

**ORANGE COUNTY
DEPARTMENT OF
EDUCATION**

ANNUAL FINANCIAL REPORT

JUNE 30, 2011

ORANGE COUNTY DEPARTMENT OF EDUCATION

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FINANCIAL SECTION

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INDEPENDENT AUDITORS' REPORT

Governing Board
Orange County Department of Education
Costa Mesa, California

We have audited the accompanying financial statements of the governmental activities, the 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, 2011, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2010-11*, issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of the Orange County Department of Education, as of June 30, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in the Notes to the basic financial statements, the accompanying financial statements reflect certain changes required as a result of the implementation of GASB Statement No. 54 for the year ended June 30, 2011. These changes required a restatement to the beginning fund balance of the General Fund and the Non-Major Governmental Funds, as discussed in Note 17.

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

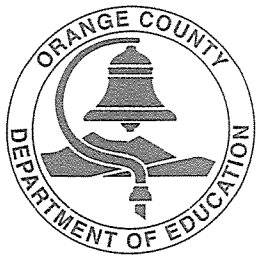
In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2011, on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The required supplementary information, such as management's discussion and analysis on pages 4 through 14 and budgetary comparison and other postemployment information on pages 57 and 58, are not a required part of the basic financial statements, but are supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The supplementary information listed in the table of contents, including the Schedule of Expenditures of Federal Awards which is required by U.S. Office of Management and Budget Circular A-133, *Audits of State, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Vonnie, J. & Co., LLP

Rancho Cucamonga, California
December 14, 2011



**ORANGE COUNTY
DEPARTMENT
OF EDUCATION**

200 KALMUS DRIVE
P.O. BOX 9050
COSTA MESA, CA
92628-9050

(714) 966-4000
FAX (714) 662-3570
www.ocde.us

WILLIAM M. HABERMEHL
County Superintendent
of Schools

LYNN APRIL HARTLINE
Deputy Superintendent

JOHN L. NELSON
Associate Superintendent

**ORANGE COUNTY
BOARD OF EDUCATION**

JOHN W. BEDELL, PH.D.

DAVID L. BOYD

ELIZABETH PARKER

LONG PHAM, PH.D.

KEN L. WILLIAMS, D.O.

This section of Orange County Department of Education's (the County) 2010-2011 annual financial report presents our discussion and analysis of the County's financial performance during the fiscal year that ended on June 30, 2011, with comparative information for June 30, 2010. Please read it in conjunction with the County's financial statements, which immediately follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Financial Statements

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

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

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

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

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

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

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

ORANGE COUNTY DEPARTMENT OF EDUCATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2011

FINANCIAL HIGHLIGHTS OF THE PAST YEAR

In 2010-11, General Fund revenue increased by \$18.5 million or 7.45 percent. In 2010-11, we had an increase of \$10.1 million due to a reduced deficit on our State revenue limit, restoration of a FY2009-10 reduction of \$252.99 per student for state revenue and increase funding due to additional Average Daily Attendance (ADA) from our Semester 1 Secondary (S1S) program. We received an \$8.5 million increase in Federal funding or 16.41 percent. This is due to Medical Administrative Activities (MAA) funds that were received in 2010-11 and passed through to participating school districts. We also had a decrease of \$2.3 million in State funding for special education and categorical programs. We received a \$1.7 million increase in local revenue for the 2010-11 year, the major increase due to E-Rate reimbursements, interagency fees, workshop fees and registrations.

The General Fund expenditures decreased by \$0.9 million or 0.38 percent due to numerous factors. In 2010-11 all bargaining units received a zero percent salary increase but the County did pay for the increase in health benefits. Salaries and Benefits decreased by \$3.7 million due to a reduction of workforce in certificated and classified staff. Books and Supplies decreased by 6.36 percent and operating expenditures decreased by 8.08 percent which includes an increase in utility and decrease in lease costs. In 2010-11, we had an increase of \$4.6 million or 7.31 percent in other outgo and pass-through to districts. We also experienced a 21.7 percent increase in capital outlay due to replacement of some equipment for our computer systems.

In 2010-11, we expected a 253 increase in attendance in our Alternative Education Program based on current enrollment. As the year progressed, we increased by 825 ADA which included a combination of some programs declining and growth for the Sunburst Academy and S1S program. In addition, the Special Schools Program declined by 17 ADA for a total increase of 808 ADA for our student programs. We continue to look at staffing ratios and new ways to improve our attendance.

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

Values

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

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

ORANGE COUNTY DEPARTMENT OF EDUCATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2011

Mission

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

Enrollment

A primary source of revenue for the County is generated by the average daily attendance (ADA) of students in the County programs. The growth or decline of ADA can have significant impact on the financial stability of the office. The County operated student programs increased by 808 ADA from last year. County-wide enrollment declined slightly with a decrease of 1.75 percent County-wide with multiple districts experiencing declining enrollment in 2010-11.

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 2010-11, we met our goal with a minimum 3.0 percent Reserve for Economic Uncertainties.

REPORTING THE COUNTY AS A WHOLE

The Statement of Net Assets and the Statement of Activities

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

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

ORANGE COUNTY DEPARTMENT OF EDUCATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2011

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 Assets* and the *Statement of Activities*, we present the County activities as follows:

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

REPORTING THE COUNTY'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

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

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

ORANGE COUNTY DEPARTMENT OF EDUCATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2011

THE COUNTY AS A WHOLE

Net Assets

The County's net assets were \$220.5 million for the fiscal year ended June 30, 2011. Of this amount, \$85.7 million was unrestricted. Restricted net assets are reported separately to show legal constraints from debt covenants, grantors, constitutional provisions, and enabling legislation that limit the governing board's ability to use those net assets for day-to-day operations. Our analysis below, in summary form, focuses on the net assets (Table 1) and change in net assets (Table 2) of the County's governmental activities.

Table 1

(Amounts in millions)

	Governmental Activities	
	2011	2010
Assets		
Current and other assets	\$ 180.8	\$ 159.6
Capital assets	98.9	99.0
Total Assets	279.7	258.6
Liabilities		
Current liabilities	37.6	35.7
Long-term obligations	21.6	23.8
Total Liabilities	59.2	59.5
Net Assets		
Invested in capital assets, net of related debt	83.5	80.9
Restricted	51.3	69.4
Unrestricted	85.7	48.8
Total Net Assets	\$ 220.5	\$ 199.1

The \$85.7 million in unrestricted net assets of governmental activities represents the accumulated results of all past years' operations.

ORANGE COUNTY DEPARTMENT OF EDUCATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2011

Changes in Net Assets

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

Table 2

(Amounts in millions)	Governmental Activities	
	2011	2010
Revenues		
Program revenues:		
Charges for services	\$ 36.5	\$ 35.6
Operating grants and contributions	67.5	72.4
Capital grants and contributions	1.4	1.4
General revenues:		
Federal and State aid not restricted	86.0	66.6
Property taxes	73.2	74.5
Other general revenues	29.3	23.5
Total Revenues	293.9	274.0
Expenses		
Instruction-related	147.2	153.2
Student support services	14.9	13.7
Administration	20.2	21.6
Maintenance and operations	15.2	15.9
Other	75.0	66.1
Total Expenses	272.5	270.5
Change in Net Assets	\$ 21.4	\$ 3.5

Governmental Activities

As reported in the Statement of Activities on page 16, the cost of all of our governmental activities this year was \$272.5 million. However, the amount that our taxpayers ultimately financed for these activities through local taxes was only \$73.2 million because the cost was paid by those who benefited from the programs (\$36.5 million) or by other governments and organizations who subsidized certain programs with grants and contributions (\$68.9 million). We paid for the remaining 'public benefit' portion of our governmental activities with \$115.3 million in State funds and with other revenues, like interest and general entitlements.

ORANGE COUNTY DEPARTMENT OF EDUCATION

**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2011**

In Table 3, we have presented the cost and net cost of each of the County's largest functions - regular program instruction, instruction-related activities, home-to-school transportation, other pupil services, general administration, maintenance and operations, interest on long-term obligations, and other. As discussed above, net cost shows the financial burden that was placed on the County's taxpayers by each of these functions. Providing this information allows our citizens to consider the cost of each function in comparison to the benefits they believe are provided by that function.

Table 3

(Amounts in millions)	Total Cost of Services		Net Cost of Services	
	2011	2010	2011	2010
Instruction	\$ 87.5	\$ 89.5	\$ 59.2	\$ 59.7
Instruction-related activities:				
Instructional library, media, and technology	0.9	0.9	0.9	0.9
Supervision of instruction	43.8	48.1	19.3	21.9
School site administration	15.0	14.7	12.7	12.6
Home-to-school transportation	4.3	4.2	-	-
Other pupil services	10.6	9.5	4.8	3.5
General administration	20.2	21.6	14.9	16.0
Maintenance and operations	15.2	15.9	14.2	14.9
Interest on long-term obligations	0.5	0.7	0.5	0.7
Other	74.5	65.4	40.6	31.0
Total	\$ 272.5	\$ 270.5	\$ 167.1	\$ 161.2

ORANGE COUNTY DEPARTMENT OF EDUCATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2011

THE COUNTY'S FUNDS

As the County completed this year, our governmental funds reported a combined fund balance of \$140.4 million, which is an increase of \$19.3 million (Table 4).

Table 4

(Amounts in millions)

	Balances and Activity			
	As Restated July 1, 2010	Revenues	Expenditures	June 30, 2011
General Fund	\$ 93.9	\$ 270.0	\$ 250.5	\$ 113.4
Child Development Fund	0.5	14.5	15.0	-
Deferred Maintenance Fund	12.5	3.0	-	15.5
County School Facilities Fund	9.1	1.5	3.0	7.6
Special Reserve Fund for Capital Outlay Projects	4.4	2.3	3.5	3.2
COP Debt Service Fund	0.7	2.7	2.7	0.7
Total	\$ 121.1	\$ 294.0	\$ 274.7	\$ 140.4

The primary reasons for these increases (decreases) are as follows:

The General Fund is our principal operating fund. The fund balance in the General Fund increased by \$19.5 million, to \$113.4 million. This increase is due to the following:

1. In 2010-11 we received \$2.8 million in Federal Jobs Funding that will be spent in 2011-12.
2. We had a significant increase in revenue from the growth in our Semester 1 Secondary program which was new for the 2010-11 year.
3. Due to the use of \$6.8 million in federal American Reinvestment and Recovery Funds we were able to increase our balances in other accounts that helped our ending balance.
4. We had major staffing reductions over the last few years which helped to decrease our on-going expenditures.

General Fund Budgetary Highlights

Over the course of the year, the County revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. The final amendment to the budget was adopted on September 7, 2011. (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 57).

ORANGE COUNTY DEPARTMENT OF EDUCATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2011

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets (net of depreciation)

At June 30, 2011, the County had \$98.9 million in a broad range of capital assets, including land, buildings, and furniture and equipment.

Table 5

(Amounts in millions)

	Governmental Activities	
	2011	2010
Land and construction in process	\$ 29.0	\$ 46.5
Buildings and improvements	67.1	50.0
Furniture and equipment	2.8	2.5
Total	\$ 98.9	\$ 99.0

The \$100 thousand decrease in capital assets was the result of the completion of the Harbor Learning Center, a multi-year project that moves funds between construction in progress and buildings and improvements. Reductions include a combined total of \$4.3 million in depreciation and the disposal of \$106 thousand in obsolete equipment.

Long-Term Obligations

At the end of this fiscal year, the County had a decrease of \$2.3 million in long-term obligations. This decrease was due to a regular principal payment on our Certificates of Participation of \$210,000 and two additional \$1 million prepayments. The \$200,000 decrease in accumulated vacation is due to the reduction in certificated and classified employees as well as a focus on requiring employees to use their vacation accruals. The \$100,000 increase in other is due to additional capital lease obligations.

Table 6

(Amounts in millions)

	Governmental Activities	
	2011	2010
Certificates of participation	\$ 16.0	\$ 18.2
Accumulated vacation - net	1.7	1.9
Other	3.8	3.7
Total	\$ 21.5	\$ 23.8

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

Other obligations include compensated absences payable, (not including health benefits). We present more detailed information regarding our long-term obligations in Note 8 of the financial statements.

ORANGE COUNTY DEPARTMENT OF EDUCATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2011

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

In considering the County Budget for the 2011-12 year, the County Board and management used the following criteria:

The key assumptions in our revenue forecast are:

1. Revenue limit income will decrease by (\$15,035,925) due to the North Orange County SELPA revenue transfer of (18,448,224) to Fund 10 offset by an increase of \$3,412,319 due to an increase in Average Daily Attendance (ADA).
2. Federal income will decrease by (\$24,935,989) due to the following: an increase of \$5,197,586 due to the deferred revenue for the Education Job Funds, Title I and other federal programs. A decrease of (\$19,042,640) for Federal Funding that is moved to Fund 10 for pass thru to the North Orange County SELPA. A decrease of (\$8,925,263) American Reinvestment and Recovery Act (ARRA) funding that was exhausted in 2010-11. A decrease of (\$2,165,672) for decreases in various federal programs.
3. State income is anticipated to decrease by (\$3,187,487) due to anticipated cuts in categorical programs due to the State budget and a transfer of \$1,870,043 to fund 10 pass thru revenue to the North Orange County SELPA.
4. Local income will in decrease by (\$5,309,196) due to the following: An increase of \$1,797,945 for new or increased local programs. A decrease of (\$2,000,000) for reduced funding for the Inside the Outdoors program. A decrease of (\$2,079,923) for reductions in various programs and workshop registrations. A transfer of (\$1,193,999) to Fund 10 for pass thru funds to the North Orange County SELPA.

Expenditures are based on the following forecasts:

1. A total increase in salaries of \$361,245 is the result of increases of \$2.9 million for step and column movement, filling vacant positions, and creation of new positions being offset by reductions of \$2.8 million for reduction in force of certificated and classified positions, salary savings in vacant positions, and reductions for substitutes and short-term employees. There is a zero cost of living increase for salaries for 2011-12.
2. An increase of \$3,424,807 for Health and Welfare benefits is a result of an increase in the benefit rate for the 2011-12 plan year, filling vacant positions, and an increase in the Unemployment Insurance Rate.
3. As of November 2011, we have completed negotiations for all groups with zero salary increase but the County did pay the increase cost of the Health and Welfare benefits.
4. There is a decrease in General Fund Other Outgo of \$42,126,657 due to the transfer of pass-through payments made to the North Orange County SELPA to Fund 10.

ORANGE COUNTY DEPARTMENT OF EDUCATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2011

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

The State's budget projections on revenue limit funding based on average daily attendance for the 2011-12 year includes a 20.014 percent deficit reduction. As we prepare our First Interim Budget Report, our average daily attendance indicates a growth in our ADA. We are seeing a decline in students transferred from school districts and some Juvenile Court Schools, but we have also seen growth in some of our community based program. We continue to monitor average daily attendance and to establish better control over staffing ratios at each site.

One of the major areas of concern is the repeated news that State revenues are falling below projections and that Proposition 98 will be over funded for 2010-11. This has lead to some concern that education may receive mid-year budget cuts again. Even though schools received the largest cuts in history, we are still concerned that more reductions may materialize. Though we have not heard anything specific, we will continue to monitor our expenditures and will concentrate on evaluating our multi-year projections to ensure that we have fiscal stability for future years.

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

CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, students, and investors and creditors with a general overview of the County's finances and to show the County's accountability for the money it receives. If you have questions about this report or need any additional financial information, contact Renee Hendrick, Assistant Superintendent of Administrative Services, at The Orange County Department of Education, 200 Kalmus Drive, Costa Mesa, California, 92626, or e-mail at rhendrick@ocde.us.

ORANGE COUNTY DEPARTMENT OF EDUCATION

STATEMENT OF NET ASSETS
JUNE 30, 2011

	<u>Governmental Activities</u>
ASSETS	
Deposits and investments	\$ 133,568,342
Receivables	46,679,244
Prepaid expenses	52,284
Deferred charges	504,000
Capital assets	
Land and construction in process	29,028,843
Other capital assets	92,134,154
Less: accumulated depreciation	<u>(22,218,770)</u>
Total Capital Assets	<u>98,944,227</u>
Total Assets	<u>279,748,097</u>
LIABILITIES	
Accounts payable	32,979,249
Interest payable	23,547
Deferred revenue	4,344,062
Other current liabilities	341,247
Long-term obligations	
Current portion of long-term obligations	215,000
Noncurrent portion of long-term obligations	<u>21,344,596</u>
Total Long-Term Obligations	<u>21,559,596</u>
Total Liabilities	<u>59,247,701</u>
NET ASSETS	
Invested in capital assets, net of related debt	83,519,227
Restricted for:	
Debt service	715,145
Capital projects	10,798,384
Educational programs	24,209,435
Other activities	15,511,088
Unrestricted	<u>85,747,117</u>
Total Net Assets	<u>\$ 220,500,396</u>

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

ORANGE COUNTY DEPARTMENT OF EDUCATION

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2011

Functions/Programs	Expenses	Program Revenues			Governmental Activities	Net (Expenses) Revenues and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions		
Governmental Activities:						
Instruction	\$ 87,552,359	\$ 11,021,617	\$ 15,901,496	\$ 1,423,247	\$ (59,205,999)	
Instruction-related activities:						
Supervision of instruction	43,819,083	6,443,302	18,030,517	-	(19,345,264)	
Instructional library, media, and technology	865,329	-	-	-	(865,329)	
School site administration	14,995,569	1,459,386	836,443	-	(12,699,740)	
Pupil services:						
Home-to-school transportation	4,263,126	2,659,641	1,590,769	-	(12,716)	
Food services	966,550	7,807	355,669	-	(603,074)	
All other pupil services	9,649,046	2,742,415	2,752,960	-	(4,153,671)	
Administration:						
Data processing	5,540,523	-	-	-	(5,540,523)	
All other administration	14,703,895	2,051,156	3,264,641	-	(9,388,098)	
Plant services	15,206,028	689,133	351,828	-	(14,165,067)	
Ancillary services	210,347	-	-	-	(210,347)	
Interest on long-term obligations	476,877	-	-	-	(476,877)	
Other outgo	74,250,998	9,460,717	24,388,796	-	(40,401,485)	
Total Governmental Activities	\$ 272,499,730	\$ 36,535,174	\$ 67,473,119	\$ 1,423,247	(167,068,190)	
General revenues and subventions:						
					72,962,881	
					174,104	
					86,040,045	
					756,544	
					28,554,350	
					188,487,924	
					21,419,734	
					199,080,662	
					\$ 220,500,396	

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

ORANGE COUNTY DEPARTMENT OF EDUCATION

GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2011

	General Fund	Non Major Governmental Funds	Total Governmental Funds
ASSETS			
Deposits and investments	\$ 102,753,811	\$ 28,160,850	\$ 130,914,661
Receivables	45,778,904	898,659	46,677,563
Due from other funds	524,591	2,304,995	2,829,586
Prepaid expenditures	52,284	-	52,284
Total Assets	\$ 149,109,590	\$ 31,364,504	\$ 180,474,094
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 29,097,085	\$ 3,815,296	\$ 32,912,381
Due to other funds	2,304,995	524,591	2,829,586
Deferred revenue	4,344,062	-	4,344,062
Total Liabilities	35,746,142	4,339,887	40,086,029
Fund Balances:			
Nonspendable	122,284	-	122,284
Restricted	24,209,435	11,513,529	35,722,964
Committed	-	15,511,088	15,511,088
Assigned	35,802,242	-	35,802,242
Unassigned	53,229,487	-	53,229,487
Total Fund Balances	113,363,448	27,024,617	140,388,065
Total Liabilities and Fund Balances	\$ 149,109,590	\$ 31,364,504	\$ 180,474,094

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

ORANGE COUNTY DEPARTMENT OF EDUCATION

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2011**

Total Fund Balance - Governmental Funds	\$ 140,388,065
Amounts Reported for Governmental Activities in the Statement of Net Assets are Different Because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.	
The cost of capital assets is	\$ 121,162,997
Accumulated depreciation is	<u>(22,218,770)</u>
Net Capital Assets	98,944,227
Expenditures relating to issuance of debt of next fiscal year were recognized on modified accrual basis, but are not recognized on the accrual basis.	504,000
In governmental funds, unmatured interest on long-term obligations is recognized in the period when it is due. On the government-wide financial statements, unmatured interest on long-term obligations is recognized when it is incurred.	(23,547)
An internal service fund is used by the County's management to charge the costs of the workers' compensation insurance program to the individual funds. The assets and liabilities of the internal service fund are included with governmental activities.	2,247,247
Long-term obligations, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.	
Long-term obligations at year-end consist of:	
Certificates of participation	15,929,000
Compensated absences (vacations)	1,738,456
Net OPEB obligation	<u>3,892,140</u>
Total Long-Term Obligations	<u>(21,559,596)</u>
Total Net Assets - Governmental Activities	<u><u>\$ 220,500,396</u></u>

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

ORANGE COUNTY DEPARTMENT OF EDUCATION

**GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2011**

	General Fund	Non-Major Governmental Funds	Total Governmental Funds
REVENUES			
Revenue limit sources	\$ 120,665,396	\$ -	\$ 120,665,396
Federal sources	60,605,448	10,428,022	71,033,470
Other State sources	28,645,160	5,743,432	34,388,592
Other local sources	59,512,006	2,876,621	62,388,627
Total Revenues	<u>269,428,010</u>	<u>19,048,075</u>	<u>288,476,085</u>
EXPENDITURES			
Current			
Instruction	77,900,253	5,869,824	83,770,077
Instruction-related activities:			
Supervision of instruction	36,708,408	7,411,316	44,119,724
Instructional library, media and technology	866,526	-	866,526
School site administration	15,003,517	563	15,004,080
Pupil services:			
Home-to-school transportation	4,263,306	-	4,263,306
Food services	967,322	-	967,322
All other pupil services	9,484,640	-	9,484,640
Administration:			
Data processing	5,533,776	-	5,533,776
All other administration	13,581,579	1,154,818	14,736,397
Plant services	14,707,824	858,586	15,566,410
Facility acquisition and construction	160,225	3,037,534	3,197,759
Ancillary services	210,347	-	210,347
Other outgo	68,805,619	15,893	68,821,512
Debt service			
Principal	30,488	2,210,000	2,240,488
Interest and other	2,003	474,601	476,604
Total Expenditures	<u>248,225,833</u>	<u>21,033,135</u>	<u>269,258,968</u>
Excess (Deficiency) of			
Revenues Over Expenditures	<u>21,202,177</u>	<u>(1,985,060)</u>	<u>19,217,117</u>
Other Financing Sources (Uses)			
Transfers in	513,778	4,915,708	5,429,486
Transfers out	(2,264,241)	(3,165,245)	(5,429,486)
Net Financing Sources (Uses)	<u>(1,750,463)</u>	<u>1,750,463</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	19,451,714	(234,597)	19,217,117
Fund Balances - Beginning	71,317,075	49,853,873	121,170,948
Restatement	22,594,659	(22,594,659)	-
Fund Balances - Ending	<u>\$ 113,363,448</u>	<u>\$ 27,024,617</u>	<u>\$ 140,388,065</u>

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

ORANGE COUNTY DEPARTMENT OF EDUCATION

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2011

Total Net Change in Fund Balances - Governmental Funds	\$ 19,217,117
Amounts Reported for Governmental Activities in the Statement of Activities are Different Because:	
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures; however, for governmental activities, those costs are shown in the Statement of Net Assets and allocated over their estimated useful lives as annual depreciation expenses in the Statement of Activities.	
This is the amount by which depreciation exceeds capital outlays in the period.	
Depreciation expense	\$ (4,347,892)
Capital outlays	<u>4,275,848</u>
Net Expense Adjustment	(72,044)
Loss on disposal of capital assets is reported in the government-wide Statement of Net Assets, but is not recorded in the governmental funds.	(1,793)
In the Statement of Activities, certain operating expenses - compensated absences (vacations) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). Vacation earned was less than the amounts paid by \$193,308.	193,308
Other postemployment benefits (OPEB): In governmental funds, OPEB costs are recognized when employer contributions are made. In the Statement of Activities, OPEB costs are recognized on the accrual basis. This year, the difference between OPEB costs and actual employer contributions was:	(164,515)
Payment of costs for the issuance of certificates of participation or bonds is an expenditure in the governmental funds, but is recorded as a prepaid expense and amortized on the Statement of Net Assets over the live of the bonds.	(30,000)
Payment of principal on long-term obligations is an expenditure in the governmental funds, but it reduces long-term obligations in the Statement of Net Assets and does not affect the Statement of Activities:	
Certificates of participation	2,210,000
Capital lease obligations	30,489

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

ORANGE COUNTY DEPARTMENT OF EDUCATION

**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES (Continued)
FOR THE YEAR ENDED JUNE 30, 2011**

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

\$ 29,726

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

7,446

Change in Net Assets of Governmental Activities

\$ 21,419,734

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

ORANGE COUNTY DEPARTMENT OF EDUCATION

**PROPRIETARY FUNDS
STATEMENT OF NET ASSETS
JUNE 30, 2011**

	Governmental Activities - Internal Service Fund - Insurance
ASSETS	
Current Assets	
Deposits and investments	\$ 2,653,681
Receivables	1,681
Total Current Assets	<u>2,655,362</u>
LIABILITIES	
Current Liabilities	
Accounts payable	66,868
Claim liabilities	341,247
Total Current Liabilities	<u>408,115</u>
NET ASSETS	
Unrestricted	2,247,247
Total Net Assets	<u>\$ 2,247,247</u>

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

ORANGE COUNTY DEPARTMENT OF EDUCATION

**PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2011**

	Governmental Activities - Internal Service Fund
OPERATING REVENUES	
Local and intermediate sources	\$ 1,872,113
OPERATING EXPENSES	
Payroll costs	1,880,639
Other operating cost	611
Total Operating Expenses	<u>1,881,250</u>
Operating Loss	<u>(9,137)</u>
NONOPERATING REVENUES	
Interest income	16,583
Change in Net Assets	<u>7,446</u>
Total Net Assets - Beginning	<u>2,239,801</u>
Total Net Assets - Ending	<u>\$ 2,247,247</u>

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

ORANGE COUNTY DEPARTMENT OF EDUCATION

**PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2011**

	Governmental Activities - Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash receipts from customers	\$ 2,035,174
Cash payments to employees for services	(1,828,610)
Other operating cash payments	(611)
Net Cash Provided by Operating Activities	<u>205,953</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	16,583
Net Increase in Cash and Cash Equivalents	<u>222,536</u>
Cash and Cash Equivalents - Beginning	2,431,145
Cash and Cash Equivalents - Ending	<u>\$ 2,653,681</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating loss	\$ (9,137)
Changes in assets and liabilities:	
Receivables	173
Due from other fund	162,888
Accrued liabilities	52,029
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 205,953</u>

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

ORANGE COUNTY DEPARTMENT OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

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

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

Component Units

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

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

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

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

ORANGE COUNTY DEPARTMENT OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

Basis of Presentation - Fund Accounting

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

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

Major Governmental Funds

General Fund The General Fund is the chief operating fund for all Counties. It is used to account for and report all financial resources not accounted for and reported in another fund.

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

As a result, the General Fund reflects an increase in assets, fund balance, revenues and expenditures of \$22,828,368, \$22,828,368, \$126,309, and \$107,400, respectively

Non-Major Governmental Funds

Special Revenue Funds The Special Revenue funds are established to account for the proceeds of specific revenue sources that are restricted or committed to expenditures for the specific purpose (other than debt service or capital projects) of the individual funds.

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

Deferred Maintenance Fund The Deferred Maintenance Fund is used to account separately for State apportionments and the County's contributions for deferred maintenance purposes (*Education Code* Sections 17582-17587) and for items of maintenance approved by the State Allocation Board, except for State apportionments which, as a result of Senate Bill 4 of the 2009-10 Third Extraordinary Session (SBX3 4), may be used for any educational purpose.

ORANGE COUNTY DEPARTMENT OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

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

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

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

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

Debt Service Funds The Debt Service funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditures for principal and interest on long-term obligations.

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

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

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

Basis of Accounting - Measurement Focus

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

ORANGE COUNTY DEPARTMENT OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

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

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

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

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

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

ORANGE COUNTY DEPARTMENT OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

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

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

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

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

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

Cash and Cash Equivalents

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

ORANGE COUNTY DEPARTMENT OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

Investments

Investments held at June 30, 2011, with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost. Fair values of investments in county and State investment pools are determined by the program sponsor.

Capital Assets and Depreciation

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

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

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

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

Interfund Balances

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

Compensated Absences

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

ORANGE COUNTY DEPARTMENT OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

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

Accrued Liabilities and Long-Term Obligations

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

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

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

Deferred Issuance Costs, Premiums and Discounts

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

Fund Balances - Governmental Funds

As of June 30, 2011, fund balances of the governmental funds are classified as follows:

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

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

ORANGE COUNTY DEPARTMENT OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

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

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

Unassigned - all other spendable amounts.

Spending Order Policy

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

Minimum Fund Balance Policy

In fiscal year 2010-2011, the governing board adopted a minimum fund balance policy for the General Fund in order to protect the County against revenue shortfalls or unpredicted on-time expenditures. The policy requires a Reserve for Economic Uncertainties consisting of unassigned amounts equal to no less than three percent of General Fund expenditures and other financing uses.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. The County has related debt outstanding as of June 30, 2011. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the County or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The County first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. Enabling legislation relates to laws passed that create a revenue source to be used for specific purposes. The government-wide financial statements report net assets restricted by enabling legislation of \$51,234,052.

Operating Revenues and Expenses

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

ORANGE COUNTY DEPARTMENT OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

Interfund Activity

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

Estimates

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

Budgetary Data

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

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

Property Tax

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

Changes in Accounting Principles

In March 2009, the GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The objective of this Statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

ORANGE COUNTY DEPARTMENT OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

The initial distinction that is made in reporting fund balance information is identifying amounts that are considered *nonspendable*, such as fund balance associated with inventories. This Statement also provides for additional classification as restricted, committed, assigned, and unassigned based on the relative strength of the constraints that control how specific amounts can be spent.

The *restricted* fund balance category includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation. The *committed* fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. Amounts in the *assigned* fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. *Unassigned* fund balance is the residual classification for the government's general fund and includes all spendable amounts not contained in the other classifications. In other funds, the unassigned classification should be used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned. Governments are required to disclose information about the processes through which constraints are imposed on amounts in the committed and assigned classifications.

Governments also are required to classify and report amounts in the appropriate fund balance classifications by applying their accounting policies that determine whether restricted, committed, assigned, and unassigned amounts are considered to have been spent. Disclosure of the policies in the notes to the financial statements is required.

This Statement also provides guidance for classifying stabilization amounts on the face of the balance sheet and requires disclosure of certain information about stabilization arrangements in the notes to the financial statements.

The definitions of the general fund, special revenue fund type, capital projects fund type, debt service fund type, and permanent fund type are clarified by the provisions in this Statement. Interpretations of certain terms within the definition of the special revenue fund type have been provided and, for some governments, those interpretations may affect the activities they choose to report in those funds. The capital projects fund type definition also was clarified for better alignment with the needs of preparers and users. Definitions of other governmental fund types also have been modified for clarity and consistency.

The County has implemented the provisions of this statement for the year ended June 30, 2011.

New Accounting Pronouncements

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

ORANGE COUNTY DEPARTMENT OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

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

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

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

NOTE 2 – DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2011, are classified in the accompanying financial statements as follows:

Governmental activities	<u>\$ 133,568,342</u>
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ORANGE COUNTY DEPARTMENT OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

Deposits and investments as of June 30, 2011, consist of the following:

Cash on hand and in banks	\$ 560,494
Cash in revolving	70,000
Investments	<u>132,937,848</u>
Total Deposits and Investments	<u>\$ 133,568,342</u>

Policies and Practices

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

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

ORANGE COUNTY DEPARTMENT OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

General Authorizations

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

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

Interest Rate Risk

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

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

Investment Type	Fair Value	Average Days to Maturity
First American Treasury Obligations Money Market Mutual Funds	\$ 3,357,302	35
County Treasury Investment Pool	129,829,081	289
Total	<u>\$ 133,186,383</u>	

ORANGE COUNTY DEPARTMENT OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by the California Government Code, the County's investment policy, or debt agreements, and the actual rating as of the year-end for each investment type.

Investment Type	Fair Value	Moody's Rating as of Year End
First American Treasury Obligation Money Market Mutual Funds	\$ 3,357,302	Aaa-mf
County Treasury Investment Pool	129,829,081	Aaa
Total	<u>\$ 133,186,383</u>	

Custodial Credit Risk - Deposits

This is the risk that in the event of a bank failure, the County's deposits may not be returned to it. The County has a policy for custodial credit risk for deposits. Monies so deposited shall be in a fully-insured or collateralized accounts or instruments. California Government Code requires that a financial institution secure deposits made by State or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under State law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agency. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2011, the County's bank balance of \$65,237 was not exposed to custodial credit risk.

ORANGE COUNTY DEPARTMENT OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

NOTE 3 – RECEIVABLES

Receivables at June 30, 2011, consisted of intergovernmental grants, entitlements, interest and other local sources. All receivables are considered collectible in full.

	General Fund	Non-Major Governmental Funds	Internal Service Funds	Total Governmental Activities
Federal Government				
Categorical aid	\$ 9,546,181	\$ 677,421	\$ -	\$ 10,223,602
State Government				
Apportionment	16,659,385	-	-	16,659,385
Categorical aid	8,996,824	205,272	-	9,202,096
Lottery	245,389	-	-	245,389
Local Government				
Special Education - SELPA	1,102,096	-	-	1,102,096
Due from school districts	7,396,924	-	-	7,396,924
Interest	80,934	15,966	1,681	98,581
Other Local Sources	1,751,171	-	-	1,751,171
Total	<u>\$ 45,778,904</u>	<u>\$ 898,659</u>	<u>\$ 1,681</u>	<u>\$ 46,679,244</u>

ORANGE COUNTY DEPARTMENT OF EDUCATION

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2011, was as follows:

	Balance July 1, 2010	Additions	Deductions	Balance June 30, 2011
Governmental Activities				
Capital Assets Not Being Depreciated				
Land	\$24,632,374	\$ -	\$ -	\$ 24,632,374
Construction in process	21,885,139	2,843,613	20,332,283	4,396,469
Total Capital Assets Not Being Depreciated	46,517,513	2,843,613	20,332,283	29,028,843
Capital Assets Being Depreciated				
Land improvements	4,452,911	59,014	-	4,511,925
Buildings and improvements	58,429,003	20,758,797	-	79,187,800
Furniture and equipment	7,593,770	946,707	106,048	8,434,429
Total Capital Assets Being Depreciated	70,475,684	21,764,518	106,048	92,134,154
Less Accumulated Depreciation				
Land improvements	1,521,530	321,414	-	1,842,944
Buildings and improvements	11,397,276	3,350,699	-	14,747,975
Furniture and equipment	5,056,327	675,779	104,255	5,627,851
Total Accumulated Depreciation	17,975,133	4,347,892	104,255	22,218,770
Governmental Activities Capital Assets, Net	<u>\$99,018,064</u>	<u>\$ 20,260,239</u>	<u>\$ 20,334,076</u>	<u>\$ 98,944,227</u>

Depreciation expense was charged to governmental functions as follows:

Governmental Activities	
Instruction	\$ 3,913,102
Supervision of instruction	217,395
All other pupil services	217,395
Total Depreciation Expenses Governmental Activities	<u>\$ 4,347,892</u>

ORANGE COUNTY DEPARTMENT OF EDUCATION

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE 5 – INTERFUND TRANSACTIONS

Interfund Receivables/Payables (Due To/Due From)

Interfund receivable and payable balances arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed. Interfund receivable and payable balances consist of amounts due for cost allocation or to cover another fund's operating deficit. Interfund receivable and payable balances at June 30, 2011, between major and non-major governmental funds, are as follows:

Due To	Due From		Total
	General Fund	Non-Major Governmental Funds	
General Fund	\$ -	\$ 524,591	\$ 524,591
Non-Major Governmental Funds	2,304,995	-	2,304,995
Total	<u>\$ 2,304,995</u>	<u>\$ 524,591</u>	<u>\$ 2,829,586</u>

A balance of \$343,525 due to the Child Development Fund from the General Fund is for contributions to cover program and indirect costs.

A balance of \$1,961,470 due to the Deferred Maintenance Fund from the General Fund is for program match.

A balance of \$521,806 due to the General Fund from the Child Development Fund is for costs related to categorical programs.

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

ORANGE COUNTY DEPARTMENT OF EDUCATION

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

Operating Transfers

Interfund transfers for the year ended June 30, 2011, consisted of the following:

Transfer To	General Fund	Transfer From Non-Major Governmental Funds	Total
General Fund	\$ -	\$ 513,778	\$ 513,778
Non-Major Governmental Funds	2,264,241	2,651,467	4,915,708
Total	\$ 2,264,241	\$ 3,165,245	\$ 5,429,486

The General Fund transferred to the Child Development Fund to cover excess costs by program.	\$ 302,771
The General Fund transferred to the Deferred Maintenance Fund for the State match.	1,961,470
The Child Development Fund transferred to the General Fund for reimbursement of salaries.	513,778
The Special Reserve Fund for Capital Outlay Projects transferred to the COP Debt Service Fund for debt service payments.	2,651,467
Total	\$ 5,429,486

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

ORANGE COUNTY DEPARTMENT OF EDUCATION

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE 6 – ACCOUNTS PAYABLE

Accounts payable at June 30, 2011, consist of the following:

	General Fund	Non-Major Governmental Funds	Internal Service Fund	Total Governmental Activities
Vendor payables	\$ 2,712,223	\$ 30,244	\$ -	\$ 2,742,467
State apportionment	6,560,054	-	-	6,560,054
Salaries and benefits	5,861,925	-	-	5,861,925
Federal categorical	-	1,472,985	-	1,472,985
State categorical	119,048	58,316	-	177,364
Services and supplies	3,164,586	2,021,692	66,868	5,253,146
Pass-through to districts	7,571,536	-	-	7,571,536
Construction	57,838	232,059	-	289,897
County of Orange	3,049,875	-	-	3,049,875
Total	<u>\$ 29,097,085</u>	<u>\$ 3,815,296</u>	<u>\$ 66,868</u>	<u>\$ 32,979,249</u>

NOTE 7 – DEFERRED REVENUE

Deferred revenue at June 30, 2011, consists of the following:

	General Fund
Federal financial assistance	\$ 3,274,161
State categorical aid	731,498
Other local	338,403
Total	<u>\$ 4,344,062</u>

ORANGE COUNTY DEPARTMENT OF EDUCATION

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE 8 – LONG-TERM OBLIGATIONS

Summary

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

	Balance July 1, 2010	Additions	Deductions	Balance June 30, 2011	Due in One Year
Certificates of participation	\$ 18,265,000	\$ -	\$ 2,210,000	\$ 16,055,000	\$ 215,000
Unamortized discount	(132,000)	-	(6,000)	(126,000)	-
Capital leases	30,489	-	30,489	-	-
Accumulated vacation - net	1,931,764	-	193,308	1,738,456	-
Other postemployment benefits (OPEB)	3,727,625	164,515	-	3,892,140	-
	<u>\$ 23,822,878</u>	<u>\$ 164,515</u>	<u>\$ 2,427,797</u>	<u>\$ 21,559,596</u>	<u>\$ 215,000</u>

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

Certificates of Participation

In June 2002, the Orange County Department of Education Facilities Corporation issued Certificates of Participation in the amount of \$20,000,000 with weekly variable interest rates. As of June 30, 2011, the principal balance outstanding was \$16,055,000.

The certificates mature through 2032 as follows:

Year Ending June 30,	Principal	Interest	Total
2012	\$ 215,000	\$ 278,784	\$ 493,784
2013	255,000	274,296	529,296
2014	295,000	269,104	564,104
2015	330,000	263,096	593,096
2016	380,000	256,608	636,608
2017-2021	2,595,000	1,154,824	3,749,824
2022-2026	4,085,000	851,576	4,936,576
2027-2031	6,210,000	384,472	6,594,472
2032	1,690,000	29,744	1,719,744
Total	<u>\$ 16,055,000</u>	<u>\$ 3,762,504</u>	<u>\$ 19,817,504</u>

ORANGE COUNTY DEPARTMENT OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

Capital Leases

The County entered into agreements to lease various facilities and equipment. Such agreements are, in substance, purchases (capital leases) and are reported as capital lease obligations. The County's liability on lease agreements with options to purchase was fulfilled as of June 30, 2011.

	<u>Equipment</u>
Balance, July 1, 2010	\$ 30,489
Payments	30,489
Balance, June 30, 2011	<u>\$ -</u>

Leased land, buildings, and equipment under capital leases in capital assets at June 30, 2011, include the following:

Equipment	\$ 138,732
Less: Accumulated depreciation	<u>(134,108)</u>
Total	<u>\$ 4,624</u>

Amortization of leased buildings and equipment under capital assets is included with depreciation expense.

Accumulated Unpaid Employee Vacation

The long-term portion of accumulated unpaid employee vacation for the County at June 30, 2011, amounted to \$1,738,456.

Other Postemployment Benefits (OPEB) Obligation

The County's annual required contribution for the year ended June 30, 2011, was \$415,532, and contributions made by the County during the year were \$263,098. Interest on the net OPEB obligation and adjustments to the annual required contribution were \$186,381 and (\$174,300), respectively, which resulted in an increase to the net OPEB obligation of \$164,515. As of June 30, 2011, the net OPEB obligation was \$3,892,140. See Note 11 for additional information regarding the OPEB obligation and the postemployment benefits plan.

ORANGE COUNTY DEPARTMENT OF EDUCATION

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE 9 – FUND BALANCES

Fund balances are composed of the following elements:

	General Fund	Non-Major Governmental Funds	Total Governmental Funds
Nonspendable			
Revolving cash	\$ 70,000	\$ -	\$ 70,000
Prepaid expenditures	52,284	-	52,284
Total Nonspendable	<u>122,284</u>	<u>-</u>	<u>122,284</u>
Restricted			
Legally restricted programs	24,209,435	-	24,209,435
Capital projects	-	10,798,384	10,798,384
Debt services	-	715,145	715,145
Total Restricted	<u>24,209,435</u>	<u>11,513,529</u>	<u>35,722,964</u>
Committed			
Deferred maintenance program	-	15,511,088	15,511,088
Total Committed	<u>-</u>	<u>15,511,088</u>	<u>15,511,088</u>
Assigned			
ACCESS program	11,546,095	-	11,546,095
Mandated costs	1,702,783	-	1,702,783
School and field	616,149	-	616,149
Workshops and contracts	2,028,905	-	2,028,905
Various program balances	13,087,867	-	13,087,867
Technology projects	3,048,279	-	3,048,279
Other designations	3,772,164	-	3,772,164
Total Assigned	<u>35,802,242</u>	<u>-</u>	<u>35,802,242</u>
Unassigned			-
Reserve for economic uncertainties	22,862,106	-	22,862,106
Remaining unassigned	30,367,381	-	30,367,381
Total Unassigned	<u>53,229,487</u>	<u>-</u>	<u>53,229,487</u>
Total	<u>\$ 113,363,448</u>	<u>\$ 27,024,617</u>	<u>\$ 140,388,065</u>

ORANGE COUNTY DEPARTMENT OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

NOTE 10 – LEASE REVENUES

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

Year Ending June 30,	Lease Revenue
2012	\$ 1,844,458
2013	1,220,782
2014	603,457
2015	442,165
2016	382,645
Total	<u>\$ 4,493,507</u>

NOTE 11 – POSTEMPLOYMENT HEALTH CARE PLAN AND OTHER POSTEMPLOYMENT BENEFITS (OPEB) OBLIGATION

Plan Description

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

Contribution Information

The contribution requirements of Plan members and the County are established and may be amended by the County and the Teachers Association (CEA), the local California Service Employees Association (CSEA). The required contribution is based on projected pay-as-you-go financing requirements. For fiscal year 2010-11, the County contributed \$263,098 to the Plan.

ORANGE COUNTY DEPARTMENT OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

Annual OPEB Cost and Net OPEB Obligation

The County's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial accrued liabilities (UAAL) (or funding excess) over a period not to exceed thirty years. The following table shows the components of the County's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the County's net OPEB obligation to the Plan:

Annual required contribution	\$ 415,532
Interest on net OPEB obligation	186,381
Adjustment to annual required contribution	<u>(174,300)</u>
Annual OPEB cost (expense)	427,613
Contributions made	<u>(263,098)</u>
Increase in net OPEB obligation	164,515
Net OPEB obligation, beginning of year	<u>3,727,625</u>
Net OPEB obligation, end of year	<u><u>\$ 3,892,140</u></u>

Trend Information

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

Year Ended June 30,	Annual OPEB Cost	Actual Contribution	Percentage Contributed	Net OPEB Obligation
2009	\$ 297,329	\$ -	0%	\$ 3,450,564
2010	426,715	149,654	35%	3,727,625
2011	427,613	263,098	62%	3,892,140

ORANGE COUNTY DEPARTMENT OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

Funded Status and Funding Progress

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) - Unprojected Unit Credit (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b - a] / c)
August 1, 2010	\$ -	\$ 4,563,675	\$ 4,563,675	\$ -	\$ 103,891,283	4.39%

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

Actuarial Methods and Assumptions

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

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

ORANGE COUNTY DEPARTMENT OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

NOTE 12 – RISK MANAGEMENT

The County is exposed to various risks of loss related to torts; theft, damage and destruction of assets; errors and omissions; injuries to employees; life and health of employees; and natural disasters. The County purchases commercial insurance for property damage with coverage up to a maximum of \$300 million, subject to various policy sublimits generally ranging from \$1 million to \$50 million and deductibles ranging from \$25,000 to \$300,000 per occurrence. The County also purchases commercial insurance for general liability claims with coverage up to \$1 million per occurrence and \$2 million aggregate, with excess liability coverage over \$25 million, all subject to various deductibles up to \$20,000 per occurrence and per employee policy limit, subject to a deductible of \$100,000 per occurrence per claim, up to a maximum of \$1.5 million for 2011. Employee health benefits are covered by a commercial insurance policy purchased by the County. The County provides health insurance benefits to County employees electing to participate in the plan by paying a monthly premium based on the number of County employees participating in the plan.

Description

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

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

Claims Liabilities

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

ORANGE COUNTY DEPARTMENT OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

Unpaid Claims Liabilities

The fund establishes a liability for both reported and unreported events, which includes estimates of both future payments of losses and related claim adjustment expenses. The following represent the changes in approximate aggregate liabilities for the County from July 1, 2009 to June 30, 2011:

	<u>Dental Care</u>
Liability Balance, July 1, 2009	\$ 314,619
Claims and changes in estimates	1,816,412
Claims payments	<u>(1,812,367)</u>
Liability Balance, June 30, 2010	318,664
Claims and changes in estimates	1,858,056
Claims payments	<u>(1,835,473)</u>
Liability Balance, June 30, 2011	<u>\$ 341,247</u>
Assets available to pay claims at June 30, 2011	<u><u>\$ 2,655,362</u></u>

NOTE 13 – EMPLOYEE RETIREMENT SYSTEMS

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

CalSTRS

Plan Description

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

Funding Policy

Active plan members are required to contribute 8.0 percent of their salary and the County is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by CalSTRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2010-11 was 8.25 percent of annual payroll. The contribution requirements of the plan members are established by State statute. The County's contributions to CalSTRS for the fiscal years ending June 30, 2011, 2010, and 2009, were \$4,327,564, \$4,367,021, and \$4,751,840, respectively, and equal 100 percent of the required contributions for each year.

ORANGE COUNTY DEPARTMENT OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

CalPERS

Plan Description

The County contributes to the School Employer Pool under CalPERS, a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and survivor benefits to plan members and beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Laws. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS' annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, California 95811.

Funding Policy

Active plan members are required to contribute 7.0 percent of their salary and the County is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2010-11 was 10.707 percent of covered payroll. The contribution requirements of the plan members are established by State statute. The County's contributions to CalPERS for the fiscal years ending June 30, 2011, 2010, and 2009, were \$5,503,231, \$3,774,632, and \$4,028,969, respectively, and equal 100 percent of the required contributions for the year. The County was not required to contribute to CalPERS for the year ending June 30, 2011.

Alternative Retirement Program

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

The County also contributes to the Public Agency Retirement System (PARS), which is a defined contribution pension plan. A defined contribution pension plan provides pension benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual's account are to be determined instead of specifying the amount of benefits the individual is to receive. Under a defined contribution pension plan, the benefits a participant will receive depend solely on the amount contributed to the participant's account, the returns earned on investments of those contributions, and forfeitures of other participants' benefits that may be allocated to such participant's account. During the year, the County's required and actual contributions amounted to \$127,331.

ORANGE COUNTY DEPARTMENT OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

On Behalf Payments

The State of California makes contributions to CalSTRS on behalf of the County. These payments consist of State General Fund contributions to CalSTRS in the amount of \$2,239,735 (4.267 percent of annual payroll). Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, these amounts have been recorded in these financial statements. On behalf payments have been excluded from the calculation of available reserves, and have not been included in the budgeted amounts reported in the *General Fund - Budgetary Comparison Schedule*.

NOTE 14 – COMMITMENTS AND CONTINGENCIES

Grants

The County received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the County at June 30, 2011.

Litigation

The County is involved in various litigation arising from the normal course of business. In the opinion of management and legal counsel, the disposition of all litigation pending is not expected to have a material adverse effect on the overall financial position of the County at June 30, 2011.

Early Retirement

The County initiated an early retirement incentive program, whereby employees who retire early will receive supplemental income. The County entered into contract that pays the employees over five to 15 years beginning in the 1994-95 fiscal year. At June 30, 2011, the County had fully funded the future supplemental income payments by purchasing an outside annuity contract.

ORANGE COUNTY DEPARTMENT OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

Operating Leases

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

Year Ending June 30,	Lease Payments
2012	\$ 4,845,573
2013	3,681,642
2014	2,924,545
2015	2,544,398
2016	2,112,997
Total	<u>\$ 16,109,155</u>

The total lease payments for the year ended June 30, 2011, were approximately \$5,774,402.

Community School Program

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

NOTE 15 – PARTICIPATION IN PUBLIC ENTITY RISK POOLS

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

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

During the year ended June 30, 2011, the County made payments of \$1,627,479, \$534,915, and \$44,996 to Western Orange County Self-Funded Workers' Compensation Agency, Southern Orange County Property/Liability Self-Insurance Authority, and Schools Excess Liability Fund Workers' Compensation, respectively, for services noted above.

ORANGE COUNTY DEPARTMENT OF EDUCATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

NOTE 16 – FISCAL ISSUES RELATING TO BUDGET REDUCTIONS

The State of California continues to suffer the effects of a recessionary economy. California school Counties are reliant on the State of California to appropriate the funding necessary to continue the level of educational services expected by the State constituency. With the implementation of education trailer bill Senate Bill 16 of the 2009-10 Fourth Extraordinary Session (SBX4 16) (Chapter 23, Statutes of 2009), and Assembly Bill 1610 (AB 1610) (Chapter 724, Statutes of 2010), 28 percent of current year appropriations have now been deferred to a subsequent period, creating significant cash flow management issues for Counties in addition to requiring substantial budget reductions, ultimately impacting the ability of California school Counties to meet their goals for educational services.

NOTE 17 – RESTATEMENT OF PRIOR YEAR FUND BALANCES

The County's prior year fund balances for the General Fund and for the Non-Major Governmental Funds have been restated as of June 30, 2011 to conform to GASB Statement No. 54's definition of governmental funds. Accordingly, the beginning fund balance for Fund 17, Special Reserve Fund for Other Than Capital Outlay Projects, as presented in the Non-Major Governmental Fund opinion unit, are reported as a restatement to the beginning fund balance of the General Fund. The restatement does not change the total fund balance amounts reported in the County's audited financial statements.

As discussed in the Notes to the basic financial statements, the accompanying financial statements reflect certain changes required as a result of the implementation of GASB Statement No. 54 for the year ended June 30, 2011. These changes required a restatement to the beginning fund balance of the General Fund and the Non-Major Governmental Funds, as discussed in Note 1.

General Fund

Fund Balance - Beginning	\$ 71,317,075
Change in accounting principles to conform to GASB Statement No. 54	22,594,659
Fund Balance - Beginning as Restated	<u>\$ 93,911,734</u>

Non-Major Governmental Funds

Fund Balance - Beginning	\$ 49,853,873
Change in accounting principles to conform to GASB Statement No. 54	(22,594,659)
Fund Balance - Beginning as Restated	<u>\$ 27,259,214</u>

REQUIRED SUPPLEMENTARY INFORMATION

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ORANGE COUNTY DEPARTMENT OF EDUCATION

**GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2011**

	<u>Budgeted Amounts</u>		<u>Actual (GAAP Basis)</u>	<u>Variances - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		<u>Final to Actual</u>
REVENUES				
Revenue limit sources	\$ 108,143,056	\$ 116,035,857	\$ 120,665,396	\$ 4,629,539
Federal sources	49,731,769	58,337,781	60,605,448	2,267,667
Other State sources	23,760,115	24,509,105	28,645,160	4,136,055
Other local sources	59,216,217	59,615,156	59,512,006	(103,150)
Total Revenues ¹	<u>240,851,157</u>	<u>258,497,899</u>	<u>269,428,010</u>	<u>10,930,111</u>
EXPENDITURES				
Current				
Certificated salaries	57,346,729	57,166,674	57,090,297	76,377
Classified salaries	51,968,228	50,979,761	50,339,084	640,677
Employee benefits	32,511,395	33,672,193	35,638,193	(1,966,000)
Books and supplies	8,389,099	5,540,728	5,075,991	464,737
Services and operating expenditures	36,444,012	33,781,361	31,492,852	2,288,509
Other outgo	58,345,672	64,961,729	67,650,801	(2,689,072)
Capital outlay	1,017,002	1,061,553	906,124	155,429
Debt service - principal	27,518	30,094	30,488	(394)
Debt service - interest	7,800	2,397	2,003	394
Total Expenditures ¹	<u>246,057,455</u>	<u>247,196,490</u>	<u>248,225,833</u>	<u>(1,029,343)</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(5,206,298)</u>	<u>11,301,409</u>	<u>21,202,177</u>	<u>9,900,768</u>
Other Financing Sources (Uses)				
Transfers in	-	513,777	513,778	1
Transfers out	(2,801,884)	(1,422,944)	(2,264,241)	(841,297)
Net Financing Sources (Uses)	<u>(2,801,884)</u>	<u>(909,167)</u>	<u>(1,750,463)</u>	<u>(841,296)</u>
NET CHANGE IN FUND BALANCE	<u>(8,008,182)</u>	<u>10,392,242</u>	<u>19,451,714</u>	<u>9,059,472</u>
Fund Balance - Beginning as Restated	<u>93,911,734</u>	<u>93,911,734</u>	<u>93,911,734</u>	<u>-</u>
Fund Balance - Ending	<u>\$ 85,903,552</u>	<u>\$ 104,303,976</u>	<u>\$ 113,363,448</u>	<u>\$ 9,059,472</u>

¹ On behalf payments of \$2,239,735 are included in the actual revenues and expenditures, but have not been included in the budgeted amounts. In addition, due to the consolidation of Fund 17, Special Reserve Fund for Other Than Capital Outlay Projects, for reporting purposes into the General Fund, additional revenues and expenditures, however are not included in the original and final General Fund budgets.

ORANGE COUNTY DEPARTMENT OF EDUCATION

**SCHEDULE OF OTHER POSTEMPLOYMENT BENEFITS (OPEB)
FUNDING PROGRESS
FOR THE YEAR ENDED JUNE 30, 2011**

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

SUPPLEMENTARY INFORMATION

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ORANGE COUNTY DEPARTMENT OF EDUCATION

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2011**

Federal Grantor/Pass-Through Grantor/Program	Federal CFDA Number	Pass-Through Entity Identifying Number	Program Expenditures
U.S. DEPARTMENT OF EDUCATION			
Direct Programs:			
Orange County Youth Internet Safety Education Project	84.215K	[1]	\$ 183,646
One Nation Many Faiths - How Ideas of Religious Liberty Shaped America	84.215X	[1]	19,319
Understanding American Citizenship	84.215X	[1]	147,098
Smaller Learning Communities	84.215L	[1]	500,708
Alcohol Abuse Reduction Grant	84.184A	[1]	430,108
Passed through Fullerton Unified School District:			
No Child Left Behind Act (NCLB)			
Safe and Drug-Free Schools and Communities - National Program	84.184E	[1]	42,267
Passed through the Regents of The University of California:			
Spacial Temporal Mathematics at Scale - An Innovative and Fully Developed Paradigm to Boost Math Achievement Among All Learners	84.305A	[1]	123,705
Passed through Imperial County Office of Education:			
No Child Left Behind Act (NCLB)			
Title I Grants to Local Educational Agencies Cluster			
Title I, Basic School Support	84.010	14416	516,948
Passed through California Department of Education (CDE):			
No Child Left Behind Act (NCLB)			
Elementary and Secondary Education Act			
Title I Grants to Local Educational Agencies Cluster			
Title I - Part A	84.010	14329	4,022,861
ARRA, Title I - Part A	84.389	15005	1,518,353
Title I - Part D, Local Delinquent Programs	84.010	14357	2,053,787
ARRA, Title I - Part D, Local Delinquent Programs	84.389	15009	1,182,004
Total Title I Grants to Local Educational Agencies Cluster			<u>9,293,953</u>
Title II - Part D, Enhancing Education through Technology	84.318	14334	10,788
Improving Teacher Quality State Grants			
Title II - Part A, Improving Teacher Quality	84.367	14341	81,785
ARRA Title II - Part D, Enhancing Education through Technology	84.365	15019	59,172
Total Improving Teacher Quality			<u>140,957</u>
English Language Acquisition Grants Cluster			
Title III, Immigrant Education	84.365	14346	62,314
Title III, Limited English Proficiency	84.365	10084	293,893
Total English Language Acquisition Grants Cluster			<u>356,207</u>

[1] Direct award, or no number provided.

See accompanying note to supplementary information.

ORANGE COUNTY DEPARTMENT OF EDUCATION

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
FOR THE YEAR ENDED JUNE 30, 2011**

Federal Grantor/Pass-Through Grantor/Program	Federal CFDA Number	Pass-Through Entity Identifying Number	Program Expenditures
Safe and Drug-Free Schools and Communities - State Grants Cluster			
Title IV, Safe and Drug Free Schools	84.186	14347	\$ 15,602
Title IV, Safe and Drug Free Schools: Program Development	84.186	14378	6
Total Safe and Drug-Free School and Communities - State Grants Cluster			<u>15,608</u>
Title X, McKinney-Vento Homeless Grants Cluster			
Title X, McKinney-Vento Homeless Assistance Grants	84.196	14332	116,065
ARRA, Title X, McKinney-Vento Homeless Assistance Grants	84.387	15007	<u>499,007</u>
Total Title X, McKinney-Vento Homeless Assistance Grants Cluster			<u>615,072</u>
ARRA, State Fiscal Stabilization Funds	84.394	24997, 25008	<u>4,715,472</u>
Passed through California Department of Education (CDE):			
Carl D. Perkins Vocational and Technical Education Act of 1998 Vocational and Applied Technology Secondary Education	84.048	14894	72,834
Passed through Center County Regional Occupational Program:			
Carl D. Perkins Vocational and Technical Education Act of 1998 Postsecondary and Adult Education	84.048	14893	<u>315,275</u>
Total Career Technical Education			<u>388,109</u>
Passed through North Orange County SELPA:			
Individuals with Disabilities Act (IDEA)			
Early Intervention	84.181	23761	401,106
Individuals with Disabilities Education Act			
Special Education (IDEA) Cluster			
Local Assistance	84.027	13379	1,825,474
ARRA, Local Assistance	84.391	15003	980,038
Local Assistance, Private School ISPs	84.027	10115	386
ARRA, Local Assistance Private School ISPs	84.391	10123	10,520
Federal Preschool	84.173	13430	46,500
ARRA, Federal Preschool	84.392	15000	51,358
Preschool Staff Development	84.173A	13431	4,893
CPIN - Special Education	84.173A	14530	492,250
Preschool Accountability Grants	84.173A	14688	75,824
Preschool Local	84.027A	13682	34,641
ARRA, Preschool Local	84.391A	15002	8,776

See accompanying note to supplementary information.

ORANGE COUNTY DEPARTMENT OF EDUCATION

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
FOR THE YEAR ENDED JUNE 30, 2011**

Federal Grantor/Pass-Through Grantor/Program	Federal CFDA Number	Pass-Through Entity Identifying Number	Program Expenditures
Local Assistance	84.027	13379	\$ 6,301,799
ARRA, Local Assistance	84.391	15003	3,364,421
Local Assistance, Private School ISPs	84.027	10115	12,983
ARRA, Local Assistance Private School ISPs	84.391	10123	18,192
Federal Preschool	84.173	13430	154,838
ARRA, Federal Preschool	84.392	15000	114,897
Preschool Local	84.027A	13682	398,745
ARRA, Preschool Local	84.391A	15002	253,698
Mental Health Allocation Plan	84.027	14468	12,199,499
Total Special Education (IDEA) Cluster			26,349,732
Passed through Centralia Elementary School District:			
Title II, Part B - California Mathematics and Science Partnership Grant	84.366	14512	209,738
Passed through Anaheim City School District:			
Title I, Part A - Program Improvement LEA Corrective Action	84.010	14957	35,246
Passed through La Habra Unified School District:			
Title I, Part A - Program Improvement LEA Corrective Action	84.010	14957	54,406
Total U.S. Department of Education			44,033,245
U.S. DEPARTMENT OF AGRICULTURE			
Passed through CDE:			
Child Nutrition Cluster			
Commodities	10.555	[1]	20,896
National School Lunch Program	10.555	13524	337,711
Basic Breakfast	10.553	13525	42,976
Especially Needy Breakfast	10.553	13526	95,921
Total Child Nutrition Cluster			497,504
Passed through the California Department of Health and Human Services:			
Food Stamp Cluster			
California Nutrition Network	10.561	08-85143	1,367,357
California Nutrition Network	10.561	08-85144	174,104
Total Food Stamp Cluster			1,541,461
Total U.S. Department of Agriculture			2,038,965

[1] Direct award, or no number provided.

See accompanying note to supplementary information.

ORANGE COUNTY DEPARTMENT OF EDUCATION

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
FOR THE YEAR ENDED JUNE 30, 2011**

Federal Grantor/Pass-Through Grantor/Program	Federal CFDA Number	Pass-Through Entity Identifying Number	Program Expenditures
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed through CDE:			
Child Care Development Program Cluster			
Child Development - Federal Alternative Payment	93.575	14153	\$ 371,325
Child Development - Federal Alternative Payment	93.596	13694	2,476,840
Child Development - ARRA, Federal Alternative Payment	93.713	15015	3,890,995
Child Development - ARRA, Federal Alternative Payment, Stage 2	93.713	15016	2,293,840
Child Development - Federal Alternative Payment, Stage 3	93.575	13881	776,009
Child Development - Federal Alternative Payment, Stage 3	93.596	14984	104,140
Child Development - Federal Local Planning Council	93.575	13946	72,623
California Preschool Instructional Network (CPIN)	93.575	14130	421,089
Total Child Care Development Program Cluster			<u>10,406,861</u>
Passed through the California Department of Health and Human Services:			
Medicaid Program Cluster			
Medi-Cal Billing Option	93.778	10013	842,186
Medi-Cal Administrative Activities Program	93.778	10060	16,775,895
Total Medicaid Program Cluster			<u>17,618,081</u>
Community Challenge Grant	93.000	05-45299	204,236
Total U.S. Department of Health and Human Services			<u>28,229,178</u>
U.S. DEPARTMENT OF LABOR			
Passed through the County of Orange			
Workforce Investment Act - ARRA, Training Providers	17.258, 17.260	10055	187,243
Total U.S. Department of Labor			<u>187,243</u>
NATIONAL SCIENCE FOUNDATION			
Passed through California State University Fullerton Foundation:			
Teachers Assisting Students to Excel in Learning Mathematics	47.076	[1]	42,452
Total National Science Foundation			<u>42,452</u>
Total Expenditures of Federal Awards			<u>\$ 74,531,083</u>

[1] Direct award, or no number provided.

See accompanying note to supplementary information.

ORANGE COUNTY DEPARTMENT OF EDUCATION

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE

JUNE 30, 2011

ORGANIZATION

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

GOVERNING BOARD

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

ADMINISTRATION

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

See accompanying note to supplementary information.

ORANGE COUNTY DEPARTMENT OF EDUCATION

**SCHEDULE OF AVERAGE DAILY ATTENDANCE
FOR THE YEAR ENDED JUNE 30, 2011**

	Final Report	
	Amended Second Period Report	Amended Annual Report
ELEMENTARY		
Juvenile halls, home and camps	131	132
Community schools pupils - probation and expelled	417	443
Community schools pupils - homeless	63	63
Total Elementary	611	638
HIGH SCHOOL		
Juvenile halls, home and camps	1,331	1,395
Community schools pupils - probation and expelled	4,483	4,505
Community schools pupils - homeless	16	16
Total High School	5,830	5,916
Grand Total	6,441	6,554

	Final Report	
	Amended Second Period Report	Annual Report
ELEMENTARY		
Community schools	1,267	1,163
Special education, including extended year	222	233
Total Elementary	1,489	1,396
HIGH SCHOOL		
Community schools	2,058	1,942
Special education, including extended year	301	302
Total High School	2,359	2,244
Grand Total	3,848	3,640

See accompanying note to supplementary information.

ORANGE COUNTY DEPARTMENT OF EDUCATION

**SCHEDULE OF INSTRUCTIONAL TIME
FOR THE YEAR ENDED JUNE 30, 2011**

Grade Level	1986-87 Minutes Requirement	Reduced 1986-87 Minutes Requirement	2010-11 Actual Minutes	Number of Days		Status
				Traditional Calendar	Multitrack Calendar	
Kindergarten	36,000	35,000	54,275	180	-	Complied
Grades 1 - 3	50,400	49,000				
Grade 1			54,360	180	-	Complied
Grade 2			54,360	180	-	Complied
Grade 3			54,360	180	-	Complied
Grades 4 - 6	54,000	52,500				
Grade 4			55,350	180	-	Complied
Grade 5			55,350	180	-	Complied
Grade 6			55,350	180	-	Complied
Grades 7 - 8	54,000	52,500				
Grade 7			55,800	180	-	Complied
Grade 8			55,800	180	-	Complied
Grades 9 - 12	64,800	63,000				
Grade 9			64,370	180	-	Complied
Grade 10			64,370	180	-	Complied
Grade 11			64,370	180	-	Complied
Grade 12			64,370	180	-	Complied

See accompanying note to supplementary information.

ORANGE COUNTY DEPARTMENT OF EDUCATION

**RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT WITH
AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011**

There were no adjustments to the Unaudited Actual Financial Report, which required reconciliation to the audited financial statements at June 30, 2011.

See accompanying note to supplementary information.

ORANGE COUNTY DEPARTMENT OF EDUCATION

**SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2011**

	(Budget) 2012 ¹	2011 ⁵	2010	2009
GENERAL FUND				
Revenues	\$ 218,202,726	\$ 269,428,010	\$ 251,352,074	\$ 275,148,701
Other sources	-	621,178	-	-
Total Revenues and Other Sources	218,202,726	270,049,188	251,352,074	275,148,701
Expenditures	210,063,764	248,225,833	250,306,912	262,472,245
Other uses and transfers out	2,512,834	2,371,641	1,332,578	2,077,917
Total Expenditures and Other Uses	212,576,598	250,597,474	251,639,490	264,550,162
INCREASE (DECREASE) IN FUND BALANCE	\$ 5,626,128	\$ 19,451,714	\$ (287,416)	\$ 10,598,539
ENDING FUND BALANCE	\$ 96,394,917	\$ 90,768,789	\$ 71,317,075	\$ 71,604,491
AVAILABLE RESERVES²	\$ 45,544,394	\$ 53,229,488	\$ 49,973,789	\$ 46,323,229
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO³	21.42%	21.47%	20.07%	17.69%
LONG-TERM OBLIGATIONS	N/A	\$ 21,547,596	\$ 23,822,878	\$ 23,752,834
K-12 AVERAGE DAILY ATTENDANCE AT ANNUAL⁴	6,058	6,554	6,060	11,297
SECOND PERIOD FUNDED AVERAGE DAILY ATTENDANCE	4,311	3,848	3,538	3,466

The General Fund balance has increased by \$19,164,298 over the past two years. The fiscal year 2011-2012 budget projects a further increase of \$5,626,128 (6.2 percent). For a County this size, the State recommends available reserves of at least two percent of total General Fund expenditures, transfers out, and other uses (total outgo).

The County has incurred operating surpluses in two of the past three years and anticipates incurring an operating surplus during the 2011-2012 fiscal year. Total long-term obligations have decreased by \$2,205,238 over the past two years.

¹ Budget 2011 is included for analytical purposes only and has not been subjected to audit.

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

³ On behalf payments of \$2,239,735, \$2,329,260, and \$2,683,087 have been excluded from the calculation of available reserves for the fiscal years ending June 30, 2011, 2010, and 2009, respectively.

⁴ Excludes ROP ADA in 2010, 2011, and 2012 (no longer required to be reported).

⁵ General Fund amounts do not include activity related to the consolidation of the Fund 17, Special Reserve Fund for Other Than Capital Outlay Projects as required by GASB Statement No. 54.

See accompanying note to supplementary information.

ORANGE COUNTY DEPARTMENT OF EDUCATION

NON-MAJOR GOVERNMENTAL FUNDS
 COMBINING BALANCE SHEET
 JUNE 30, 2011

	Child Development Fund	Deferred Maintenance Fund	County School Facilities Fund
ASSETS			
Deposits and investments	\$ 1,805,383	\$ 13,543,083	\$ 7,640,762
Receivables	882,693	9,320	5,264
Due from other funds	343,525	1,961,470	-
Restricted assets, investments	-	-	-
Total Assets	\$ 3,031,601	\$ 15,513,873	\$ 7,646,026
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 2,509,795	\$ -	\$ 87,437
Due to other funds	521,806	2,785	-
Total Liabilities	3,031,601	2,785	87,437
Fund Balances:			
Restricted	-	-	7,558,589
Committed	-	15,511,088	-
Total Fund Balances	-	15,511,088	7,558,589
Total Liabilities and Fund Balances	\$ 3,031,601	\$ 15,513,873	\$ 7,646,026

See accompanying note to supplementary information.

Special Reserve Capital Outlay Fund	Debt Service Fund	Total Non-Major Governmental Funds
\$ 1,570,662	\$ 243,658	\$ 24,803,548
1,122	260	898,659
-	-	2,304,995
1,884,608	1,472,694	3,357,302
<u>\$ 3,456,392</u>	<u>\$ 1,716,612</u>	<u>\$ 31,364,504</u>
\$ 216,597	\$ 1,001,467	\$ 3,815,296
-	-	524,591
<u>216,597</u>	<u>1,001,467</u>	<u>4,339,887</u>
3,239,795	715,145	11,513,529
-	-	15,511,088
<u>3,239,795</u>	<u>715,145</u>	<u>27,024,617</u>
<u>\$ 3,456,392</u>	<u>\$ 1,716,612</u>	<u>\$ 31,364,504</u>

ORANGE COUNTY DEPARTMENT OF EDUCATION

**NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2011**

	Child Development Fund	Deferred Maintenance Fund
REVENUES		
Federal sources	\$ 10,428,022	\$ -
Other State sources	3,323,850	1,043,403
Other local sources	424,529	73,261
Total Revenues	<u>14,176,401</u>	<u>1,116,664</u>
EXPENDITURES		
Current		
Instruction	5,869,824	-
Instruction-related activities:		
Supervision of instruction	7,411,316	-
School site administration	563	-
Administration:		
All other administration	1,154,818	-
Plant services	42,650	-
Facility acquisition and construction	-	14,378
Other outgo	-	-
Debt service		
Principal	-	-
Interest and other	-	-
Total Expenditures	<u>14,479,171</u>	<u>14,378</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(302,770)</u>	<u>1,102,286</u>
Other Financing Sources (Uses)		
Transfers in	302,771	1,961,470
Transfers out	(513,778)	-
Net Financing Sources (Uses)	<u>(211,007)</u>	<u>1,961,470</u>
NET CHANGE IN FUND BALANCES	<u>(513,777)</u>	<u>3,063,756</u>
Fund Balances - Beginning	513,777	12,447,332
Restatement	-	-
Fund Balances - Ending	<u>\$ -</u>	<u>\$ 15,511,088</u>

See accompanying note to supplementary information.

Special Reserve Non-Capital Fund	County School Facilities Fund	Special Reserve Capital Fund	Debt Service Fund	Total Non-Major Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ 10,428,022
-	1,376,179	-	-	5,743,432
-	62,962	2,313,956	1,913	2,876,621
-	1,439,141	2,313,956	1,913	19,048,075
-	-	-	-	5,869,824
-	-	-	-	7,411,316
-	-	-	-	563
-	-	-	-	1,154,818
-	-	815,936	-	858,586
-	2,995,781	27,375	-	3,037,534
-	15,893	-	-	15,893
-	-	-	2,210,000	2,210,000
-	-	-	474,601	474,601
-	3,011,674	843,311	2,684,601	21,033,135
-	(1,572,533)	1,470,645	(2,682,688)	(1,985,060)
-	-	-	2,651,467	4,915,708
-	-	(2,651,467)	-	(3,165,245)
-	-	(2,651,467)	2,651,467	1,750,463
-	(1,572,533)	(1,180,822)	(31,221)	(234,597)
22,594,659	9,131,122	4,420,617	746,366	49,853,873
(22,594,659)	-	-	-	(22,594,659)
\$ -	\$ 7,558,589	\$ 3,239,795	\$ 715,145	\$ 27,024,617

ORANGE COUNTY DEPARTMENT OF EDUCATION

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2011

NOTE 1 – PURPOSE OF SCHEDULES

Schedule of Expenditures of Federal Awards

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

The following schedule provides reconciliation between revenues reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances, and the related expenditures reported on the Schedule of Expenditures of Federal Awards. The reconciling amounts consist of ARRA- State Fiscal Stabilization and Title I funds that in the previous period were recorded as revenues but were unspent. These unspent balances have been expended in the current period. In addition, Medi-Cal Billing Option funds have been recorded in the current period as revenues that have not been expended as of June 30, 2011. These unspent balances are reported as legally restricted ending balances within the General Fund.

Description	CFDA Number	Amount
Total Federal Revenues reported in Statement of Revenues, Expenditures, and Changes in Fund Balances:		\$ 71,033,470
American Recovery Reinvestment Act: State Fiscal Stabilization Funds	84.394	3,888,170
Title I, Part A, Program Improvement LEA Corrective Action	84.010	89,652
Medi-Cal Billing	93.778	(480,209)
Total Schedule of Expenditures of Federal Awards		<u>\$ 74,531,083</u>

Local Education Agency Organization Structure

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

Schedule of Average Daily Attendance (ADA)

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

ORANGE COUNTY DEPARTMENT OF EDUCATION

NOTE TO SUPPLEMENTARY INFORMATION

JUNE 30, 2011

Schedule of Instructional Time

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

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

Schedule of Financial Trends and Analysis

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

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

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

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INDEPENDENT AUDITORS' REPORTS

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

Governing Board
Orange County Department of Education
Costa Mesa, California

We have audited the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Orange County Department of Education as of and for the year ended June 30, 2011, which collectively comprise Orange County Department of Education's basic financial statements and have issued our report thereon dated December 14, 2011. 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.

Internal Control Over Financial Reporting

The management of Orange County Department of Education is responsible for establishing and maintaining effective internal control over financial reporting.

In planning and performing our audit, we considered Orange County Department of Education's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Orange County Department of Education's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Orange County Department of Education's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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 noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

Vavrinek, June, Day & Co., LLP

Rancho Cucamonga, California
December 14, 2011



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

Governing Board
Orange County Department of Education
Costa Mesa, California

Compliance

We have audited Orange County Department of Education's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Orange County Department of Education's major Federal programs for the year ended June 30, 2011. Orange County Department of Education's major Federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major Federal programs is the responsibility of Orange County Department of Education's management. Our responsibility is to express an opinion on Orange County Department of Education's compliance based on our audit.

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

In our opinion, Orange County Department of Education complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the year ended June 30, 2011.

Internal Control Over Compliance

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a Federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a Federal program will not be prevented, or detected and corrected, on a timely basis.

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

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

Van Rine, Irvine, Day & Co., LLP

Rancho Cucamonga, California
December 14, 2011



INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

Governing Board
 Orange County Department of Education
 Costa Mesa, California

We have audited Orange County Department of Education's compliance with the requirements as identified in the *Standards and Procedures for Audit of California K-12 Local Educational Agencies 2010-11* applicable to Orange County Department of Education's government programs as noted below for the year ended June 30, 2011. Compliance with the requirements referred to above is the responsibility of Orange County Department of Education's management. Our responsibility is to express an opinion on Orange County Department of Education's compliance based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2010-11* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the applicable government programs noted below. An audit includes examining, on a test basis, evidence about Orange County Department of Education's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions. Our audit does not provide a legal determination of Orange County Department of Education's compliance with those requirements.

In our opinion, Orange County Department of Education complied, in all material respects, with the compliance requirements referred to above that are applicable to the government programs noted below that were audited for the year ended June 30, 2011.

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

	Procedures in Audit Guide	Procedures Performed
Attendance Accounting:		
Attendance reporting	8	Yes
Kindergarten continuance	3	Not Applicable
Independent study	23	Yes
Continuation education	10	Not Applicable

	<u>Procedures in Audit Guide</u>	<u>Procedures Performed</u>
Instructional Time:		
School districts	6	Not Applicable
County offices of education	3	Yes
Instructional Materials:		
General requirements	8	Yes
Ratios of Administrative Employees to Teachers	1	Not Applicable
Classroom Teacher Salaries	1	Not Applicable
Early retirement incentive	4	Not Applicable
Gann limit calculation	1	Yes
School Accountability Report Card	3	Yes
Public hearing requirement - receipt of funds	1	Yes
Class Size Reduction Program (including in Charter Schools):		
General requirements	7	Not Applicable
Option one classes	3	Not Applicable
Option two classes	4	Not Applicable
District or charter schools with only one school serving K-3	4	Not Applicable
After School Education and Safety Program:		
General requirements	4	Not Applicable
After school	4	Not Applicable
Before school	5	Not Applicable
Charter Schools:		
Contemporaneous records of attendance	1	Not Applicable
Mode of instruction	1	Not Applicable
Non classroom-based instruction/independent study	15	Not Applicable
Determination of funding for non classroom-based instruction	3	Not Applicable
Annual instruction minutes classroom based	3	Not Applicable

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

Vavrinck, Irvine, Day & Co., LLP

Rancho Cucamonga, California
December 14, 2011

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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ORANGE COUNTY DEPARTMENT OF EDUCATION

**SUMMARY OF AUDITORS' RESULTS
FOR THE YEAR ENDED JUNE 30, 2011**

FINANCIAL STATEMENTS

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

FEDERAL AWARDS

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

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
<u>84.010, 84.389 (ARRA)</u>	<u>Title I Cluster (including ARRA)</u>
<u>84.196, 84.387 (ARRA)</u>	<u>Title X, McKinney-Vento Homeless Grants Cluster (including ARRA)</u>
<u>84.394 (ARRA)</u>	<u>State Fiscal Stabilization Funds (ARRA)</u>
<u>84.027, 84.027A, 84.173, 84.173A, 84.391 (ARRA), 84.391A (ARRA), 84.392 (ARRA)</u>	<u>Special Education (IDEA) Cluster (including ARRA)</u>
<u>93.575, 93.596, 93.713 (ARRA)</u>	<u>Child Care Program Cluster (including ARRA)</u>

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 2,235,932</u>
Auditee qualified as low-risk auditee?	<u>Yes</u>

STATE AWARDS

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

**FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2011**

None reported.

ORANGE COUNTY DEPARTMENT OF EDUCATION

**FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2011**

None reported.

ORANGE COUNTY DEPARTMENT OF EDUCATION

**STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2011**

None reported.

ORANGE COUNTY DEPARTMENT OF EDUCATION

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2011**

Summarized below is the current status of all audit findings reported in the prior year's schedule of financial statement findings.

Financial Statement Findings

None reported.

Federal Awards Findings

None reported.

State Awards Findings

None reported.

