal determination of the County's compliance.

INDEPENDENT AUDITOR’S REPORT ON STATE COMPLIANCE

Compliance Requirements Tested

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

<u>Description</u>	<u>Procedures in Audit Guide</u>	<u>Procedures Performed</u>
Attendance accounting:		
Attendance reporting	6	Yes
Teacher certification and misassignments	3	Yes
Kindergarten continuance	3	No ¹
Independent study	23	Yes
Continuation education	10	Not applicable
Instructional time for School Districts	10	Not applicable
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
Local Control Funding Formula Certification	1	Yes
California Clean Energy Jobs Act	3	No ²
After School Education and Safety Program:		
General requirements	4	Not applicable
After school	5	Not applicable
Before school	6	Not applicable
Education Protection Account Funds	1	No ²
Common Core Implementation Funds	3	No ²
Unduplicated Local Control Funding Formula Pupil Counts	3	Yes
Charter Schools:		
Contemporaneous records of attendance	8	No ³
Mode of instruction	1	No ³
Nonclassroom-based instruction/independent study	15	No ³
Determination of funding for nonclassroom-based instruction	3	No ³
Annual instructional minutes – classroom based	4	No ³
Charter School Facility Grant Program	1	No ³

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

²Testing was not performed because California Clean Energy Jobs Act, Education Protection Account Funds and Common Core Implementation Funds were not spent during the year.

³Testing for the Charter Schools was done by the school’s respective auditor.

INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Opinion on State Compliance

In our opinion, the Orange County Department of Education complied with the laws and regulations of the state programs referred to above in all material respects for the year ended June 30, 2014.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the *2013-14 Standards and Procedures for Audits of California K-12 Local Education Agencies*, published by the Education Audit Appeals Panel, and which is described in the accompanying schedule of findings and questioned costs as Finding 2014-002. Our opinion on each state program is not modified with respect to these matters.

The County's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The County's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Purpose of this Report

The purpose of this report on state compliance is solely to describe the results of testing based on the requirements of the *2013-14 Standards and Procedures for Audits of California K-12 Local Education Agencies*, published by the Education Audit Appeals Panel. Accordingly, this report is not suitable for any other purpose.



VICENTI, LLOYD & STUTZMAN LLP
Glendora, California
December 9, 2014

FINDINGS AND RECOMMENDATIONS

ORANGE COUNTY DEPARTMENT OF EDUCATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
SUMMARY OF AUDITOR RESULTS
June 30, 2014

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:
 Material weakness(es) identified? _____ Yes X No
 Significant deficiency(ies) identified not considered
 to be material weaknesses? X Yes _____ None reported

Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

Internal control over major programs:
 Material weakness(es) identified? _____ Yes X No
 Significant deficiency(ies) identified not considered
 to be material weaknesses? _____ Yes X None reported

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

Any audit findings disclosed that are required to be
 Reported in accordance with Circular A-133,
 Section .510(a) _____ Yes X No

Identification of major programs

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.010	Title I, Part A
93.575, 93.596	Child Care Development Program Cluster
84.412	CCDF Race to the Top – Early Learning Challenge
84.215E	Elementary and Secondary School Counseling
84.215X	Understanding American Citizenship

Dollar threshold used to distinguish between Type A
 and Type B programs: \$ 823,304

Auditee qualified as low-risk auditee? X Yes _____ No

ORANGE COUNTY DEPARTMENT OF EDUCATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
RELATED TO FINANCIAL STATEMENTS
June 30, 2014

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

<u>Five Digit Code</u>	<u>Finding Types</u>
10000	Attendance
20000	Inventory of Equipment
30000	Internal Control
40000	State Compliance
41000	CalSTRS
50000	Federal Compliance
60000	Miscellaneous
61000	Classroom Teacher Salaries
70000	Instructional Materials
71000	Teacher Misassignments
72000	School Accountability Report Card

Note: Each of the findings and recommendations below include details about the criteria or specific requirements, the condition, the effect and the cause. Questioned costs, if applicable are listed separately. The district response that follows the finding is the County's corrective action plan.

ORANGE COUNTY DEPARTMENT OF EDUCATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
RELATED TO FINANCIAL STATEMENTS
June 30, 2014

FINDING 2014-001: BANK RECONCILIATIONS AND DEPOSITS

30000

Finding: Bank reconciliations should be performed and reviewed timely for accuracy and reasonableness as a preventive and detective control for potential errors or misappropriation of cash assets. Cash collections from decentralized locations should be submitted to fiscal services for timely deposit into the County's cash accounts. We noted that bank reconciliations were not performed timely and review of bank reconciliations was not documented. Collections of cash from decentralized locations were not always submitted to fiscal services for timely deposit of the cash.

Questioned Costs: None.

Recommendation: Bank reconciliation procedures should include reasonable completion deadlines. Review of the reconciliations should be performed timely by an individual other than the person preparing the reconciliation and review should be documented. Cash collections from decentralized locations should be submitted to fiscal services timely according to County established guidelines.

County Response: We will take steps to ensure timely bank reconciliations and that they are reviewed by an independent management team member. We are reviewing our cash receipts procedures and initiating a new supervisory training program that will address the timely submission of cash receipts.

ORANGE COUNTY DEPARTMENT OF EDUCATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
RELATED TO FEDERAL AWARDS
June 30, 2014

There were no findings and questioned costs related to federal awards for the fiscal year ended June 30, 2014.

ORANGE COUNTY DEPARTMENT OF EDUCATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
RELATED TO STATE AWARDS
June 30, 2014

FINDING 2014-002: UNDUPLICATED LOCAL CONTROL FUNDING FORMULA PUPIL COUNTS

40000

Criteria: One of the key elements of the local control funding formula (LCFF) is the targeting of certain disadvantaged student populations in the calculation of funding amounts to local educational agencies (LEAs). Specifically, the LCFF includes supplemental and concentration grants for targeted disadvantaged students. Targeted students are those classified as English learners (ELs), eligible to receive a free or reduced-price meal (FRPM), foster youth, or any combination of these factors (unduplicated count). County Offices of Education are required to submit pupil-level records for the categories mentioned above for pupils funded pursuant to Education Code Sections 2574(c)(4)(A) and 2574(c)(4)(B) using the California Longitudinal Pupil Achievement Data System (CalPADS). The data submitted will provide the bases for determining the unduplicated count of these targeted student populations.

Condition: During the testing of the unduplicated count, it was noted that 1 of the students initially selected for testing did not have the proper EL designation on the CalPADS report. An additional sample of students was selected and 2 students were found to not have the proper EL designation. For these two students, the correction had been made in CalPADS after the certification date.

Effect: The County is not in compliance with the Education code sections identified. The 1.17 and 1.18 reports contained errors as shown below.

Sites with errors	Unduplicated FRPM Eligible	English Learner (EL)	Adjusted Unduplicated FRPM and EL	Enrollment Count as reported in the CalPADS System	Adjusted Certified Total Unduplicated Pupil Count
Pupils funded pursuant to EC 2574(c)(4)(A)					
OCCS: CHEP/PCHS					
As reported	218	157	355	1,334	355
Audit adjustments		(3)			(3)
Adjusted	218	154	355	1,334	352
Other sites visited					
Pupils funded pursuant to EC 2574(c)(4)(A)					
Access County Community					
As reported	2,825	1,361	3,179	3,533	3,179
Audit adjustments					
Adjusted	2,825	1,361	3,179	3,533	3,179
Totals	3,043	1,515	3,534	4,867	3,531
Pupils funded pursuant to EC 2574(c)(4)(B)					
Access Juvenile Hall					
As reported	564	306	599	634	634
Audit adjustments					-
Adjusted	564	306	599	634	634
LEA Totals					
As reported	3,692	1,923	4,295	5,927	4,330
Audit adjustments		(3)			(3)
Adjusted	3,692	1,920	4,295	5,927	4,327

ORANGE COUNTY DEPARTMENT OF EDUCATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
RELATED TO STATE AWARDS
June 30, 2014

FINDING 2014-002: UNDUPLICATED LOCAL CONTROL FUNDING FORMULA
PUPIL COUNTS (continued)

40000

Cause: The intricacies of student transitions into and out of county programs resulted in classification errors that were not corrected timely.

Questioned Costs: Based on results of additional procedures performed, an extrapolation of the population for the site with errors was performed to determine questioned costs. The extrapolated unduplicated count was entered in the local control funding calculation which resulted in a \$267,985 projected estimate of overstatement of revenue.

Recommendation: We recommend the County implement additional review procedures to ensure that errors are prevented on future CalPADS reporting. This should include review of those students classified as English Learners as well as reviewing any changes resulting from verification procedures related to free and reduced classification for students between the CalPADS data certification date and the period through which verification of eligibility is performed.

County Response: We have hired additional enrollment technicians to reduce the workload and to establish procedures for review of the CalPADS reporting data prior to submission.

ORANGE COUNTY DEPARTMENT OF EDUCATION
STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
June 30, 2014

There were no findings and questioned costs for the year ended June 30, 2013.