

**ORANGE COUNTY DEPARTMENT OF EDUCATION**

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

**June 30, 2015**



**ORANGE COUNTY DEPARTMENT OF EDUCATION**

**AUDIT REPORT**

**June 30, 2015**

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**ORANGE COUNTY DEPARTMENT OF EDUCATION**

**AUDIT REPORT**

**June 30, 2015**

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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, 2015, 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 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, 2015, 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 2015 the Orange County Department of Education adopted new accounting guidance, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an Amendment to GASB Statement No. 68*. 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, schedule of postemployment healthcare benefits funding progress, schedules of the County's proportionate share of the net pension liability (CalSTRS and CalPERS) and schedules of County pension contributions (CalSTRS and CalPERS) 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*

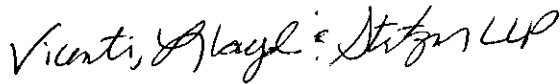
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Orange County Department of Education's basic financial statements. The supplementary schedules and combining non-major fund financial statements are presented for purposes of additional 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 basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the 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 8, 2015 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 8, 2015

# ORANGE COUNTY DEPARTMENT OF EDUCATION

## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Fiscal Year Ended June 30, 2015

This section of Orange County Department of Education's (the County) 2014-2015 annual financial report presents our discussion and analysis of the County's financial performance during the fiscal year that ended on June 30, 2015, with comparative information for June 30, 2014. Please read it in conjunction with the County's financial statements, which immediately follow this section.

### OVERVIEW OF THE FINANCIAL STATEMENTS

#### The Financial Statements

The financial statements presented herein include all of the activities of the County and its component units using the integrated approach as prescribed by Governmental Accounting Standards Board (GASB) Statement No. 34.

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

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

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

The *Proprietary Activities* are prepared using the economic resources measurement focus and the accrual basis of accounting.

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

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

## **ORANGE COUNTY DEPARTMENT OF EDUCATION**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS**

**For the Fiscal Year Ended June 30, 2015**

#### **FINANCIAL HIGHLIGHTS OF THE PAST YEAR**

In 2013-2014, the State budget saw the biggest change in education funding in over forty years with the implementation of 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 categorization. In 2014-15, County Offices reached full LCFF funding implementation. In the current fiscal year, the County School Service Fund revenue, net of on-behalf payments recorded for state contributions to CalSTRS, decreased by \$1.2 million or 0.6 percent. We had a decrease of \$6.6 million in LCFF revenue over 2013-2014 due to a reduction of average daily attendance of \$4.5 million, we also transferred \$2.2 million to the SELPA fund due to increases in property tax revenue. Federal funding increased \$1.0 million or 6.06 percent in the County School Service Fund (and \$1.59 million or 5.30 percent government-wide), due to changes in various federal programs. Other State revenue, net of on-behalf payments recorded for state contributions to CalSTRS, experienced a net increase of \$3.1 million or 35 percent (and \$5.2 million or 31.1 percent government-wide) due to an increase of \$5.7 million in California Career Pathway funding and a decrease in one-time funding in 2014-15 for Common Core Implementation funds. Finally, government-wide local revenue for 2014-2015 increased \$1.3 million as a result of increased tuition fees and decreases in various interagency fees.

The County School Service Fund expenditures, net of on-behalf payments recorded for state contributions to CalSTRS, increased by \$4.2 million or 2.26 percent. In 2014-2015, all bargaining units received a two percent on-going salary increase, a one percent off-schedule payment, and the Department paid for the increase in health benefits. This was the first salary increase since 2007-08. Even with this increase to salaries the total expenditures for salaries and benefits decreased \$419 thousand due to retirements and staff attrition. The Local Control Accountability Plan (LCAP) called for increases in books, computers and instructional supplies of \$2.3 million and various other changes in the services and contracts.

In 2014-2015, we expected an average daily attendance (ADA) decrease of 849 in our Alternative Education Program based on current enrollment. As the year progressed, we actually decreased by 873 ADA. In addition, the Special Schools Program increased by 4 ADA for an overall decrease of 869 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 also continue 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, 2015**

#### **FINANCIAL HIGHLIGHTS OF THE PAST YEAR (continued)**

##### **Vision**

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

##### **Mission**

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

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

OCDE's personnel offer support, professional development, and student programs through its divisions and departments: Administrative Services, Alternative Education, Business Services, Career and Technical Education, Information Technology, Instructional Services, Legal Services, School and Community Services, and Special Education.

##### **Values**

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

##### **Enrollment**

A primary source of revenue for the County is generated by the Average Daily Attendance (ADA) of students in the County programs. The decline of ADA can have significant impact on the financial stability of the office. The County operated student programs decreased by 869 ADA a 10.2 percent decline from last year. County-wide enrollment experienced a decrease of 0.63 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 2014-2015, we met our goal with a minimum 9.0 percent Reserve for Economic Uncertainties.

# ORANGE COUNTY DEPARTMENT OF EDUCATION

## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Fiscal Year Ended June 30, 2015

### REPORTING THE COUNTY AS A WHOLE

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

The Statement of Net Position and the Statement of Activities report information about the County as a whole and about its activities. These statements include all assets, deferred inflows of resources, liabilities and deferred outflows of resources of the County using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

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

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

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

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

## ORANGE COUNTY DEPARTMENT OF EDUCATION

### MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Fiscal Year Ended June 30, 2015

#### 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.

#### THE COUNTY AS A WHOLE

##### **Net Position**

The County's net position was \$101.1 million for the fiscal year ended June 30, 2015. Of this amount, (\$20.1) million was unrestricted. This negative unrestricted balance is due to a new GASB reporting requirement, which also largely contributed to our long term liabilities increasing to \$141.5 million, changing the way future unfunded pension obligations are being reported (refer to Note 15 of the financial statements). Restricted net position is reported separately to show legal constraints from debt covenants, grantors, constitutional provisions, and enabling legislation that limit the governing board's ability to use net position for day-to-day operations. Our analysis in the pages that follow, in summary form, focuses on the net position (Table 1) and change in net position (Table 2) of the County's governmental activities.

**ORANGE COUNTY DEPARTMENT OF EDUCATION**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**For the Fiscal Year Ended June 30, 2015**

**THE COUNTY AS A WHOLE (continued)**

(Table 1)

Summary of Statement of Net Position

	2013-14	2014-15
Non-Capital Assets	\$ 203,574,179	\$ 216,108,135
Capital Assets	96,689,740	95,028,270
Total Assets	\$ 300,263,919	\$ 311,136,405
Deferred Outflows of Resources	\$ _____	\$ 10,091,617
Current Liabilities	\$ 32,800,184	\$ 41,597,500
Long Term Liabilities	20,950,710	141,498,140
Total Liabilities	\$ 53,750,894	\$ 183,095,640
Deferred Inflows of Resources	\$ _____	\$ 37,066,727
Net Position Invested in Capital Assets	\$ 81,297,740	\$ 79,940,270
Net Position Legally Restricted	30,437,351	41,255,223
Net Position Unrestricted	134,777,934	(20,129,838)
Total Net Position	\$ 246,513,025	\$ 101,065,655

Note: The prior year has not been restated for implementation of new accounting standard.

This table has changed from previous years, based on new GASB 68 guidelines, and shows the effect of the net pension obligations. The (\$20.1) million in unrestricted net position of governmental activities represents the accumulated results of all past years' operations less the unfunded future pension obligations of current employees.

**ORANGE COUNTY DEPARTMENT OF EDUCATION**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**For the Fiscal Year Ended June 30, 2015**

**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

	2013-14	2014-15
Program Revenues		
Charges for Services	\$ 34,147,772	\$ 33,201,727
Operating Grants	45,694,018	52,933,114
Capital Grants	15,265	19,348
Subtotal Program Revenues	79,857,055	86,154,189
General Revenues	163,312,871	164,028,947
Total Revenues	243,169,926	250,183,136
Expenses		
Instruction and Related Services	132,668,406	140,175,877
Pupil Services	15,159,889	16,520,982
General Administration	21,630,197	21,858,965
Plant Services	14,842,235	12,140,691
Debt Service	520,661	492,749
Other Outgo	48,526,903	53,488,339
Depreciation	3,377,290	3,221,837
Total Expenses	236,725,581	247,899,440
Change in Net Position	6,444,345	2,283,696
Net position at beginning of year, as originally stated	240,930,092	246,513,025
Cumulative effect of change in accounting principle	(861,412)	(147,731,066)
Net position at beginning of year, as restated	240,068,680	98,781,959
Net Position at end of year	\$ 246,513,025	\$ 101,065,655

Note: The prior year has not been restated for implementation of new accounting standard.

**ORANGE COUNTY DEPARTMENT OF EDUCATION**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**For the Fiscal Year Ended June 30, 2015**

**Governmental Activities**

As reported in the Statement of Activities on page 2, the cost of all of our governmental activities this year was \$247.9 million. However, the amount that our taxpayers ultimately financed for these activities through local taxes was only \$89.2 million because the cost paid by those who benefited from the programs and by other governments and organizations who subsidized certain programs with grants and contributions were \$33.2 million and \$53.0 million, respectively. We paid for the remaining 'public benefit' portion of our governmental activities with \$74.8 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	
	2014	2015	2014	2015
Instruction and Related Services	\$ 132,668,406	\$ 140,175,877	\$ 87,129,932	\$ 89,178,416
Pupil Services	15,159,889	16,520,982	7,751,544	9,950,247
General Administration	21,630,197	21,858,965	16,331,416	16,945,425
Plant Services	14,842,235	12,140,691	14,455,832	11,142,348
Debt Service	520,661	492,749	520,661	492,749
Other Outgo	48,526,903	53,488,339	27,301,851	30,814,229
Depreciation	3,377,290	3,221,837	3,377,290	3,221,837
Total	<u>\$ 236,725,581</u>	<u>\$ 247,899,440</u>	<u>\$ 156,868,526</u>	<u>\$ 161,745,251</u>

**ORANGE COUNTY DEPARTMENT OF EDUCATION**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**For the Fiscal Year Ended June 30, 2015**

**THE COUNTY'S FUNDS**

As the County completed this year, our governmental funds reported a combined fund balance of \$171.1 million which is an increase of \$3.5 million (Table 4).

(Table 4)

	Balances and Activity			
	July 1, 2014	Revenues	Expenditures	June 30, 2015
County School Service Fund	\$ 123,975,414	\$ 196,996,070	\$ 195,342,552	\$ 125,628,932
Special Education Pass-Through Fund	12,059,595	36,438,708	36,706,781	11,791,522
Child Development Fund		13,910,153	13,910,153	
Deferred Maintenance Fund	21,190,904	2,073,359	234,740	23,029,523
County School Facilities Fund	5,726,936	19,348	114,326	5,631,958
Special Reserve Fund for Capital				
Outlay Projects	3,683,952	1,928,561	1,624,149	3,988,364
COP Debt Service Fund	<u>955,777</u>	<u>803,243</u>	<u>775,000</u>	<u>984,020</u>
Total	<u>\$ 167,592,578</u>	<u>\$ 252,169,442</u>	<u>\$ 248,707,701</u>	<u>\$ 171,054,319</u>

The County School Service Fund is our principal operating fund. The fund balance in the County School Service Fund increased to \$125.6 million, a \$1.7 million increase, due to the further implementation of the Local Control Funding Formula and staff reductions.

**County School Service Fund Budgetary Highlights**

Over the course of the year, the County revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. The final amendment to the budget was adopted on March 11, 2015. (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 52).

**ORANGE COUNTY DEPARTMENT OF EDUCATION**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**For the Fiscal Year Ended June 30, 2015**

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets (net of depreciation)**

At June 30, 2015, the County had \$95.0 million in a broad range of capital assets, including land, buildings, and furniture and equipment.

(Table 5)

	<u>2013-14</u>	<u>2014-15</u>
Land and construction in progress	\$ 32,931,023	\$ 33,546,944
Buildings and improvements	59,669,255	57,331,116
Furniture and equipment	<u>4,089,462</u>	<u>4,150,210</u>
Total	<u>\$ 96,689,740</u>	<u>\$ 95,028,270</u>

The \$1.7 million decrease in capital assets was the result of \$1.7 million in capital purchases offset by \$3.2 million in depreciation for the year and disposition of \$157 thousand in obsolete equipment and related accumulated depreciation.

**Long-Term Obligations**

At the end of this fiscal year, the County had an increase of \$10 thousand in long-term obligations prior to recording the net pension obligation. This increase was due to normal annual debt reduction payments offset by an increase in postemployment benefits.

(Table 6)

	<u>2013-14</u>	<u>2014-15</u>
Certificates of participation	\$ 15,392,000	\$ 15,088,000
Compensated absences	1,732,438	1,737,134
Net pension liability*	157,690,270	120,537,410
Postemployment benefits other than pension	<u>3,826,272</u>	<u>4,135,596</u>
Total	<u>\$ 178,640,980</u>	<u>\$ 141,498,140</u>

\* Revised for the implementation of GASB Statements No. 68 and 71. See Note 15.

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, 2015**

#### **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**

As a County Office of Education we have achieved full implementation of the LCFF in 2014-2015. The result of full LCFF implementation is that future growth in funding is limited to COLA, changes in average daily attendance (ADA), and changes in targeted sub-group populations. As a County Office of Education our declining ADA has an enormous impact on current year funding. We will continue to adjust our budget and revenue projections as we receive more clarity on attendance and legislative changes affecting the funding model.

The key assumptions in our revenue forecast are:

1. Overall we project a decrease of \$5,578,046 in State revenue from LCFF due to an \$806,131 increase in statutory cost of living adjustment offset by a decrease of \$6,566,830 due to a decline of 406 ADA in Alternative Education. We also project an increase of \$182,653 in property tax for North Orange County Special Education Local Plan Area (SELPA).
2. We project Federal revenue will increase by \$8,005,679. Due to an increase of \$5,744,844 in the Medi-Cal Administrative Activities (MAA), which is mostly pass thru to Districts. An increase of \$1,401,247 for Medi-Cal claims from prior year and an increase of \$421,891 for Title I. We also project an increase of \$546,855 for Early Learning programs and a decrease of \$109,158 in various other federal grants.
3. Other State revenue is anticipated to decrease by \$900,960 mostly due to a decrease of \$725,323 in Lottery funding. We also project a decrease of \$175,637 for various state grants.
4. Local income will increase by \$7,075,607. We project \$6,099,256 increase in District Tuition Transfer ADA for County Operated Schools. An increase of \$568,549 in contract fees for Special Education billings, an increase of \$165,985 in contract fees for Alternative Education Safe Schools. An increase of \$521,545 in various registration fees, a \$518,322 increase in contract fees for Transportation, and a decrease of \$1,069,651 for various grants ending June 30, 2015.

**ORANGE COUNTY DEPARTMENT OF EDUCATION**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**For the Fiscal Year Ended June 30, 2015**

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

Expenditures are based on the following forecasts:

1. \$2,032,817 is due to new and vacant positions required under the Local Control Accountability Plan and also costs for step and column changes. At the time this budget was adopted we had not settled salary negotiations for 2015-16.
2. \$2,973,254 for Employee Benefits which includes a \$1,367,603 increase due to the increased employer cost for CalSTRS and CalPERS, an increase for statutory benefits for step and column and the increase of health and welfare benefits and statutory benefits for new and vacant positions.
3. As of October 2015, we have completed 2015-16 negotiations with both bargaining units (OCSEA and CSEA). The Department negotiated a salary increase of 3% on-schedule and an equivalent 2% one-time in either cash or temporary health benefits. The projected cost of the salary increase is \$4.7 million dollars. We also changed medical insurance plans and provider which we anticipate will decrease our medical costs for this year. We project an increase of \$1,405,668 in Books and Supplies and a decrease of \$1,371,610 in Services & Other Operating due to the implementation of programs awaiting guidelines and increased pass through sub-agreements for various grants and categorical programs.

Items specifically addressed in the budget are as follows:

2015-16 is the second 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, 2015**

#### **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](mailto:rhendrick@ocde.us).

**FINANCIAL SECTION**

**ORANGE COUNTY DEPARTMENT OF EDUCATION**

**STATEMENT OF NET POSITION**

**June 30, 2015**

	<b>Governmental Activities</b>
<u>Assets</u>	
Cash in county treasury	\$ 187,901,449
Cash on hand and in banks	2,634
Cash in revolving fund	70,000
Cash collections awaiting deposit	32,366
Cash with fiscal agent	2,170,288
Accounts receivable:	
Federal and state governments	19,782,630
Miscellaneous	6,147,822
Prepaid	946
Land	28,641,315
Construction in progress	4,905,629
Depreciable assets, net	61,481,326
<b>Total Assets</b>	<u>311,136,405</u>
 <b>Deferred Outflows of Resources</b>	
Deferred outflows of resources related to pensions	<u>10,091,617</u>
 <u>Liabilities</u>	
Accounts payable and other current liabilities	33,733,613
Interest payable	37,975
Unearned revenue	7,825,912
Current portion of long-term liabilities:	
Certificates of participation	350,000
Non-current portion of long-term liabilities:	
Compensated absences	1,737,134
Postemployment benefits other than pensions	4,135,596
Net pension liability	120,537,410
Certificates of participation	14,738,000
<b>Total Liabilities</b>	<u>183,095,640</u>
 <b>Deferred Inflows of Resources</b>	
Deferred inflows of resources related to pensions	<u>37,066,727</u>
 <u>Net Position</u>	
Invested in capital assets, net of related debt	79,940,270
Restricted for:	
Educational programs	30,650,881
Capital projects	9,620,322
Debt service	984,020
Unrestricted	(20,129,838)
<b>Total Net Position</b>	<u>\$ 101,065,655</u>

See the accompanying notes to the financial statements.

**ORANGE COUNTY DEPARTMENT OF EDUCATION**

**STATEMENT OF ACTIVITIES  
For the Fiscal Year Ended June 30, 2015**

<u>Functions</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Governmental Activities</u>	<u>Net (Expense) Revenue and Changes in Net Position</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>		
<b>Governmental activities:</b>						
Instruction	\$ 81,829,235	\$ 10,030,804	\$ 15,882,812	\$	\$ (55,915,619)	
Instruction-related services	58,346,642	5,619,438	19,464,407		(33,262,797)	
Pupil services	16,520,982	3,371,135	3,199,600		(9,950,247)	
General administration	21,858,965	1,820,733	3,092,807		(16,945,425)	
Plant services	12,140,691	710,973	268,022	19,348	(11,142,348)	
Debt service	492,749				(492,749)	
Other outgoing	53,488,339	11,648,644	11,025,466		(30,814,229)	
Depreciation (unallocated)	<u>3,221,837</u>				<u>(3,221,837)</u>	
<b>Total Governmental Activities</b>	<u>\$ 247,899,440</u>	<u>\$ 33,201,727</u>	<u>\$ 52,933,114</u>	<u>\$ 19,348</u>	<u>(161,745,251)</u>	
<b>General revenues:</b>						
Property taxes levied for:						
General purposes					87,456,190	
Other specific purposes					1,753,698	
Federal and state aid not restricted to specific purposes					32,206,970	
Interest and investment earnings					593,804	
Interagency revenues					6,242,511	
Miscellaneous					<u>35,775,774</u>	
<b>Total general revenues</b>					<u>164,028,947</u>	
<b>Change in Net Position</b>					<u>2,283,696</u>	
Net position at beginning of year, as originally stated					246,513,025	
Cumulative effect of change in accounting principle (see note 15)					<u>(147,731,066)</u>	
Net position at beginning of year, as restated					<u>98,781,959</u>	
Net position at ending of year					<u>\$ 101,065,655</u>	

See the accompanying notes to the financial statements.

**ORANGE COUNTY DEPARTMENT OF EDUCATION**

**BALANCE SHEET - GOVERNMENTAL FUNDS**

**June 30, 2015**

	<u>County School Service Fund</u>	<u>Special Education Pass-Through Fund</u>	<u>Child Development Fund</u>	<u>Deferred Maintenance Fund</u>	<u>Non-major Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets</b>						
Cash in county treasury	\$ 135,663,217	\$ 12,751,089	\$ 4,138,541	\$ 22,872,183	\$ 8,829,103	\$ 184,254,133
Cash on hand and in banks	2,634					2,634
Cash in revolving fund	70,000					70,000
Cash collections awaiting deposit	32,366					32,366
Cash with fiscal agent					1,966,568	1,966,568
Accounts receivable:						
Federal and state governments	12,824,740	5,650,972	1,306,918			19,782,630
Miscellaneous	6,132,913		1,843	6,776	5,120	6,146,652
Prepaid expenditures	946					946
Due from other funds	1,213,021	4,568,170	494,649	159,927		6,435,767
<b>Total Assets</b>	<u>\$ 155,939,837</u>	<u>\$ 22,970,231</u>	<u>\$ 5,941,951</u>	<u>\$ 23,038,886</u>	<u>\$ 10,800,791</u>	<u>\$ 218,691,696</u>
<b>Liabilities and Fund Balances</b>						
<b>Liabilities</b>						
Accounts payable	\$ 20,549,159	\$ 10,947,210	\$ 1,646,487	\$ 9,363	\$ 196,449	\$ 33,348,668
Due to other funds	5,428,054	231,499	803,244			6,462,797
Unearned revenue	4,333,692		3,492,220			7,825,912
<b>Total Liabilities</b>	<u>30,310,905</u>	<u>11,178,709</u>	<u>5,941,951</u>	<u>9,363</u>	<u>196,449</u>	<u>47,637,377</u>
<b>Fund Balances</b>						
Nonspendable	70,946					70,946
Restricted	18,859,359	11,791,522			10,604,342	41,255,223
Committed				23,029,523		23,029,523
Assigned	69,139,934					69,139,934
Unassigned	37,558,693					37,558,693
<b>Total Fund Balances</b>	<u>125,628,932</u>	<u>11,791,522</u>	<u>-</u>	<u>23,029,523</u>	<u>10,604,342</u>	<u>171,054,319</u>
<b>Total Liabilities and Fund Balances</b>	<u>\$ 155,939,837</u>	<u>\$ 22,970,231</u>	<u>\$ 5,941,951</u>	<u>\$ 23,038,886</u>	<u>\$ 10,800,791</u>	<u>\$ 218,691,696</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, 2015**

**Total fund balances - governmental funds** \$ 171,054,319

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	4,905,629	
Depreciable assets, net	<u>61,481,326</u>	95,028,270

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	(15,190,000)	
Unamortized discount on certificates of participation	102,000	
Compensated absences	(1,737,134)	
Net pension liability	(120,537,410)	
Postemployment benefits other than pensions	<u>(4,135,596)</u>	(141,498,140)

Deferred outflows and inflows of resources relating to pensions: In governmental funds, deferred outflows and inflows of resources relating to pensions are not reported because they are applicable to future periods. In the statement of net position, deferred outflows and inflows of resources relating to pensions are reported.

Deferred outflows of resources relating to pensions	10,091,617
Deferred inflows of resources relating to pensions	(37,066,727)

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, 2015, consist of:

Interest due on certificates of participation	(37,975)
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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.

3,494,291

**Total net position - governmental activities** \$ 101,065,655

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, 2015**

	<u>County School Service Fund</u>	<u>Special Education Pass-Through Fund</u>	<u>Child Development Fund</u>	<u>Deferred Maintenance Fund</u>	<u>Non-major Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues</b>						
Local control funding formula sources						
State apportionments	\$ 24,215,505	\$	\$	\$ 1,022,520	\$	\$ 25,238,025
Local sources	62,774,251	24,681,929				87,456,180
Total local control funding formula sources	86,989,756	24,681,929	-	1,022,520	-	112,694,205
Federal sources	18,201,682	7,414,781	6,043,193			31,659,656
Other state sources	14,972,581	3,106,329	7,007,088			25,085,998
Other local sources	76,832,051	1,235,669	380,783	70,104	1,951,152	80,469,759
<b>Total Revenues</b>	<u>196,996,070</u>	<u>36,438,708</u>	<u>13,431,064</u>	<u>1,092,624</u>	<u>1,951,152</u>	<u>249,909,618</u>
<b>Expenditures</b>						
Instruction	72,502,442		10,453,462			82,955,904
Instruction-related services	55,817,146		2,213,160			58,030,306
Pupil services	16,484,596					16,484,596
General administration	20,676,738		1,157,519			21,834,257
Plant services	11,607,631		86,012	234,740	938,475	12,866,858
Debt service	22,524				775,000	797,524
Other outgo	16,771,651	36,706,781				53,478,432
<b>Total Expenditures</b>	<u>193,882,728</u>	<u>36,706,781</u>	<u>13,910,153</u>	<u>234,740</u>	<u>1,713,475</u>	<u>246,447,877</u>
Excess (deficiency) of revenues over expenditures	<u>3,113,342</u>	<u>(268,073)</u>	<u>(479,089)</u>	<u>857,884</u>	<u>237,677</u>	<u>3,461,741</u>
<b>Other Financing Sources (Uses)</b>						
Interfund transfers in			479,089	980,735	800,000	2,259,824
Interfund transfers out	(1,459,824)				(800,000)	(2,259,824)
<b>Total Other Financing Sources (Uses)</b>	<u>(1,459,824)</u>	<u>-</u>	<u>479,089</u>	<u>980,735</u>	<u>-</u>	<u>-</u>
Net changes in fund balances	1,653,518	(268,073)	-	1,838,619	237,677	3,461,741
<b>Fund Balances - Beginning of Year</b>	<u>123,975,414</u>	<u>12,059,595</u>	<u>-</u>	<u>21,190,904</u>	<u>10,366,665</u>	<u>167,592,578</u>
<b>Fund Balances - End of Year</b>	<u>\$ 125,628,932</u>	<u>\$ 11,791,522</u>	<u>\$ -</u>	<u>\$ 23,029,523</u>	<u>\$ 10,604,342</u>	<u>\$ 171,054,319</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, 2015**

**Net change in fund balances-total governmental funds** \$ 3,461,741

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	\$ 1,716,933	
Depreciation expense	<u>(3,221,837)</u>	(1,504,904)

Disposal of assets		(156,566)
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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	310,000	
Discount on certificates of participation	(6,000)	
Net decrease in accrued interest expense	<u>775</u>	304,775

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	(309,324)	
Net increase in compensated absences	<u>(4,696)</u>	(314,020)

Pensions: In government funds, pension costs are recognized when employer contributions are made. In the statement of activities, pension costs are recognized on the accrual basis. This year, the difference between accrual-basis pension costs and actual employer contributions was:		218,546
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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.		<u>274,124</u>
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<b>Change in net position of governmental activities</b>		<b><u>\$ 2,283,696</u></b>
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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, 2015

	<b>Governmental Activities: Internal Service Fund</b>
	<b>Self Insurance Fund</b>
<b><u>ASSETS</u></b>	
Cash in county treasury	\$ 3,647,316
Cash with fiscal agent	203,720
Accounts receivable	1,170
Due from other funds	164,207
<b>TOTAL ASSETS</b>	<b><u>4,016,413</u></b>
<b><u>LIABILITIES</u></b>	
Accounts payable	131,975
Due to other funds	137,177
Claim liabilities	252,970
<b>TOTAL LIABILITIES</b>	<b><u>522,122</u></b>
<b><u>NET POSITION</u></b>	
Unrestricted	<u>3,494,291</u>
<b>TOTAL NET POSITION</b>	<b><u>\$ 3,494,291</u></b>

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, 2015**

	<b>Governmental Activities: Internal Service Fund</b>
	<b>Self Insurance Fund</b>
<b>OPERATING REVENUES</b>	
Local and intermediate sources	\$ 1,834,881
<b>TOTAL OPERATING REVENUES</b>	<u>1,834,881</u>
<b>OPERATING EXPENSES</b>	
Payroll costs	1,477,403
Other operating cost	95,327
<b>TOTAL OPERATING EXPENSES</b>	<u>1,572,730</u>
Operating income	<u>262,151</u>
<b>NON-OPERATING REVENUES</b>	
Interest income	<u>11,973</u>
<b>TOTAL NON-OPERATING REVENUES</b>	<u>11,973</u>
Change in net position	274,124
<b>Net Position at Beginning of Year</b>	<u>3,220,167</u>
<b>Net Position at End of Year</b>	<u>\$ 3,494,291</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, 2015**

	Governmental Activities: Internal Service Fund
	Self Insurance Fund
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>	
Cash received from premiums and other revenues	\$ 1,670,675
Cash payments to employees for services	(1,477,403)
Other operating cash payments	54,141
Net cash provided by operating activities	247,413
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>	
Interest income	11,800
Net cash provided by investing activities	11,800
Net increase in cash	259,213
Cash - July 1, 2014	3,591,823
Cash - June 30, 2015	\$ 3,851,036
<b>Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities</b>	
<b>OPERATING INCOME</b>	\$ 262,151
Adjustments to reconcile operating income to net cash provided by operating activities:	
Increase in accounts payable and claims liabilities	149,469
Increase in due from	(164,207)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	\$ 247,413
Cash balances at June 30, 2015 consisted of the following:	
Cash in county treasury	\$ 3,647,316
Cash with fiscal agent	203,720
Total cash balances at June 30, 2015	\$ 3,851,036

See the accompanying notes to the financial statements.

**ORANGE COUNTY DEPARTMENT OF EDUCATION**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2015**

**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 display 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, 2015**

**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, 2015**

**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.

Other outgo – includes transfers to other agencies.

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

The proprietary fund expenditures are presented by natural classification.



**ORANGE COUNTY DEPARTMENT OF EDUCATION**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2015**

**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, 2015**

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

**B. FUND ACCOUNTING: (continued)**

**GOVERNMENTAL FUNDS - MAJOR (continued)**

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

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

**GOVERNMENTAL FUNDS – NON-MAJOR**

**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.

**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.

**ORANGE COUNTY DEPARTMENT OF EDUCATION**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2015**

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

**B. FUND ACCOUNTING: (continued)**

**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 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, 2015**

**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.

3. Prepaid Expenditures

Payments made to vendors for goods or services that will benefit periods beyond June 30, 2015 are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure is reported in the year in which goods or services are consumed.

4. Capital Assets

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

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

**ORANGE COUNTY DEPARTMENT OF EDUCATION**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2015**

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

**C. BASIS OF ACCOUNTING: (continued)**

4. 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.

5. Deferred Outflows of Resources

Deferred outflows of resources represent a consumption of net position or fund balance that apply to a future period(s) and thus, will not be recognized as an outflow of resources (expense/expenditure) until then. These amounts are reported in the government-wide statement of net position. The deferred outflows of resources related to pensions resulted from County contributions to employee pension plans subsequent to the measurement date of the actuarial valuations for the pension plans. The deferred outflows will be recognized as a reduction of the net pension liability in the subsequent fiscal year.

6. 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.

**ORANGE COUNTY DEPARTMENT OF EDUCATION**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2015**

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

**C. BASIS OF ACCOUNTING: (continued)**

7. Compensated Absences

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

Sick leave benefits are accumulated without limit for each employee 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.

8. 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.

**ORANGE COUNTY DEPARTMENT OF EDUCATION**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2015**

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

**C. BASIS OF ACCOUNTING: (continued)**

8. Long-Term Obligations (continued)

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

9. Net Pension Liability

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

10. Deferred Inflows of Resources

Deferred inflows of resources represent an acquisition of net assets by the County that is applicable to a future reporting period. The deferred inflows of resources related to pensions, results from the difference between the estimated and actual return on pension plan investments and the change in the County's proportionate share of pension contributions. These amounts are deferred and amortized to pension expense over closed periods ranging from 3.9 to 5 years.

ORANGE COUNTY DEPARTMENT OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

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

**C. BASIS OF ACCOUNTING: (continued)**

11. Net Position

Net position represents the difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources. 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.

12. 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, 2015**

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

**C. BASIS OF ACCOUNTING: (continued)**

12. 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.

13. 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.

14. 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, 2015**

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

**C. BASIS OF ACCOUNTING: (continued)**

15. 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.

16. 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.

17. 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.

**ORANGE COUNTY DEPARTMENT OF EDUCATION**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2015**

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

**C. BASIS OF ACCOUNTING: (continued)**

18. 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.

19. 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.

**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.

**ORANGE COUNTY DEPARTMENT OF EDUCATION**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2015**

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

**D. REPORTING ENTITY: (continued)**

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.
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.

**ORANGE COUNTY DEPARTMENT OF EDUCATION**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2015**

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

**D. REPORTING ENTITY: (continued)**

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

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

**NOTE 2 - BUDGETS:**

By state law, the County governing board must approve a budget no later than July 1, using the 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.

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. As of June 30, 2015, the County's bank balance of \$70,428 was not exposed to credit risk.

**ORANGE COUNTY DEPARTMENT OF EDUCATION**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2015**

**NOTE 3 - DEPOSITS AND INVESTMENTS: (continued)**

**A. Deposits (continued)**

**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 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.

**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, 2015, \$1,966,568 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.

**ORANGE COUNTY DEPARTMENT OF EDUCATION**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2015**

**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, 2015 are temporary loans and are detailed as follows:

<b><u>Fund</u></b>	<b><u>Interfund Receivables</u></b>	<b><u>Interfund Payables</u></b>
County School Service Fund	\$ 1,213,021	\$ 5,428,054
Special Education Pass-Through Fund	4,568,170	231,499
Special Revenue Funds:		
Child Development Fund	494,649	803,244
Deferred Maintenance	159,927	
Self-Insurance Fund	<u>164,207</u>	<u>137,177</u>
 Totals	 <u>\$ 6,599,974</u>	 <u>\$ 6,599,974</u>

**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 2014-15 fiscal year are as follows:

Transfer from the County School Service Fund to the Child Development Fund to cover excess costs for programs	\$ 479,089
Transfer from the County School Service Fund to the Deferred Maintenance Fund for matching purposes	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>\$ 2,259,824</u>

**ORANGE COUNTY DEPARTMENT OF EDUCATION**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2015**

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

Capital asset activity for the year ended June 30, 2015 is shown below.

	Balance July 1, 2014	Additions	Deletions	Balance June 30, 2015
Capital assets not depreciated:				
Land	\$ 28,641,315	\$	\$	\$ 28,641,315
Construction in progress	4,289,708	615,921		4,905,629
Total capital assets not depreciated	32,931,023	615,921	-	33,546,944
Capital assets depreciated:				
Land improvements	4,511,925			4,511,925
Buildings and improvements	78,364,454			78,364,454
Furniture and equipment	11,925,811	1,101,012	211,615	12,815,208
Total capital assets depreciated	94,802,190	1,101,012	211,615	95,691,587
Less accumulated depreciation for:				
Land improvements	2,414,481	188,275		2,602,756
Buildings and improvements	20,792,643	2,149,864		22,942,507
Furniture and equipment	7,836,349	883,698	55,049	8,664,998
Total accumulated depreciation	31,043,473	3,221,837	55,049	34,210,261
Governmental activities capital assets, net	\$ 96,689,740	\$ (1,504,904)	\$ 156,566	\$ 95,028,270



**ORANGE COUNTY DEPARTMENT OF EDUCATION**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2015**

**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>Deferred Maintenance Fund</u>	<u>Non-major Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Nonspendable</b>					
Revolving cash	\$ 70,000	\$	\$	\$	\$ 70,000
Prepaid Expenditures	<u>946</u>	<u></u>	<u></u>	<u></u>	<u>946</u>
Total Nonspendable	<u>70,946</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>70,946</u>
<b>Restricted</b>					
Legally restricted programs	18,859,359	11,791,522		984,020	31,634,901
Capital projects	<u></u>	<u></u>	<u></u>	<u>9,620,322</u>	<u>9,620,322</u>
Total Restricted	<u>18,859,359</u>	<u>11,791,522</u>	<u>-</u>	<u>10,604,342</u>	<u>41,255,223</u>
<b>Committed</b>					
Deferred maintenance program	<u></u>	<u></u>	<u>23,029,523</u>	<u></u>	<u>23,029,523</u>
Total Committed	<u>-</u>	<u>-</u>	<u>23,029,523</u>	<u>-</u>	<u>23,029,523</u>
<b>Assigned</b>					
Special Reserve Fund for Other Than Capital Outlay Projects - OPEB	3,153,235				3,153,235
ACCESS program	33,433,010				33,433,010
Mandated costs	5,025,400				5,025,400
Workshops and contracts	1,961,531				1,961,531
Various program balances	610,640				610,640
Technology projects	4,991,246				4,991,246
Other assignments	<u>19,964,872</u>	<u></u>	<u></u>	<u></u>	<u>19,964,872</u>
Total Assigned	<u>69,139,934</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>69,139,934</u>
<b>Unassigned</b>					
Economic uncertainties	17,574,452				17,574,452
Unassigned	<u>19,984,241</u>	<u></u>	<u></u>	<u></u>	<u>19,984,241</u>
Total Unassigned	<u>37,558,693</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>37,558,693</u>
Total fund balances	<u>\$ 125,628,932</u>	<u>\$ 11,791,522</u>	<u>\$ 23,029,523</u>	<u>\$ 10,604,342</u>	<u>\$ 171,054,319</u>

**ORANGE COUNTY DEPARTMENT OF EDUCATION**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2015**

**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 expected to be as follows:

<b><u>Fiscal Year</u></b>	<b><u>Lease Payment</u></b>
2016	\$ 3,211,609
2017	2,503,771
2018	998,175
2019	<u>261,569</u>
Total	<u>\$ 6,975,123</u>

Current year expenditures for operating leases is approximately \$5,830,000. 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, 2015**

**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>
2016	\$ 1,759,142
2017	973,223
2018	495,662
2019	145,983
2020	<u>28,876</u>
Total	<u>\$ 3,402,885</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, 2015**

**NOTE 8 - CERTIFICATES OF PARTICIPATION: (continued)**

The outstanding long-term debt is:

Year Ended June 30	Principal	Interest	Total Payments
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	560,000	404,700	964,700
2021-2025	3,810,000	1,732,500	5,542,500
2026-2030	5,960,000	1,040,400	7,000,400
2031-2032	<u>3,160,000</u>	<u>144,300</u>	<u>3,304,300</u>
Total	<u>\$ 15,190,000</u>	<u>\$ 5,075,700</u>	<u>\$ 20,265,700</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 2014-15 year.

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

A schedule of changes in long-term debt for the year ended June 30, 2015 is shown below.

	Balance July 1, 2014*	Additions	Deductions	Balance June 30, 2015	Amount Due in One Year
Certificates of Participation	\$ 15,500,000	\$	\$ 310,000	\$ 15,190,000	\$ 350,000
Unamortized Discount	(108,000)		(6,000)	(102,000)	
Compensated Absences	1,732,438	4,696		1,737,134	
Net Pension Liability	157,690,270		37,152,860	120,537,410	
Postemployment Benefits					
Other Than Pension (OPEB)	<u>3,826,272</u>	<u>309,324</u>		<u>4,135,596</u>	
Totals	<u>\$ 178,640,980</u>	<u>\$ 314,020</u>	<u>\$ 37,456,860</u>	<u>\$ 141,498,140</u>	<u>\$ 350,000</u>

\* The beginning balance has been restated to add the net pension liability in accordance with GASB Statement No. 68 and No. 71. See Note 15.

**ORANGE COUNTY DEPARTMENT OF EDUCATION**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2015**

**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 and contributions for net pension liability payments are made by the fund for which the employee worked. Payments for OPEB obligations are made by the County School Service Fund.

**NOTE 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 2015.

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, 2015**

**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, 2015, 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	\$ 258,732	\$ 1,471,641	\$ 1,477,403	\$ 252,970

**NOTE 12 - EMPLOYEE RETIREMENT PLANS:**

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

As of June 30, 2015, the County implemented GASB Statements No. 68 and No. 71, and as a result, reported its proportionate share of the net pension liabilities, pension expense and deferred inflows of resources for each of the above plans and a deferred outflows of resources for each of the retirement plans as follows:

<u>Pension Plan</u>	<u>Proportionate Share of Net Pension Liability</u>	<u>Deferred Outflows of Resources</u>	<u>Proportionate Share of Deferred Inflows of Resources</u>	<u>Proportionate Share of Pension Expense</u>
CalSTRS (STRP)	\$ 64,865,070	\$ 4,262,028	\$ 15,972,900	\$ 5,599,950
CalPERS (Schools Pool Plan)	55,672,340	5,829,589	21,093,827	4,270,828
Totals	<u>\$ 120,537,410</u>	<u>\$ 10,091,617</u>	<u>\$ 37,066,727</u>	<u>\$ 9,870,778</u>

**ORANGE COUNTY DEPARTMENT OF EDUCATION**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2015**

**NOTE 12 - EMPLOYEE RETIREMENT PLANS: (continued)**

The details of each plan are as follows:

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

**Plan Description**

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

**Benefits Provided**

The STRP provides retirement, disability and survivor benefits to beneficiaries. Benefits are based on members' final compensation, age and years of service credit. Members hired on or before December 31, 2012, with five years of credited service are eligible for the normal retirement benefit at age 60. Members hired on or after January 1, 2013, with five years of credited service are eligible for the normal retirement benefit at age 62. The normal retirement benefit is equal to 2.0 percent of final compensation for each year of credited service. The STRP is comprised of four programs: Defined Benefit Program, Defined Benefit Supplement Program, Cash Balance Benefit Program and Replacement Benefits Program. The STRP holds assets for the exclusive purpose of providing benefits to members and beneficiaries of these programs. CalSTRS also uses plan assets to defray reasonable expenses of administering the STRP. Although CalSTRS is the administrator of the STRP, the state is the sponsor of the STRP and obligor of the trust. In addition, the state is both an employer and nonemployer contributing entity to the STRP.

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

The STRP provisions and benefits in effect at June 30, 2015, are summarized as follows:

	STRP Defined Benefit and Supplement Program	
	On or Before December 31, 2012	On or after January 1, 2013
Hire date		
Benefit formula	2% at 60	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	60	62
Monthly benefits as a percentage of eligible compensation	2.0% - 2.4%	2.0% - 2.4%
Required employee contribution rate	8.15%	8.15%
Required employer contribution rate	8.88%	8.88%
Required state contribution rate	5.95%	5.95%

**ORANGE COUNTY DEPARTMENT OF EDUCATION**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2015**

**NOTE 12 - EMPLOYEE RETIREMENT PLANS: (continued)**

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

**Contributions**

Required member, County and State of California contribution rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. The contributions rates are expressed as a level percentage of payroll using the entry age normal actuarial method. The contribution rates for each plan for the year ended June 30, 2015 are presented above and the total County contributions were \$4,262,028.

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

At June 30, 2015, the County reported a liability for its proportionate share of the net pension liability that reflected a reduction for State pension support provided to the County. The amount recognized by the County as its proportionate share of the net pension liability, the related state support and the total portion of the net pension liability that was associated with the County were as follows:

County proportionate share of net pension liability	\$ 64,865,070
State's proportionate share of the net pension liability associated with the County	<u>39,168,723</u>
Total	<u>\$ 104,033,793</u>

The net pension liability was measured as of June 30, 2014. The County's proportion of the net pension liability was based on a projection of the County's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts and the State, actuarially determined. At June 30, 2014, the County's proportion was 0.1110%.

For the year ended June 30, 2015, the County recognized pension expense of \$5,599,950 and revenue of \$3,381,525 for support provided by the State. At June 30, 2015, the County reported deferred outflows of resources and deferred inflows of resources related to pensions from the sources as noted on the following page.



**ORANGE COUNTY DEPARTMENT OF EDUCATION**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2015**

**NOTE 12 - EMPLOYEE RETIREMENT PLANS: (continued)**

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

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 4,262,028	\$
Net differences between projected and actual earnings on plan investments		15,972,900
Total	\$ 4,262,028	\$ 15,972,900

The deferred outflows of resources related to pensions resulting from County contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. The deferred inflows of resources are amortized over a closed 5-year period. The remaining amount will be recognized as a reduction in pension expense as follows:

Year Ended June 30	Amortization
2016	\$ 3,993,225
2017	3,993,225
2018	3,993,225
2019	3,993,225
	\$ 15,972,900

**ORANGE COUNTY DEPARTMENT OF EDUCATION**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2015**

**NOTE 12 - EMPLOYEE RETIREMENT PLANS: (continued)**

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

**Actuarial Methods and Assumptions**

Total pension liability for STRP was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2013, and rolling forward the total pension liability to June 30, 2014. The financial reporting actuarial valuation as of June 30, 2013 used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2013
Measurement date	June 30, 2014
Experience study	July 1, 2006 through June 30, 2010
Actuarial cost method	Entry age normal
Discount rate	7.60%
Investment rate of return	7.60%
Consumer price inflation	3.00%
Wage growth	3.75%

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

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. The best estimate ranges were developed using capital market assumptions from CalSTRS general investment consultant. Based on the model for CalSTRS consulting actuary's investment practice, a best estimate range was determined by assuming the portfolio is re-balanced annually and that the annual returns are lognormally distributed and independent from year to year to develop expected percentiles for the long-term distribution of annualized returns. The assumed asset allocation is based on board policy for target asset allocation in effect on February 2, 2012, the date the current experience study was approved by the board. Best estimates of 10-year geometric real rates of return and the assumed asset allocation for each major asset class used as input to develop the actuarial investment rate of return are summarized in the table on the next page.

**ORANGE COUNTY DEPARTMENT OF EDUCATION**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2015**

**NOTE 12 - EMPLOYEE RETIREMENT PLANS: (continued)**

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

**Actuarial Methods and Assumptions (continued)**

<u>Asset Class</u>	<u>Assumed Asset Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Global equity	47%	4.50%
Private equity	12%	6.20%
Real estate	15%	4.35%
Inflation sensitive	5%	3.20%
Fixed income	20%	0.20%
Cash/liquidity	1%	0.00%

**Discount Rate**

The discount rate used to measure the total pension liability was 7.60%. The projection of cash flows used to determine the discount rate assumed the contributions from plan members and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.60%) and assuming that contributions, benefit payments and administrative expense occurred midyear. Based on these assumptions, the STRP's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine total pension liability.

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

<u>Discount rate</u>	<u>Net Pension Liability</u>
1% decrease (6.60%)	\$ 101,107,680
Current discount rate (7.60%)	64,865,070
1% increase (8.60%)	34,645,320

**ORANGE COUNTY DEPARTMENT OF EDUCATION**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2015**

**NOTE 12 - EMPLOYEE RETIREMENT PLANS: (continued)**

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

**Plan Fiduciary Net Position**

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

**California Public Employees Retirement System (CalPERS)**

**Plan Description**

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

**Benefits Provided**

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of service credit, a benefit factor and the member's final compensation. Members hired on or before December 31, 2012, with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. Members hired on or after January 1, 2013, with five years of total service are eligible to retire at age 52 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 5 years of service. The Basic Death Benefit is paid to any member's beneficiary if the member dies while actively employed. An employee's eligible survivor may receive the 1957 Survivor Benefit if the member dies while actively employed, is at least age 50 (or 52 for members hired on or after January 1, 2013), and has at least 5 years of credited service. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

**ORANGE COUNTY DEPARTMENT OF EDUCATION**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2015**

**NOTE 12 - EMPLOYEE RETIREMENT PLANS: (continued)**

**California Public Employees Retirement System (CalPERS) (continued)**

**Benefits Provided (continued)**

The CalPERS provisions and benefits in effect at June 30, 2015, are summarized as follows:

	School Employer Pool (CalPERS)	
	On or Before December 31, 2012	On or after January 1, 2013
Hire date		
Benefit formula	2% at 55	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	55	62
Monthly benefits as a percentage of eligible compensation	1.1% - 2.5%	1.0% - 2.5%
Required employee contribution rate	6.974%	6.000%
Required employer contribution rate	11.771%	11.771%

**Contributions**

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers are determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Total plan contributions are determined through the CalPERS annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The County is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. The contributions rates are expressed as percentage of annual payroll. The contribution rates for each plan for the year ended June 30, 2015 are presented above and the total County contributions were \$5,829,589.

**ORANGE COUNTY DEPARTMENT OF EDUCATION**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2015**

**NOTE 12 - EMPLOYEE RETIREMENT PLANS: (continued)**

**California Public Employees Retirement System (CalPERS) (continued)**

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

As of June 30, 2015, the County reported net pension liabilities for its proportionate share of the CalPERS net pension liability totaling \$55,672,340. The net pension liability was measured as of June 30, 2014. The County's proportion of the net pension liability was based on a projection of the County's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts, actuarially determined. At June 30, 2014, the County's proportion was 0.4904%.

For the year ended June 30, 2015, the County recognized pension expense of \$4,270,828. At June 30, 2015, the County reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Pension contributions subsequent to measurement date	\$ 5,829,589	\$
Changes in proportion		1,964,187
Net differences between projected and actual earnings on plan investments		19,129,640
Total	<u>\$ 5,829,589</u>	<u>\$ 21,093,827</u>

The deferred outflows of resources related to pensions resulting from County contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. The deferred inflows of resources will be amortized over closed periods ranging from 3.9 to 5 years and will be recognized as a reduction in pension expense as follows:

<u>Year Ended June 30</u>	<u>Amortization</u>
2016	\$ 5,459,716
2017	5,459,716
2018	5,391,985
2019	4,782,410
	<u>\$ 21,093,827</u>

**ORANGE COUNTY DEPARTMENT OF EDUCATION**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2015**

**NOTE 12 - EMPLOYEE RETIREMENT PLANS: (continued)**

**California Public Employees Retirement System (CalPERS) (continued)**

**Actuarial Methods and Assumptions**

Total pension liability for the School Employer Pool was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2013, and rolling forward the total pension liability to June 30, 2014. The financial reporting actuarial valuation as of June 30, 2013 used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2013
Measurement date	June 30, 2014
Experience study	July 1, 1997 through June 30, 2011
Actuarial cost method	Entry age normal
Discount rate	7.50%
Investment rate of return	7.50%
Consumer price inflation	2.75%
Wage growth	3.00%

Mortality assumptions are based on mortality rates resulting from the most recent CalPERS experience study adopted by the CalPERS Board. For purposes of the post-retirement mortality rates, those revised rates include five years of projected ongoing mortality improvement using Scale AA published by the Society of Actuaries.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the table on the next page.

**ORANGE COUNTY DEPARTMENT OF EDUCATION**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2015**

**NOTE 12 - EMPLOYEE RETIREMENT PLANS: (continued)**

**California Public Employees Retirement System (CalPERS) (continued)**

**Actuarial Methods and Assumptions (continued)**

<u>Asset Class</u>	<u>Assumed Asset Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Global equity	47%	5.25%
Global fixed income	19%	0.99%
Private equity	12%	6.83%
Real estate	11%	4.50%
Inflation sensitive	6%	0.45%
Infrastructure and Forestland	3%	4.50%
Liquidity	2%	-0.55%

**Discount Rate**

The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed the contributions from plan members and employers will be made at statutory contribution rates. Based on these assumptions, the School Employer Pool fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine total pension liability.

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

<u>Discount rate</u>	<u>Net Pension Liability</u>
1% decrease (6.50%)	\$ 97,661,994
Current discount rate (7.50%)	55,672,340
1% increase (8.50%)	20,585,752



**ORANGE COUNTY DEPARTMENT OF EDUCATION**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2015**

**NOTE 12 - EMPLOYEE RETIREMENT PLANS: (continued)**

**California Public Employees Retirement System (CalPERS) (continued)**

**Plan Fiduciary Net Position**

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

**NOTE 13 – 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 2015, retirees paid \$311,015 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, 2015**

**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	191,314
Adjustment to annual required contribution	<u>(179,746)</u>
Annual OPEB cost	<u>\$ 501,258</u>
Net OPEB obligation - beginning of year	\$ 3,826,272
Change in net OPEB obligation	<u>309,324</u>
Net OPEB obligation - end of year	<u>\$ 4,135,596</u>

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</u> <u>Ended</u>	<u>Annual</u> <u>OPEB Cost</u>	<u>Actual</u> <u>Contribution</u>	<u>Percentage of</u> <u>Annual OPEB</u> <u>Cost Contributed</u>	<u>Net OPEB</u> <u>Obligation</u>
6/30/2013	\$ 446,971	\$ 427,236	95.6%	\$3,619,233
6/30/2014	500,632	293,593	58.6%	3,826,272
6/30/2015	501,258	-	0.0%	4,135,596

**ORANGE COUNTY DEPARTMENT OF EDUCATION**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2015**

**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, 2015.

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, 2015**

**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 members. SOCPLSA 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) 6/30/2015 <u>WOCSWCA</u>	(Audited) 6/30/2015 <u>SOCPJPA</u>	(Audited) 6/30/2015 <u>SELF</u>
Total Assets	\$ 18,519,569	\$ 1,944,248	\$ 154,826,708
Total Liabilities	<u>12,239,244</u>	<u>314,748</u>	<u>122,637,079</u>
Net Position	<u>\$ 6,280,325</u>	<u>\$ 1,629,500</u>	<u>\$ 32,189,629</u>
Total Revenues	\$ 3,628,202	\$ 454,968	\$ 11,968,752
Total Expenditures	<u>3,676,047</u>	<u>167,749</u>	<u>23,063,637</u>
Net Increase (Decrease) in Net Position	<u>\$ (47,845)</u>	<u>\$ 287,219</u>	<u>\$ (11,094,885)</u>

**ORANGE COUNTY DEPARTMENT OF EDUCATION**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2015**

**NOTE 15 – CUMULATIVE EFFECT OF ACCOUNTING CHANGES AND  
RESTATEMENT TO BEGINNING NET POSITION:**

The beginning net position of the government-wide financial statements has been decreased by \$147,731,066 to recognize the beginning balance of the net pension liability of (\$157,690,270) and deferred outflows of resources of \$9,959,204 resulting from the implementation of GASB Statements No. 68 and No. 71. Beginning net position was not restated for the effect of deferred inflows of resources as the amount was not practical to determine.

The effect of this implementation has resulted in a negative unrestricted net position at June 30, 2015. The retirement plan administrators for CalSTRS and CalPERS will require an increase in contribution amounts to reduce the net pension liability in future years. The County has budgeted for increased contributions in the 2016 year.

**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**

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

ORANGE COUNTY DEPARTMENT OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

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

The Governmental Accounting Standards Board (GASB) has issued pronouncements prior to June 30, 2015, 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.

***Statement No. 72 – Fair Value Measurement and Application***

This statement was issued in February 2015 and provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements by establishing a hierarchy of inputs to valuation techniques used to measure fair value. The statement is effective for the fiscal year 2015-16.

***Statement No. 73 – Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68***

This statement was issued in June 2015 and extends the approach to accounting and financial reporting established in Statement No. 68 to all pensions, with modifications as necessary to reflect that for accounting and financial reporting purposes, any assets accumulated for pensions that are provided through pension plans that are not administered through trusts that meet the criteria specified in Statement No. 68 should not be considered pension plan assets. The object is to provide information about financial support provided by certain non-employer entities for pensions that are provided to the employees of other entities and that are not within the scope of Statement No. 68 and to provide information about the effects of pension-related transactions and other events on the elements of the basic financial statements of state and local governmental employers. The statement is effective for the fiscal year 2015-16 except those provisions that address employers and governmental non-employer contributing entities for pensions that are not within the scope of Statement No. 68, which are effective for the fiscal year 2016-17.

***Statement No. 74 – Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans***

This statement was issued in June 2015 and establishes standards of financial reporting for defined benefit OPEB plans and defined contribution OPEB plans. This statement is closely related in some areas to Statement No. 75. The statement is effective for the fiscal year 2016-17.

**ORANGE COUNTY DEPARTMENT OF EDUCATION**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2015**

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

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

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

***Statement No. 76 – The Hierarchy of Generally Accepted Accounting Principles for  
State and Local Governments***

This statement was issued in June 2015 and reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. The statement is effective for the fiscal year 2015-16.

***Statement No. 77 – Tax Abatement Disclosures***

This statement was issued in August 2015 and establishes financial reporting standards for tax abatement agreements entered into by state and local governments. The statement is effective for the fiscal year 2016-17.

**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, 2015**

	<b>Budgeted Amounts -</b>		<b>Actual Amounts</b>	<b>Fund Basis to</b>	<b>Actual Amounts</b>
	<b>County School Service Fund</b>			<b>GAAP (a)</b>	
	<b>Original</b>	<b>Final (b)</b>	<b>County School Service Fund (b)</b>		<b>GAAP Basis</b>
<b>Revenues</b>					
Local control funding formula sources	\$ 93,899,649	\$ 86,074,051	\$ 86,989,756	\$	\$ 86,989,756
Federal sources	16,905,144	15,418,314	18,201,682		18,201,682
Other state sources	12,286,425	14,716,539	14,972,581		14,972,581
Other local sources	<u>72,986,123</u>	<u>76,804,425</u>	<u>76,753,481</u>	<u>78,570</u>	<u>76,832,051</u>
<b>Total Revenues</b>	<u>196,077,341</u>	<u>193,013,329</u>	<u>196,917,500</u>	<u>78,570</u>	<u>196,996,070</u>
<b>Expenditures</b>					
Certificated salaries	53,398,016	52,017,977	51,589,683		51,589,683
Classified salaries	50,847,638	49,743,318	49,398,894		49,398,894
Employee benefits	37,160,320	38,898,990	38,915,684		38,915,684
Books and supplies	9,310,417	7,766,297	7,815,527		7,815,527
Contracted services	31,565,527	32,167,771	29,142,201		29,142,201
Capital outlay	2,194,764	1,692,482	1,384,083		1,384,083
Tuition	12,659,593	14,478,141	16,771,651		16,771,651
Debt service	22,524	22,524	22,524		22,524
Direct support-indirect cost	<u>(1,020,965)</u>	<u>(1,078,451)</u>	<u>(1,157,519)</u>		<u>(1,157,519)</u>
<b>Total Expenditures</b>	<u>196,137,834</u>	<u>195,709,049</u>	<u>193,882,728</u>	<u>-</u>	<u>193,882,728</u>
Excess (deficiency) of revenues over expenditures	<u>(60,493)</u>	<u>(2,695,720)</u>	<u>3,034,772</u>	<u>78,570</u>	<u>3,113,342</u>
<b>Other Financing Uses</b>					
Interfund transfers out	<u>(1,680,672)</u>	<u>(1,630,921)</u>	<u>(1,459,824)</u>		<u>(1,459,824)</u>
<b>Total Other Financing Uses</b>	<u>(1,680,672)</u>	<u>(1,630,921)</u>	<u>(1,459,824)</u>	<u>-</u>	<u>(1,459,824)</u>
Net change in fund balance	<u>\$ (1,741,165)</u>	<u>\$ (4,326,641)</u>	<u>\$ 1,574,948</u>	<u>\$ 78,570</u>	<u>1,653,518</u>
<b>Fund Balance - Beginning of Year</b>					<u>123,975,414</u>
<b>Fund Balance - End of Year</b>					<u>\$ 125,628,932</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).

(b) Amounts have been revised to reflect the recording of state on-behalf payments to CalSTRS.

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, 2015**

	<b>Budgeted Amounts</b>		<b>Actual Amounts</b>
	<b>Original</b>	<b>Final</b>	<b>GAAP Basis</b>
<b>Revenues</b>			
Local control funding formula sources	\$ 21,879,737	\$ 24,823,894	\$ 24,681,929
Federal sources	7,185,189	7,453,472	7,414,781
Other state sources	2,394,588	3,136,738	3,106,329
Other local sources	1,944,769	1,234,499	1,235,669
<b>Total Revenues</b>	33,404,283	36,648,603	36,438,708
<b>Expenditures</b>			
Other outgo	30,670,077	35,237,453	36,706,781
<b>Total Expenditures</b>	30,670,077	35,237,453	36,706,781
Excess (deficiency) of revenues over expenditures	\$ 2,734,206	\$ 1,411,150	(268,073)
<b>Fund Balance - Beginning of Year</b>			12,059,595
<b>Fund Balance - End of Year</b>			\$ 11,791,522

See the accompanying notes to the required supplementary information.

**ORANGE COUNTY DEPARTMENT OF EDUCATION**

**SCHEDULE OF BUDGETARY COMPARISON FOR THE CHILD DEVELOPMENT FUND**

**For the Fiscal Year Ended June 30, 2015**

	<b>Budgeted Amounts</b>		<b>Actual Amounts</b>
	<b>Original</b>	<b>Final (a)</b>	<b>GAAP Basis (a)</b>
<b>Revenues</b>			
Federal sources	\$ 5,168,101	\$ 5,609,132	\$ 6,043,193
Other state sources	5,893,183	8,424,659	7,007,088
Other local sources	340,841	343,745	380,783
<b>Total Revenues</b>	<u>11,402,125</u>	<u>14,377,536</u>	<u>13,431,064</u>
<b>Expenditures</b>			
Certificated salaries	25,341	39,472	38,049
Classified salaries	1,058,206	1,089,248	1,098,266
Employee benefits	504,436	519,811	517,443
Books and supplies	5,801	18,830	10,447
Contracted services	9,487,313	12,266,759	11,088,431
Direct support-indirect cost	1,020,965	1,093,602	1,157,517
<b>Total Expenditures</b>	<u>12,102,062</u>	<u>15,027,722</u>	<u>13,910,153</u>
Deficiency of revenues over expenditures	<u>(699,937)</u>	<u>(650,186)</u>	<u>(479,089)</u>
<b>Other Financing Sources</b>			
Interfund transfers in	699,937	650,186	479,089
<b>Total Other Financing Sources</b>	<u>699,937</u>	<u>650,186</u>	<u>479,089</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	-
<b>Fund Balance - Beginning of Year</b>			-
<b>Fund Balance - End of Year</b>			<u>\$ -</u>

(a) Amounts have been revised to reflect the recording of state on-behalf payments to CalSTRS.

See the accompanying notes to the required supplementary information.

**ORANGE COUNTY DEPARTMENT OF EDUCATION**

**SCHEDULE OF BUDGETARY COMPARISON FOR THE DEFERRED MAINTENANCE FUND**

**For the Fiscal Year Ended June 30, 2015**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>
	<u>Original</u>	<u>Final</u>	<u>GAAP Basis</u>
<b>Revenues</b>			
Local control funding formula sources	\$ 1,039,769	\$ 1,039,769	\$ 1,022,520
Other local sources	<u>46,142</u>	<u>68,050</u>	<u>70,104</u>
<b>Total Revenues</b>	<u>1,085,911</u>	<u>1,107,819</u>	<u>1,092,624</u>
<b>Expenditures</b>			
Books and supplies	233,000	6,233	1,234
Contracted services	214,000	363,250	161,896
Capital outlay	<u>589,000</u>	<u>267,722</u>	<u>71,610</u>
<b>Total Expenditures</b>	<u>1,036,000</u>	<u>637,205</u>	<u>234,740</u>
Excess of revenues over expenditures	<u>49,911</u>	<u>470,614</u>	<u>857,884</u>
<b>Other Financing Sources</b>			
Interfund transfers in	<u>980,735</u>	<u>980,735</u>	<u>980,735</u>
<b>Total Other Financing Sources</b>	<u>980,735</u>	<u>980,735</u>	<u>980,735</u>
Net change in fund balance	<u>\$ 1,030,646</u>	<u>\$ 1,451,349</u>	1,838,619
<b>Fund Balance - Beginning of Year</b>			<u>21,190,904</u>
<b>Fund Balance - End of Year</b>			<u>\$ 23,029,523</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, 2015**

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets (AVA)</b>	<b>Actuarial Accrued Liability (Unit Cost Method) (AAL)</b>	<b>Unfunded Actuarial Accrued Liability (UAAL)</b>	<b>Funding Ratio</b>	<b>Covered Payroll</b>	<b>UAAL as a Percentage of Covered Payroll</b>
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, 2015.

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

See the accompanying notes to the required supplementary information.

**ORANGE COUNTY DEPARTMENT OF EDUCATION**

**SCHEDULE OF THE COUNTY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY  
STATE TEACHERS' RETIREMENT PLAN  
For the Fiscal Year Ended June 30, 2015**

	<u>2015</u>
County's proportion of the net pension liability	0.1110%
County's proportionate share of the net pension liability	\$ 64,865,070
State's proportionate share of the net pension liability associated with the County	<u>39,168,723</u>
Total	<u>\$ 104,033,793</u>
County's covered-employee payroll*	\$ 49,181,000
County's proportionate share of the net pension liability as a percentage of its covered employee payroll*	131.89%
Plan fiduciary net position as a percentage of the total pension liability	77.00%

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

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

See the accompanying notes to the required supplementary information

ORANGE COUNTY DEPARTMENT OF EDUCATION

SCHEDULE OF THE COUNTY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY  
CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT PLAN  
For the Fiscal Year Ended June 30, 2015

	<u>2015</u>
County's proportion of the net pension liability	0.4904%
County's proportionate share of the net pension liability	\$ 55,672,340
County's covered-employee payroll*	\$ 49,734,000
County's proportionate share of the net pension liability as a percentage of its covered employee payroll*	111.94%
Plan fiduciary net position as a percentage of the total pension liability	83.37%

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

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

See the accompanying notes to the required supplementary information

**ORANGE COUNTY DEPARTMENT OF EDUCATION**

**SCHEDULE OF COUNTY CONTRIBUTIONS**

**STATE TEACHERS' RETIREMENT PLAN**

**For the Fiscal Year Ended June 30, 2015**

	<u>2015</u>
Contractually required contribution	\$ 4,262,028
Contributions in relation to the contractually required contribution	<u>4,262,028</u>
Contribution deficiency (excess)	<u>\$ -</u>
County's covered-employee payroll	\$ 47,996,000
Contributions as a percentage of covered-employees	8.88%

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

See the accompanying notes to the required supplementary information.



**ORANGE COUNTY DEPARTMENT OF EDUCATION**

**SCHEDULE OF COUNTY CONTRIBUTIONS  
CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT PLAN  
For the Fiscal Year Ended June 30, 2015**

	<u>2015</u>
Contractually required contribution	\$ 5,829,589
Contributions in relation to the contractually required contribution	<u>5,829,589</u>
Contribution deficiency (excess)	<u>\$ -</u>
County's covered-employee payroll	\$ 49,525,000
Contributions as a percentage of covered-employees	11.77%

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

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, 2015**

**NOTE 1 - PURPOSE OF SCHEDULES:**

**A. Schedule of Budgetary Comparison For The County School Service Fund and Major Special Revenue Funds**

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.

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

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

**D. Schedules of County Contributions – STRP and PERS**

The schedule presents information on the County's required contribution, the amounts actually contributed and any excess or deficiency related to the required contribution. In the future, as data becomes available, 10 years of information will be presented.

**ORANGE COUNTY DEPARTMENT OF EDUCATION**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**  
**For the Fiscal Year Ended June 30, 2015**

**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:

Employee Benefits	\$ 16,694
Books and Supplies	49,230
Other Outgo	2,214,442

Special Education Pass-Through Fund:

Other Outgo	1,469,328
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Child Development Fund:

Classified Salaries	9,018
Other Outgo	63,915

**SUPPLEMENTARY INFORMATION**

**ORANGE COUNTY DEPARTMENT OF EDUCATION**

**HISTORY AND ORGANIZATION**

**June 30, 2015**

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, 2015 were as follows:

**BOARD OF EDUCATION**

<b><u>Member</u></b>	<b><u>Office</u></b>	<b><u>Term Expires</u></b>
Dr. Ken L. Williams	President	2016
Mr. Robert Hammond	Vice President	2016
Mr. David L. Boyd	Member	2018
Ms. Linda Lindholm	Member	2018
Dr. John W. Bedell	Member	2016

**COUNTY 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

**ORANGE COUNTY DEPARTMENT OF EDUCATION**  
**SCHEDULE OF AVERAGE DAILY ATTENDANCE (ADA)**  
**For the Fiscal Year Ended June 30, 2015**

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, 2015 are as follows:

**County Superintendent's Report of Schools & Classes:**

	<b>Second Period</b>	<b>Annual</b>
<b>Elementary:</b>		
Juvenile Halls, Homes and Camps	72	71
Probation Referred, On Probation or Parole, Expelled Pursuant to EC 48915 (a) or (c)	165	176
Total Elementary ADA	237	247
 <b>Secondary:</b>		
Juvenile Halls, Homes and Camps	596	599
Probation Referred, On Probation or Parole, Expelled Pursuant to EC 48915 (a) or (c)	2,565	2,524
Total Secondary ADA	3,161	3,123
Total ADA from County Office of Education:	3,398	3,370

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, 2015**

**District Funded County Programs:**

	<u>Second Period</u>	<u>Annual</u>
Grades transitional kindergarten through third		
County community schools	497	456
Special education - special day class	59	60
Extended year special education	<u>6</u>	<u>6</u>
Total grades transitional kindergarten through third ADA	<u>562</u>	<u>522</u>
Grades fourth through sixth		
County community schools	377	343
Special education - special day class	52	53
Extended year special education	<u>5</u>	<u>5</u>
Total grades fourth through sixth ADA	<u>434</u>	<u>401</u>
Grades seventh through eighth		
County community schools	315	293
Special education - special day class	61	62
Extended year special education	<u>6</u>	<u>6</u>
Total grades seventh through eighth ADA	<u>382</u>	<u>361</u>
Grades ninth through twelfth		
County community schools	2,673	2,417
Special education - special day class	221	221
Extended year special education	<u>24</u>	<u>24</u>
Total grades ninth through twelfth ADA	<u>2,918</u>	<u>2,662</u>
Total ADA for District Funded County Programs	<u>4,296</u>	<u>3,946</u>

See the accompanying notes to supplementary information.

**ORANGE COUNTY DEPARTMENT OF EDUCATION**

**SCHEDULE OF INSTRUCTIONAL TIME  
For the Fiscal Year Ended June 30, 2015**

Grade Level	2014-15 Minutes			Number of Days Traditional Calendar	Status
	Normal Requirement	Reduced Requirement	Actual Minutes		
Kindergarten	36,000	35,000	60,360	182	In compliance
Grade 1	50,400	49,000	67,280	182	In compliance
Grade 2	50,400	49,000	67,280	182	In compliance
Grade 3	50,400	49,000	67,280	182	In compliance
Grade 4	54,000	52,500	67,280	182	In compliance
Grade 5	54,000	52,500	67,280	182	In compliance
Grade 6	54,000	52,500	67,280	182	In compliance
Grade 7	54,000	52,500	67,280	182	In compliance
Grade 8	54,000	52,500	67,280	182	In compliance
Grade 9	64,800	63,000	71,452	182	In compliance
Grade 10	64,800	63,000	71,452	182	In compliance
Grade 11	64,800	63,000	71,452	182	In compliance
Grade 12	64,800	63,000	71,452	182	In compliance

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, 2015**

<u>PROGRAM NAME</u>	<u>Federal Catalog Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
<b><u>U.S. DEPARTMENT OF EDUCATION</u></b>			
Direct Programs:			
Elementary and Secondary School Counseling	84.215E	(1)	\$ 155,347
Fitness Physical Education Program: America on Track	84.215F	(1)	<u>5,670</u>
Subtotal Direct Programs			<u>161,017</u>
Pass Through Programs From:			
California Department of Education			
Special Education IDEA Early Intervention	84.181	23761	395,978
Carl D. Perkins Career and Technical Education: Adult, Section 132	84.048	14893	68,339
Title X, McKinney-Vento Homeless Assistance Grants	84.196	14332	172,188
CCDF Race to the Top - Early Learning Challenge	84.412A	15181	2,415,547
No Child Left Behind (NCLB) Title I Cluster:			
Title I, Part A	84.010	14329	3,038,708
Title I, Part D Local Delinquent Programs	84.010	14357	2,584,625
Imperial County Office of Education			
Title I, Basic School Support	84.010	14416	<u>477,620</u>
Subtotal Title I Cluster			<u>6,100,953</u>
California Department of Education			
No Child Left Behind (NCLB)			
Title II, Part A, Improving Teacher Quality	84.367	14341	40,495
Title III Cluster			
Title III, Limited English Proficient (LEP) Student Program	84.365	14346	230,710
Title III, Immigrant Education Program	84.365	15146	<u>652</u>
Subtotal Title III Cluster			<u>231,362</u>
Title II, Part B, CA Mathematics and Science Partnerships	84.366	14512	376,077
Special Education Cluster:			
Local Assistance	84.027	13379	7,733,659
Local Assistance - Private Schools	84.027	10115	3,202
Preschool Local Entitlements	84.173	13430	185,532
Preschool Accountability Grants	84.173A	14688	75,166
Preschool Local Entitlement Part B	84.027A	13682	413,327
Mental Health Allocation Plan	84.027	14468	548,911
Preschool Staff Development	84.173A	13431	<u>2,174</u>
Subtotal Special Education Cluster			<u>8,961,971</u>
Subtotal U.S. Department of Education			<u>18,923,927</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, 2015**

<u>PROGRAM NAME</u>	<u>Federal Catalog Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
<b><u>U.S. DEPARTMENT OF AGRICULTURE</u></b>			
Pass-Through Programs From:			
California Department of Education			
Child Nutrition Cluster			
National School Lunch Program	10.555	13664	152,673
Especially Needy Breakfast	10.553	10044	77,320
Subtotal Child Nutrition Cluster			<u>229,993</u>
California Department of Health and Human Services:			
Nutrition Services Network	10.561	(1)	1,107,188
Subtotal U.S. Department of Agriculture			<u>1,337,181</u>
<b><u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u></b>			
Pass-Through Programs From:			
California Department of Education			
Child Care Development Program Cluster:			
Child Development Quality Improvement Activities	93.575	14988	721,925
Child Development Federal Alternative Payment	93.596	14153	4,590,724
Child Development Local Planning Councils	93.575	13946	72,623
Child Development, Federal Alternative Payment, Stage 3	93.575	13881	1,021,111
Subtotal Child Care and Development Cluster			<u>6,406,383</u>
California Department of Health Services			
Medi-Cal Billing Option	93.778	10013	1,271,950
County of Orange			
Alcohol and Other Drug Prevention Services Friday Night Live	93.959	(1)	348,107
Leading Youth Away from Negative Choices	93.959	(1)	157,866
Subtotal U.S. Department of Health and Human Services			<u>8,184,306</u>
<b><u>NATIONAL SCIENCE FOUNDATION</u></b>			
Pass-Through Programs From:			
University of California, Irvine			
ESCAPE: Equitable Science Curriculum Integrating Arts in			
Public Education	47.076	(1)	133,977
Subtotal National Science Foundation			<u>133,977</u>
Total Federal Programs Expenditures			28,579,391
Excess revenues over expenditures:			
Medi-Cal Administrative Activities			3,709,039
Excess expenditures over revenues:			
Improving Teacher Quality			(21,718)
Medi-Cal Billing Option			(607,056)
Total Program Revenues			<u>\$ 31,659,656</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,**

	2013*		2014		2015		2016 (Budgeted)	
	Amount	%	Amount	%	Amount	%	Amount	%
<b>COUNTY SCHOOL SERVICE FUND:</b>								
<b>Revenue:</b>								
Local control funding formula***	\$ 93,238,106	47.3	\$ 93,583,726	49.8	\$ 86,989,756	44.5	\$ 80,496,005	40.4
Federal	22,019,036	11.2	17,161,033	9.1	18,201,682	9.3	23,423,993	11.8
State***	28,067,357	14.3	8,753,382	4.7	14,972,581	7.7	13,823,527	6.9
County and local	54,279,829	27.6	75,496,065	40.2	76,753,481	39.3	83,542,765	42.0
<b>Total Revenues</b>	<u>197,604,328</u>	<u>100.4</u>	<u>194,994,206</u>	<u>103.8</u>	<u>196,917,500</u>	<u>100.8</u>	<u>201,286,290</u>	<u>101.1</u>
<b>Expenditures:</b>								
Certificated salaries	55,614,202	28.2	52,872,836	28.1	51,589,683	26.4	53,218,153	26.7
Classified salaries	50,802,178	25.8	49,702,078	26.4	49,398,894	25.3	50,575,959	25.4
Employee benefits	36,744,721	18.7	34,589,564	18.4	38,915,684	19.9	41,880,562	21.1
Books and supplies	6,763,690	3.4	5,553,247	3.0	7,815,527	4.0	9,180,630	4.6
Contracted services	28,925,754	14.7	27,349,926	14.6	29,142,201	14.9	30,796,291	15.5
Capital outlay	1,450,771	0.7	1,880,763	1.0	1,384,083	0.7	1,563,607	0.8
Tuition and other outgo	15,937,396	8.1	15,491,937	8.2	16,771,651	8.6	11,383,379	5.7
Debt service	22,524	0.0	22,531	0.0	22,524	0.0	22,524	0.0
Interfund transfers out	1,671,823	0.9	1,480,267	0.8	1,459,824	0.8	1,672,105	0.8
Direct support-indirect cost	(1,050,927)	(0.5)	(999,675)	(0.5)	(1,157,519)	(0.6)	(1,219,913)	(0.6)
<b>Total Expenditures</b>	<u>196,882,132</u>	<u>100.0</u>	<u>187,943,474</u>	<u>100.0</u>	<u>195,342,552</u>	<u>100.0</u>	<u>199,073,297</u>	<u>100.0</u>
Change in Fund Balance	<u>722,196</u>	<u>0.4</u>	<u>7,050,732</u>	<u>3.8</u>	<u>1,574,948</u>	<u>0.8</u>	<u>2,212,993</u>	<u>1.1</u>
Ending Fund Balance	<u>\$ 93,865,777</u>	<u>47.7</u>	<u>\$ 100,916,509</u>	<u>53.7</u>	<u>\$ 102,491,457</u>	<u>52.5</u>	<u>\$ 104,704,450</u>	<u>52.6</u>
Available Reserve Balance	<u>\$ 38,979,558</u>	<u>19.8</u>	<u>\$ 38,440,358</u>	<u>20.5</u>	<u>\$ 17,574,452</u>	<u>9.0</u>	<u>\$ 15,963,387</u>	<u>8.0</u>
Recommended Reserve Level		<u>2.0</u>		<u>2.0</u>		<u>2.0</u>		<u>2.0</u>
Average Daily Attendance	<u>5,140</u>		<u>4,115</u>		<u>3,370</u>		<u>4,155</u>	
Total Long-Term Debt***	<u>\$ 20,861,923</u>		<u>\$ 20,950,710</u>		<u>\$ 141,498,140</u>		<u>\$ 141,148,140</u>	

**IMPORTANT NOTES:**

Amounts above are those reported as County School Service Fund in the State accounting software and do not include the Special Reserve Fund for other than Capital Outlay reported in the County School Service Fund of the governmental funds' financial statements. Available reserves are those amounts designated for economic uncertainty and any other remaining unassigned fund balance from the County School Service Fund.

The 2016 budget is the original adopted budget.

2015 Actual and 2016 Budget other state revenues and employee benefits include on-behalf payments. 2013 and 2014 amounts have not been revised to include these amounts.

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

Average daily attendance is based on the annual report.

\* 2013 audit was 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.

\*\*\* Prior years have not been restated for the implementation of GASB Statements No. 68 and No. 71.

See the accompanying notes to supplementary information.

**ORANGE COUNTY DEPARTMENT OF EDUCATION**

**SCHEDULE OF CHARTER SCHOOLS**

**For the Fiscal Year Ended June 30, 2015**

<u>Charter School</u>	<u>Included in County 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, 2015**

There were no differences between the fund balances reported on the June 30, 2015 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, 2015**

**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 Instructional Time**

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

**C. 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:

<b><u>Pass Through to Sub-recipients:</u></b>	
Local Assistance	\$ 6,337,653
Local Assistance - Private Schools	3,082
Preschool Local Entitlements	141,520
Preschool Local Entitlement Part B	383,615
Mental Health Allocation Plan	548,911
Total Pass Through to Sub-recipients	<u><u>\$ 7,414,781</u></u>

**ORANGE COUNTY DEPARTMENT OF EDUCATION**

**NOTES TO SUPPLEMENTARY INFORMATION**

**For the Fiscal Year Ended June 30, 2015**

**NOTE 1 - PURPOSE OF SCHEDULES: (continued)**

**D. Schedule of Financial Trends and Analysis**

The *2014-15 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* requires that this schedule be prepared showing financial trends of the County School Service Fund over the past three fiscal years as well as the current year budget. This report is intended to identify if the County faces potential fiscal problems and if they have met the recommended available reserve percentages.

**E. Schedule of Charter Schools**

The *2014-15 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* requires that this schedule list all charter schools chartered by the County and inform the users whether or not the charter school information is included in the County's financial statements.

**F. 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, 2015**

	<u>County School Facilities Fund</u>	<u>Special Reserve Fund for Capital Outlay Projects</u>	<u>COP Debt Service Fund</u>	<u>Total Non-major Governmental Funds</u>
<b><u>Assets</u></b>				
Cash in county treasury	\$ 5,631,479	\$ 2,698,526	\$ 499,098	\$ 8,829,103
Cash with fiscal agent		1,481,805	484,763	1,966,568
Accounts receivable:				
Miscellaneous	2,096	2,865	159	5,120
<b>Total Assets</b>	<b><u>\$ 5,633,575</u></b>	<b><u>\$ 4,183,196</u></b>	<b><u>\$ 984,020</u></b>	<b><u>\$ 10,800,791</u></b>
<b><u>Liabilities and Fund Balances</u></b>				
<b>Liabilities</b>				
Accounts payable	\$ 1,617	\$ 194,832	\$ -	\$ 196,449
<b>Total Liabilities</b>	<b><u>1,617</u></b>	<b><u>194,832</u></b>	<b><u>-</u></b>	<b><u>196,449</u></b>
<b>Fund Balances</b>				
Restricted	5,631,958	3,988,364	984,020	10,604,342
<b>Total Fund Balances</b>	<b><u>5,631,958</u></b>	<b><u>3,988,364</u></b>	<b><u>984,020</u></b>	<b><u>10,604,342</u></b>
<b>Total Liabilities and Fund Balanc</b>	<b><u>\$ 5,633,575</u></b>	<b><u>\$ 4,183,196</u></b>	<b><u>\$ 984,020</u></b>	<b><u>\$ 10,800,791</u></b>

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, 2015**

	<b>County School Facilities Fund</b>	<b>Special Reserve Fund for Capital Outlay Projects</b>	<b>COP Debt Service Fund</b>	<b>Total Non-major Governmental Funds</b>
<b>Revenues</b>				
Other local sources	\$ 19,348	\$ 1,928,561	\$ 3,243	\$ 1,951,152
<b>Total Revenues</b>	<u>19,348</u>	<u>1,928,561</u>	<u>3,243</u>	<u>1,951,152</u>
<b>Expenditures</b>				
Plant services	114,326	824,149		938,475
Debt service			775,000	775,000
<b>Total Expenditures</b>	<u>114,326</u>	<u>824,149</u>	<u>775,000</u>	<u>1,713,475</u>
Excess (deficiency) of revenues over expenditures	<u>(94,978)</u>	<u>1,104,412</u>	<u>(771,757)</u>	<u>237,677</u>
<b>Other Financing Sources (Uses)</b>				
Interfund transfers in			800,000	800,000
Interfund transfers out		(800,000)		(800,000)
<b>Total Other Financing Sources (Uses)</b>		<u>(800,000)</u>	<u>800,000</u>	<u>-</u>
Net changes in fund balances	(94,978)	304,412	28,243	237,677
<b>Fund Balances - Beginning of Year</b>	<u>5,726,936</u>	<u>3,683,952</u>	<u>955,777</u>	<u>10,366,665</u>
<b>Fund Balances - End of Year</b>	<u>\$ 5,631,958</u>	<u>\$ 3,988,364</u>	<u>\$ 984,020</u>	<u>\$ 10,604,342</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, 2015**

**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, 2015, 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 8, 2015.

**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***

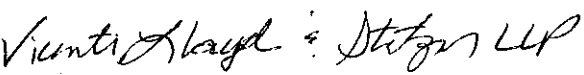
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Orange County Department of Education's financial statements are free 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*.

**Purpose of this Report**

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

  
VICENTI, LLOYD & STUTZMAN LLP  
Glendora, California  
December 8, 2015

**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, 2015. 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, 2015.

**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.

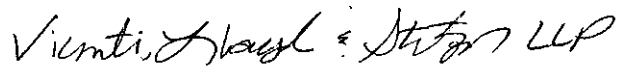
Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any 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 8, 2015

**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 *2014-15 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, published by the Education Audit Appeals Panel for the year ended June 30, 2015. 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 *2014-15 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, published by the Education Audit Appeals Panel. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the specific areas listed below has occurred. An audit includes examining, on a test basis, evidence about the County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion on State compliance. However, our audit does not provide a legal determination of the County's compliance.

**INDEPENDENT AUDITOR’S REPORT ON STATE COMPLIANCE**

**Compliance Requirements Tested**

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

<u>Description</u>	<u>Procedures Performed</u>
Attendance reporting	Yes
Teacher certification and misassignments	Yes
Kindergarten continuance	No <sup>1</sup>
Independent study	Yes
Continuation education	Not applicable
Instructional time	Yes
Instructional materials	Yes
Ratio of administrative employees to teachers	Not applicable
Classroom teacher salaries	Not applicable
Early retirement incentive	Not applicable
GANN limit calculation	Yes
School Accountability Report Card	Yes
Juvenile Court Schools	Yes
Middle or early college high schools	Not applicable
K-3 grade span adjustment	Not applicable
Transportation maintenance of effort	Yes
Regional Occupational Centers or Programs maintenance of effort	Yes
Adult Education maintenance of effort	Not applicable
California Clean Energy Jobs Act	No <sup>2</sup>
After School Education and Safety Program	Not applicable
Proper expenditure of Education Protection Account Funds	Yes
Common Core Implementation Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control and Accountability Plan	Yes
Charter Schools:	
Attendance	No <sup>3</sup>
Mode of instruction	No <sup>3</sup>
Nonclassroom-based instruction/independent study	No <sup>3</sup>
Determination of funding for nonclassroom-based instruction	No <sup>3</sup>
Annual instructional minutes – classroom based	No <sup>3</sup>
Charter School Facility Grant Program	No <sup>3</sup>

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

<sup>2</sup>Testing was not performed because California Clean Energy Jobs Act funds were not spent during the year.

<sup>3</sup>Testing for the Charter Schools was done by the school’s respective auditor.

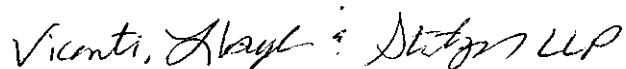
## INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

### 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, 2015.

### 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 *2014-15 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, published by the Education Audit Appeals Panel. Accordingly, this report is not suitable for any other purpose.



VICENTI, LLOYD & STUTZMAN LLP  
Glendora, California  
December 8, 2015

## **FINDINGS AND RECOMMENDATIONS**

**ORANGE COUNTY DEPARTMENT OF EDUCATION**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**SUMMARY OF AUDITOR RESULTS**  
**June 30, 2015**

*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?        Yes   X   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>
84.027, 84.027A, 84.173, 84.173A	Special Education Cluster
84.181	Special Education IDEA Early Intervention
10.553, 10.555	Child Nutrition Cluster
93.778	Medi-Cal Billing Option

Dollar threshold used to distinguish between Type A  
 and Type B programs: \$ 857,382

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, 2015**

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

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

There were no findings and questioned costs related to basic financial statements for the year ended June 30, 2015.

**ORANGE COUNTY DEPARTMENT OF EDUCATION**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**RELATED TO FEDERAL AWARDS**  
**June 30, 2015**

There were no findings and questioned costs related to federal awards for the fiscal year ended June 30, 2015.



**ORANGE COUNTY DEPARTMENT OF EDUCATION**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**RELATED TO STATE AWARDS**  
**June 30, 2015**

There were no findings and questioned costs related to state awards for the fiscal year ended June 30, 2015.

**ORANGE COUNTY DEPARTMENT OF EDUCATION**  
**STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS**  
**June 30, 2015**

<b>Original Finding No.</b>	<b>Finding</b>	<b>Code</b>	<b>Recommendation</b>	<b>Current Status</b>
2014-001	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.	30000	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.	Substantially implemented.
2014-002	<p>During the testing of the unduplicated count, it was noted that 1 of the students initially selected for testing did not have the proper English Learner (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.</p> <p>Please see the table provided in the prior year audit report.</p>	40000	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.	Implemented.