



Financial Statements
June 30, 2023

Merced County Office of Education

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Independent Auditor's Report

To the Governing Board
Merced County Office of Education
Merced, California

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Merced County Office of Education (MCOE) as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise MCOE's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Merced County Office of Education, as of June 30, 2023, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of MCOE, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Adoption of New Accounting Standard

As discussed in Notes 1 and 16 to the financial statements, MCOE has adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 96, *Subscription-Based Information Technology Arrangements*, for the year ended June 30, 2023. Accordingly, a restatement has been made to the governmental activities net position as of July 1, 2022, to restate beginning net position. Our opinions are not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about MCOE's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of MCOE's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about MCOE's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedule of changes in the County Office of Education's net OPEB liability and related ratios, schedule of the County Office of Education's proportionate share of the net OPEB liability – MPP program, schedule of the County Office of Education's proportionate share of the net pension liability, and the schedule of the County Office of Education's contributions, be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise MCOE's basic financial statements. The Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, combining non-major governmental fund financial statements, and other supplementary information listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the Schedule of Expenditures of Federal Awards, combining non-major governmental fund financial statements, and other supplementary information listed in the table of contents are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2023 on our consideration of MCOE'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 solely 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 effectiveness of MCOE's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering MCOE's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Eide Bailly LLP". The script is cursive and fluid, with the letters "E", "B", and "L" being particularly prominent.

Fresno, California
December 15, 2023

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Merced County Office of Education's (MCOE) annual financial report presents our discussion and analysis of MCOE's financial performance during the fiscal year that ended on June 30, 2023. Please read it in conjunction with MCOE's financial statements immediately following this section. Comparative information will be presented between the fiscal years ending June 30, 2022 and June 30, 2023.

MCOE provides services to twenty school districts with a total K-12 enrollment of approximately fifty-nine thousand students. MCOE operates education programs for special populations of students, and manages many programs with education related objectives.

Services provided to districts include administrative, fiscal, personnel related, technology, educational technology, educational television, curriculum, professional development, leadership training, Education Specialist Intern Program for current Special Education teachers, Multiple Subject Intern Program, Teacher Induction Program (TIP), Clear Administrative Services Credential Program (ADMIN KEYS), Foster Youth Coordinating services, and governmental relations.

Educational programs operated for special populations of students are three-county regional Migrant (Merced, Stanislaus, and Madera), Special Education services, Regional Occupational Program, Valley Community School, Juvenile Court School, Workforce Investment Act Youth Programs, Merced Scholars Charter School, Come Back Charter School and Head Start/Early Head Start.

Programs with educational related objectives include child care subsidy programs (for CalWORKS recipients and other financially eligible families), a multitude of child care and workforce support services, a six-county regional California Preschool Instructional Network and Foster Youth Services Coordinating Program (FYSCO), Quality Rating and Improvement System (QRIS). Other education-related grant programs supporting business-education partnerships, the work of the Family Resource Council, California student opportunity and access program (CALSOAP), outdoor school, and an after school program.

The MCOE operates over 120 sites housing students and staff. MCOE's main administrative complex located at 632 W 13th Street, houses the Superintendent, Human Resources, Business Services, and other various administrative offices as well as an educational technology center and a print shop. The MCOE has an ancillary administrative complex on Cooper Ave., which houses Information Technology, Maintenance, Operations and Transportation and a warehouse as well as Special Education program staff. The MCOE's downtown Professional Development Center located in the Mondo building, includes a large training center, historic lobby entrance and the two upper floors which include breakout and conference rooms, as well as staff offices for Communications, Continuous Improvement, District Services and Leadership and Systems. MCOE's purchase and recent remodel

of the Thorington building in downtown Merced will provide expanded services to the community. A few of the MCOE Programs housed in this building include the Family Resource Council, EMPOWER program, and Foster Youth Coordinating Services. In addition, the Merced County Behavioral Health Department, will operate their Student Resiliency Center.

The Superintendent provides general administrative and executive functions for the organization and employs over 1,300 staff. MCOE has a \$188.01 million annual operating expenditure budget. This includes a General Fund budget of \$124.54 million, a Child Development Fund budget of \$54.61 million, a Charter School Fund budget of \$7.58 million, and an Adult Education Fund budget of \$1.28 million.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Financial Statements

The financial statements presented herein include all of the activities of the Merced County Office of Education using the integrated approach prescribed by GASB Statement Number 34.

The *Government-Wide Financial Statements* present the financial picture of MCOE from the economic resources measurement focus using the accrual basis of accounting. MCOE statements present only governmental activities, as MCOE has no business-type activities. These statements include all assets and deferred outflows of MCOE (including infrastructure) as well as all liabilities and deferred inflows (including long-term liabilities). Additionally, certain eliminations have been made as prescribed by the GASB Statement for interfund activity for payables and receivables.

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

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

The *Fiduciary Funds* 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 government is the Merced County Office of Education.

REPORTING MCOE AS A WHOLE

The Statement of Net Position and the Statement of Activities and Changes in Net Position

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

The difference between revenue and expense is MCOE's *operating result*. MCOE's responsibility is to provide services to our students, Merced county school districts and other populations, and not to generate profit as commercial entities do. Hence one must consider other factors when evaluating the *overall health* of MCOE. The quality of the education and services we provide and the safety and condition of our schools would likely be an important component in this evaluation.

In the Statement of Net Position and the Statement of Activities and Changes in Net Position, we display MCOE activities as follows:

Governmental Activities - MCOE reports all of its services in this category. This includes the education of students with special needs or at risk youth in kindergarten through grade twelve. Services include the education of adult students, Migrant education activities, Head Start and Early Head Start programs and alternate payment programs for child care providers. MCOE also provides a variety of business and instructional services to Merced County School Districts and funds an on-going effort to improve and maintain MCOE buildings and sites. Property taxes, state income taxes, user fees, interest income, federal, state and local grants finance these activities.

REPORTING MCOE'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds - not MCOE as a whole. Some funds are required by State law and by bond covenants. However, management establishes 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. Department of Education.

Governmental Funds - MCOE's basic services are reported in governmental funds. The governmental statements 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 MCOE'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 MCOE's programs. The differences in results in the governmental fund financial statements compared to those in the government-wide financial statements are explained in a reconciliation following the governmental fund financial statements.

MCOE AS TRUSTEE

Reporting MCOE'S Fiduciary Responsibilities

MCOE is the trustee, or *fiduciary*, for funds held on behalf of others, like our funds for the payroll clearing activities. MCOE's fiduciary activities are reported in the *Statement of Fiduciary Net Position and the Statement of Changes in Fiduciary Net Position*. We exclude these activities from MCOE's other financial statements because MCOE cannot use these assets to finance its operations. MCOE is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

FINANCIAL ANALYSIS AND HIGHLIGHTS OF MCOE AS A WHOLE

Net Position

MCOE's net position was \$55.8 million for the fiscal year ended June 30, 2023, and \$47.6 million for the fiscal year ended June 30, 2022. This is an increase of \$8.2 million. Of this amount, \$29.0 million was restricted. Restricted net position is reported separately to show legal constraints from debt covenants and enabling legislation that limit MCOE's ability to use net position for day-to-day operations. Our analysis below focuses on the net position (Table 1) and change in net position (Table 2) of MCOE's governmental activities for the past two fiscal years.

Table 1

	Governmental Activities	
	2023	2022 as Restated
Assets		
Current and other assets	\$ 87,894,095	\$ 130,622,423
Capital assets, right-to-use leased assets, and right-to-use subscription IT assets	93,145,219	89,776,491
Total assets	181,039,314	220,398,914
Deferred Outflows of Resources	36,663,515	25,382,279
Liabilities		
Current liabilities	29,059,105	78,321,994
Long-term liabilities	124,554,282	84,688,400
Total liabilities	153,613,387	163,010,394
Deferred Inflows of Resources	8,316,947	35,199,513
Net Position		
Net investment in capital assets	85,809,374	82,008,006
Restricted	28,953,952	27,309,618
Unrestricted (deficit)	(58,990,831)	(61,746,338)
Total net position	\$ 55,772,495	\$ 47,571,286

The \$55.8 million in net position of governmental activities represents the accumulated results of all past years' operations. Unrestricted (deficit) net position - the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements – increased by \$2.8 million.

Changes in Net Position

The results of the past two year's operations for MCOE as a whole are reported in the Statement of Activities. Table 2 takes the information from this Statement, and rearranges it slightly so you can see our total revenues and expenses on a functional basis for the past two years.

Table 2

	Governmental Activities	
	2023	2022*
Revenues		
Program revenues		
Charges for services	\$ 14,646,790	\$ 10,680,146
Operating grants and contributions	143,003,041	129,764,048
Capital grants and contributions	624,158	24,047
General revenues		
Federal and State aid not restricted	18,472,760	13,091,261
Property taxes	17,592,407	15,723,244
Other general revenues	19,145,406	13,777,780
Total revenues	<u>213,484,562</u>	<u>183,060,526</u>
Expenses		
Instruction-related	88,584,608	72,381,652
Pupil services	29,110,353	21,941,450
Administration	14,410,075	11,431,476
Plant services	9,168,470	7,562,208
All other services	64,009,847	55,357,449
Total expenses	<u>205,283,353</u>	<u>168,674,235</u>
Change in net position	<u>\$ 8,201,209</u>	<u>\$ 14,386,291</u>

* The revenues and expenses for fiscal year 2022 were not restated to show the effects of GASB Statement No. 96 for comparative purposes.

Governmental Activities

As reported in the Statement of Activities, the cost of all of our governmental activities this year was approximately \$205.3 million as compared to \$168.7 million in the prior year. However, the amount that our taxpayers ultimately financed for these activities through local taxes was only \$17.6 million because the cost was paid by those who benefited from the programs totaling \$14.6 million or by government and other organizations who subsidized certain programs with grants and contributions of \$143 million. We paid for the remaining "public benefit" portion of our governmental activities with \$18.5 million in State and Federal unrestricted funds, and with other revenues like interest and general entitlements of \$19.1 million.

In Table 3, we have presented the total cost and net cost (total cost less revenues generated by the activities) of each of MCOE's largest functions. As discussed above, net cost shows the amount that local taxpayers are required to pay for each of these functions

Table 3

	Total Cost of Services		Net Cost of Services	
	2023	2022*	2023	2022*
Instruction-related	\$ 88,584,608	\$ 72,381,652	\$ (23,907,478)	\$ (13,018,337)
Pupil services	29,110,353	21,941,450	(9,634,618)	(6,608,271)
Administration	14,410,075	11,431,476	(5,650,941)	(4,032,605)
Plant services	9,168,470	7,562,208	(3,636,247)	(3,067,744)
All other services	64,009,847	55,357,449	(4,180,080)	(1,479,037)
Total	<u>\$ 205,283,353</u>	<u>\$ 168,674,235</u>	<u>\$ (47,009,364)</u>	<u>\$ (28,205,994)</u>

* The total and net cost of services for fiscal year 2022 were not restated to show the effects of GASB Statement No. 96 for comparative purposes.

FINANCIAL ANALYSIS OF MCOE'S FUNDS

The financial performance of MCOE as a whole is reflected in its governmental funds. As MCOE completed this fiscal year, our governmental funds reported an overall balance of \$58.8 million while the prior year reported a balance of \$52.3 million. This was an increase of \$6.5 million over the fiscal year 2021-2022 ending fund balances.

Our General Fund is our principal operating fund. The fund balance in the General Fund increased by \$4.9 million to approximately \$52.2 million in 2022-2023.

Our special revenue fund balances increased by approximately \$1.0 million. The funds include a separate fund for the operation of our student activities, charter schools, a fund for pass-through of special education funds, an Adult Education Fund, and a Child Development Fund.

Our County School Facilities Fund showed an increase in the current year of \$0.6 million.

General Fund Budgetary Highlights

Over the course of the year MCOE revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. A schedule showing MCOE's original and final budget amounts compared with amounts actually paid and received is provided in our annual report.

Revenue and Expenditure revisions were made to the 2022-2023 budget over the course of the year. MCOE had budgeted a decrease in the General Fund of approximately \$10.1 million. However, revenues and other sources were \$4.3 million more than expected, while expenditures ended the year \$10.7 million less than what was budgeted, resulting in an actual increase to the fund of \$4.9 million.

CAPITAL ASSETS, RIGHT-TO-USE LEASED ASSETS, RIGHT-TO-USE SUBSCRIPTION IT ASSETS, AND LONG-TERM LIABILITIES

Capital Assets, Right-to-Use Leased Assets, and Right-to-Use Subscription IT Assets

At June 30, 2023, MCOE had \$93.1 million (net of depreciation) in a broad range of capital assets, right-to-use leased assets, and right-to-use subscription IT assets (net of depreciation and amortization), including land, buildings, and furniture and equipment. At June 30, 2022, net capital assets totaled \$89.8 million. This amount represents a net increase (including additions, deductions and depreciation) of \$3.3 million from the prior year. Table 4 displays our capital assets.

Table 4

	Governmental Activities	
	2023	2022 as Restated
Land and construction in progress	\$ 9,891,946	\$ 11,485,738
Buildings and improvements	79,450,830	75,085,121
Equipment	3,296,344	2,539,559
Right-to-use leased assets	78,101	286,882
Right-to-use subscription IT assets	427,998	379,191
Total	<u>\$ 93,145,219</u>	<u>\$ 89,776,491</u>

This year's major additions include continuing costs related to the Green Meadows remodel and the Thorington Building.

We present more detailed information about our capital assets, right-to-use leased assets, and right-to-use subscription IT assets in the Notes to Financial Statements.

Long-Term Liabilities

At the end of fiscal year 2022-2023, MCOE had \$124.6 million in long-term liabilities. Table 5 displays our long-term liabilities.

Table 5

	Governmental Activities	
	2023	2022 as Restated
Long-Term Liabilities		
Certificates of participation	\$ 6,840,000	\$ 7,135,000
Unamortized premiums	264,394	280,918
Leases	87,930	322,642
Subscription-based IT arrangements	143,521	29,925
Compensated absences	841,667	747,377
Net OPEB liability	11,953,057	13,507,510
Aggregate net pension liability	104,423,713	62,665,028
 Total	 <u>\$ 124,554,282</u>	 <u>\$ 84,688,400</u>

MCOE's S&P rating at the time of its last issuance was "AA".

At year-end, MCOE has a net pension liability of \$104.4 million versus \$62.7 million last year, an increase of \$41.8 million, or 67%. MCOE also reported deferred outflows of resources from pension activities of \$33 million, and deferred inflows of resources from pension activities of \$6.8 million. We present more detailed information regarding our long-term liabilities in the Notes to Financial Statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

Governor Newsom signed several bills, including Senate Bill (SB) - 101 Budget Act of 2023, on June 27, 2023 and Senate Bill (SB) 102 - Education Finance, on July 10, 2023, to enact the State Budget. In the Budget Summary it is stated "The Budget includes a balanced package of solutions to bridge an approximately \$31.7 billion shortfall while avoiding deep and damaging program cuts." These solutions included fund shifts of \$9.3 billion of spending commitments from the General Fund to other funds, \$8.1 billion in General Fund spending reductions or pullbacks of previously approved spending, \$7.9 billion in delayed spending across multiple years, \$6.1 billion in internal borrowing from special fund balances not projected for programmatic purposes, \$340 million in reductions that will be restored in the January 2024 Governor's Budget if there are sufficient resources to do so at that time.

On July 10, 2023, the Governor signed AB 102—Budget Bill Junior and Senate Bill (SB)114, the Education Trailer Bill.

The budget built upon several items that were included in the May Revision: a 8.22 percent Cost of Living Adjustment (COLA) to the Local Control Funding Formula (LCFF), creates the "LCFF Equity Multiplier" for LEAs (described below), reduces the Arts, Music, and Instructional Materials Discretionary Block Grant from \$3.6 billion to \$3.4 billion, reduces the Learning Recovery Emergency Block Grant funds by \$1.6 billion and includes intent language to restore \$378.6 million from the 2025-26 fiscal year to the 2027-28 fiscal year.

The Legislative Analyst Office (LAO) delayed their 2024-25 Fiscal Outlook report until December 8, 2023, due to the delays in calculating state revenues attributed to California State income tax deadlines. This year the report has three major takeaways: California faces a budget deficit of \$68 Billion; prior year revenue shortfall due to the state conforming to federal tax filing extensions; multiply tools for the Legislature to use to address the budget problem. A couple of these tools are similar to the tools in the Governor's toolbox, including reserves to withdraw and one-time spending to pull back.

The LAO projects the Proposition 98 (Prop98) guarantee (minimum funding requirement for schools) across 2022-23, 2023-24, and 2024-25 will be \$18.8 billion lower than the estimates from June 2023. The total reduction in the minimum funding requirement is \$9 billion in 2022-23, \$6.3 billion in 2023-24, and \$3.5 billion in 2024-25.

The LAO projects an estimated statutory COLA of 1.27% for 2024-25

The 2023-24 First Interim period, which ends on October 31, 2023, is the first official opportunity LEAs must present updates since budget adoption in June 2023.

The California State Budget, after two years of unprecedented General Fund revenue growth, faces a downturn in revenues driven by a declining stock market and persistently high inflation in 2022, rising interest rates, and job losses in high wage sectors; while the costs of learning loss, increased retirement benefit costs, and other goods and services continue to climb and compete for the same funding.

The Enacted State Budget preserves investments in public education. Some of the funds were directed to new programs(described below) and some of the funds were directed to standing programs such as LCFF and Special Education.

LCFF COLA is 8.22 percent for 2023-24 and the 2024-25 COLA was at 3.94 percent. The LAO projected in their December 2024-25 Fiscal Outlook report the COLA is estimated to be reduced to 1.27 percent.

Local Control Funding Formula (LCFF) -The Merced County Office of Education (MCOE) LCFF funding is under 19% of our total budgeted revenue. The COE LCFF provides for two grants. The first is a county operations grant for COE operations and countywide services. The second is an alternative education grant for programs operated by the COE to provide direct instructional services to students for which the county has responsibility. The students identified in law for this funding include juvenile courts, probation referred, and mandatory expelled.

Special Education - The Budget reflects the special education base rate to increase to \$887.40 per ADA.

Learning Recovery Emergency Block Grant – The 2022-23 State Budget also established the Learning Recovery Emergency Block Grant, totaling \$7.9 billion in one-time funds, to support academic learning recovery and staff and pupil social and emotional well-being. This funding is designated to be spent through the 2027-28 fiscal year. The 2023-24 State Budget reduces funding for the Learning Recovery Emergency Block Grant by \$1.1 billion, or approximately 14%, in the 2022-23 fiscal year. However, it is the intent of the legislature to restore these funds starting in fiscal year 2025-26, with an increase of \$378.7 million each year through the 2027-28 fiscal year.

Arts, Music, and Instructional Materials Discretionary Block Grant

The 2022-23 State Budget established the Arts, Music and Instructional Materials Discretionary Block Grant, totaling \$3.5 billion in one-time funds. This grant provides LEAs with funding for specified uses, including standards-aligned professional development, instructional materials, improved school culture and development of diverse and culturally relevant book collections. The 2023-24 State Budget reduces this amount by \$200 million, or approximately 6%.

Equity Multiplier - The 2023-24 State Budget created a new program called the Local Control Funding Formula Equity Multiplier. Under this program, funding will be allocated to LEAs for schools meeting specific criteria: a prior year non-stability rate exceeding 25% and a prior year socioeconomically disadvantaged pupil rate exceeding 70%. The CDE will certify these allocations at the First Principal Apportionment.

Federal Revenue - The outlook of federal funding levels for 2023-24 is known but future years are still uncertain. We plan flat funding in on-going federal funding sources in subsequent budget years.

The 2024-25 State Budget proposal will be due on January 10, 2024. The LAO reports Prop98 Guarantee to be lower than reported at Enacted Budget. Their estimate of the minimum guarantee in 2023-24 is \$108.2 billion. Our second interim report will include details of the Governor's 2023-24 State Budget.

MCOE is committed to ensuring every student a success. We are using one-time funds on the best one-time purchases to support our programs and students. Now, we have a balanced budget, and the day-to-day operations of our organization are serving the needs of today's students. We have invested one-time funds in one-time expenditures to support expanded learning opportunities. On-going funds are being used to increase the number of well-prepared staff supporting our students and districts.

CONTACTING MCOE'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, students, and investors and creditors with a general overview of MCOE's finances and to show MCOE's accountability for the money it receives. If you have questions about this report or need any additional financial information, contact Janet Riley, Assistant Superintendent, Business Services, at Merced County Office of Education, 632 W. 13th Street, Merced, California 95341, or e-mail at: jriley@mcoe.org.

Merced County Office of Education
Statement of Net Position
June 30, 2023

	<u>Governmental Activities</u>
Assets	
Deposits and investments	\$ 57,208,492
Receivables	30,588,949
Stores inventories	96,654
Capital assets not depreciated	9,891,946
Capital assets, net of accumulated depreciation	82,747,174
Right-to-use leased assets, net of accumulated amortization	78,101
Right-to-use subscription IT assets, net of accumulated amortization	427,998
Total assets	<u>181,039,314</u>
Deferred Outflows of Resources	
Deferred outflows of resources related to OPEB	3,691,674
Deferred outflows of resources related to pensions	32,971,841
Total deferred outflows of resources	<u>36,663,515</u>
Liabilities	
Accounts payable	26,538,125
Unearned revenue	2,520,980
Long-term liabilities	
Long-term liabilities other than OPEB and pensions due within one year	425,114
Long-term liabilities other than OPEB and pensions due in more than one year	7,752,398
Net other postemployment benefits liability (OPEB)	11,953,057
Aggregate net pension liabilities	104,423,713
Total liabilities	<u>153,613,387</u>
Deferred Inflows of Resources	
Deferred inflows of resources related to OPEB	1,533,414
Deferred inflows of resources related to pensions	6,783,533
Total deferred inflows of resources	<u>8,316,947</u>
Net Position	
Net investment in capital assets	85,809,374
Restricted for	
Capital projects	3,994,343
Educational programs	24,926,897
Student activities	32,712
Unrestricted (deficit)	(58,990,831)
Total net position	<u>\$ 55,772,495</u>

Merced County Office of Education

Statement of Activities
Year Ended June 30, 2023

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Position Governmental Activities
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities					
Instruction	\$ 59,474,545	\$ 3,996,302	\$ 42,147,805	\$ 624,158	\$ (12,706,280)
Instruction-related activities					
Supervision of instruction	17,301,377	614,176	9,997,154	-	(6,690,047)
Instructional library, media, and technology	1,198,560	132,229	452,329	-	(614,002)
School site administration	10,610,126	344,027	6,368,950	-	(3,897,149)
Pupil services					
Home-to-school transportation	8,651,556	151	4,561	-	(8,646,844)
Food services	1,859,895	14,819	1,787,336	-	(57,740)
All other pupil services	18,598,902	1,738,060	15,930,808	-	(930,034)
Administration					
Data processing	4,746,176	-	-	-	(4,746,176)
All other administration	9,663,899	688,447	8,070,687	-	(904,765)
Plant services	9,168,470	575,629	4,956,594	-	(3,636,247)
Ancillary services	15,957	-	25,938	-	9,981
Community services	30,582,637	1,450,451	26,931,576	-	(2,200,610)
Enterprise services	511,307	63,875	229,275	-	(218,157)
Interest on long-term liabilities	474,575	-	-	-	(474,575)
Other outgo	32,425,371	5,028,624	26,100,028	-	(1,296,719)
Total governmental activities	<u>\$ 205,283,353</u>	<u>\$ 14,646,790</u>	<u>\$ 143,003,041</u>	<u>\$ 624,158</u>	<u>(47,009,364)</u>
General Revenues and Subventions					
Property taxes, levied for general purposes					17,279,998
Taxes levied for other specific purposes					312,409
Federal and State aid not restricted to specific purposes					18,472,760
Interest and investment earnings					2,560,296
Interagency revenues					3,432,633
Miscellaneous and unspent State entitlement revenues					<u>13,152,477</u>
Subtotal, general revenues and subventions					<u>55,210,573</u>
Change in Net Position					8,201,209
Net Position - Beginning, as Restated					<u>47,571,286</u>
Net Position - Ending					<u>\$ 55,772,495</u>

Merced County Office of Education

Balance Sheet – Governmental Funds

June 30, 2023

	General Fund	Special Education Pass-Through Fund	Child Development Fund	Non-Major Governmental Funds	Total Governmental Funds
Assets					
Deposits and investments	\$ 49,718,490	\$ 113,964	\$ 1,134,808	\$ 6,241,230	\$ 57,208,492
Receivables	16,108,240	6,865,522	7,392,210	222,977	30,588,949
Due from other funds	5,869,243	1,479,182	40,742	674,577	8,063,744
Stores inventories	96,654	-	-	-	96,654
Total assets	\$ 71,792,627	\$ 8,458,668	\$ 8,567,760	\$ 7,138,784	\$ 95,957,839
Liabilities and Fund Balances					
Liabilities					
Accounts payable	\$ 14,956,599	\$ 8,458,668	\$ 2,999,243	\$ 123,615	\$ 26,538,125
Due to other funds	2,194,501	-	4,628,531	1,240,712	8,063,744
Unearned revenue	2,489,290	-	1,765	29,925	2,520,980
Total liabilities	19,640,390	8,458,668	7,629,539	1,394,252	37,122,849
Fund Balances					
Nonspendable	122,594	-	-	-	122,594
Restricted	22,271,199	-	938,221	5,744,532	28,953,952
Assigned	13,598,377	-	-	-	13,598,377
Unassigned	16,160,067	-	-	-	16,160,067
Total fund balances	52,152,237	-	938,221	5,744,532	58,834,990
Total liabilities and fund balances	\$ 71,792,627	\$ 8,458,668	\$ 8,567,760	\$ 7,138,784	\$ 95,957,839

Merced County Office of Education
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position
June 30, 2023

Total Fund Balance - Governmental Funds		\$ 58,834,990
Amounts Reported for Governmental Activities in the Statement of Net Position are Different Because		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.		
The cost of capital assets is	\$ 148,684,674	
Accumulated depreciation is	<u>(56,045,554)</u>	
Net capital assets		92,639,120
Right-to-use leased assets, used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.		
The cost of right-to-use leased assets is	596,604	
Accumulated amortization is	<u>(518,503)</u>	
Net right-to-use leased assets		78,101
Right-to-use subscription IT assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.		
The cost of right-to-use subscription IT assets is	680,507	
Accumulated amortization is	<u>(252,509)</u>	
Net right-to-use subscription IT assets		427,998
Deferred outflows of resources represent a consumption of net position in a future period and is not reported in the governmental funds. Deferred outflows of resources amounted to and related to		
Other postemployment benefits (OPEB)	3,691,674	
Net pension liability	<u>32,971,841</u>	
Total deferred outflows of resources		36,663,515
Deferred inflows of resources represent an acquisition of net position that applies to a future period and is not reported in the governmental funds. Deferred inflows of resources amount to and related to		
Other postemployment benefits (OPEB)	(1,533,414)	
Net pension liability	<u>(6,783,533)</u>	
Total deferred inflows of resources		(8,316,947)
Net pension liability is not due and payable in the current period, and is not reported as a liability in the funds.		(104,423,713)
The District's OPEB liability is not due and payable in the current period, and is not reported as a liability in the funds.		(11,953,057)

Merced County Office of Education
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position
June 30, 2023

Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.

Long-term liabilities at year-end consist of

Certificates of participation including unamortized premium	(7,104,394)
Leases	(87,930)
Subscription-based IT arrangements	(143,521)
Compensated absences (vacations)	<u>(841,667)</u>

Total long-term liabilities		<u>(8,177,512)</u>
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Total net position - governmental activities		<u><u>\$ 55,772,495</u></u>
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Merced County Office of Education
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds
Year Ended June 30, 2023

	General Fund	Special Education Pass-Through Fund	Child Development Fund	Non-Major Governmental Funds	Total Governmental Funds
Revenues					
Local Control Funding Formula	\$ 27,536,361	\$ -	\$ -	\$ 4,804,547	\$ 32,340,908
Federal sources	18,280,016	4,107,288	37,907,174	432,005	60,726,483
Other State sources	37,621,384	28,114,229	8,828,477	2,707,733	77,271,823
Other local sources	34,730,754	-	8,671,896	888,352	44,291,002
Total revenues	118,168,515	32,221,517	55,407,547	8,832,637	214,630,216
Expenditures					
Current					
Instruction	44,350,073	-	8,119,482	4,374,338	56,843,893
Instruction-related activities					
Supervision of instruction	15,256,623	-	1,340,662	649,174	17,246,459
Instructional library, media, and technology	1,083,908	-	-	-	1,083,908
School site administration	6,218,456	-	3,409,990	589,320	10,217,766
Pupil services					
Home-to-school transportation	7,700,730	-	-	191,463	7,892,193
Food services	188,815	-	1,647,981	-	1,836,796
All other pupil services	13,149,252	-	4,834,234	467,727	18,451,213
Administration					
Data processing	4,722,072	-	-	-	4,722,072
All other administration	5,045,533	-	3,901,087	494,176	9,440,796
Plant services	6,317,406	-	1,889,590	687,857	8,894,853
Ancillary services	-	-	-	15,957	15,957
Community services	733,594	-	29,830,552	-	30,564,146
Other outgo	203,854	32,221,517	-	-	32,425,371
Enterprise services	496,026	-	-	-	496,026
Facility acquisition and construction	7,326,730	-	122,052	47,975	7,496,757
Debt service					
Principal	483,530	-	-	-	483,530
Interest and other	286,045	-	-	-	286,045
Total expenditures	113,562,647	32,221,517	55,095,630	7,517,987	208,397,781

Merced County Office of Education
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds
Year Ended June 30, 2023

	General Fund	Special Education Pass-Through Fund	Child Development Fund	Non-Major Governmental Funds	Total Governmental Funds
Excess (Deficiency) of Revenues Over Expenditures	4,605,868	-	311,917	1,314,650	6,232,435
Other Financing Sources					
Proceeds from subscription IT assets	302,126	-	-	-	302,126
Net Change in Fund Balances	4,907,994	-	311,917	1,314,650	6,534,561
Fund Balance - Beginning	47,244,243	-	626,304	4,429,882	52,300,429
Fund Balance - Ending	<u>\$ 52,152,237</u>	<u>\$ -</u>	<u>\$ 938,221</u>	<u>\$ 5,744,532</u>	<u>\$ 58,834,990</u>

Merced County Office of Education

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental
Funds to the Statement of Activities
Year Ended June 30, 2023

Total Net Change in Fund Balances - Governmental Funds \$ 6,534,561

Amounts Reported for Governmental Activities in the Statement of
Activities are Different Because

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

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

Depreciation and amortization expense	\$ (4,468,265)	
Capital outlays	<u>7,845,098</u>	

Net expense adjustment		3,376,833
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Loss on disposal of capital assets is reported in the government-wide Statement of Net Position, but is not recorded in the governmental funds. (8,105)

Right-to-use subscription IT assets acquired this year were financed with Subscription-Based IT Arrangements (SBITAs). The amount financed by the SBITAs is reported in the governmental funds as a source of financing. On the other hand, the SBITAs are not revenues in the Statement of Activities, but rather constitute long-term liabilities in the Statement of Net Position. (302,126)

In the Statement of Activities, certain operating expenses, such as 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). This amount is the difference between vacation earned and used. (94,290)

In the governmental funds, pension costs are based on employer contributions made to pension plans during the year. However, in the Statement of Activities, pension expense is the net effect of all changes in the deferred outflows, deferred inflows and net pension liability during the year. (1,892,718)

In the governmental funds, OPEB costs are based on employer contributions made to OPEB plans during the year. However, in the Statement of Activities, OPEB expense is the net effect of all changes in the deferred outflows, deferred inflows, and net OPEB liability during the year. (147,712)

Merced County Office of Education

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental
Funds to the Statement of Activities
Year Ended June 30, 2023

Governmental funds report the effect of premiums, discounts, and the deferred charge on refunding when the debt is first issued, whereas the amounts are deferred and amortized in the Statement of Activities.

Premium amortization	16,524
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Payment of principal on long-term liabilities is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Position and does not affect the Statement of Activities.

Certificates of participation	295,000
Leases	234,712
Subscription-based IT arrangements	188,530

Change in net position of governmental activities	<u>\$ 8,201,209</u>
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Merced County Office of Education
Statement of Net Position – Fiduciary Funds
June 30, 2023

	<u>Custodial Funds</u>
Assets	
Deposits and investments	<u>\$ 16,853,337</u>
Liabilities	
Payroll revolving	<u>\$ 16,853,337</u>

Merced County Office of Education
Statement of Changes in Net Position – Fiduciary Funds
Year Ended June 30, 2023

	<u>Custodial Funds</u>
Additions	
Employer contributions	\$ 728,645,794
Deductions	
Payroll related payments	<u>728,645,794</u>
Net Increase (Decrease) in Fiduciary Net Position	-
Net Position - Beginning	<u>-</u>
Net Position - Ending	<u><u>\$ -</u></u>

Note 1 - Summary of Significant Accounting Policies**Financial Reporting Entity**

The Merced County Office of Education (MCOE) provides service to districts within Merced County and operates education programs for special populations of students. Services provided to districts include administrative, fiscal, personnel, data processing, media, curriculum, staff training, psychological, occupational training, and governmental relations.

Educational programs operated for special populations of students are three-county regional Migrant (Merced, Stanislaus, and Madera), Special Education, Regional Occupational Program, Title VII Bilingual/Bicultural, Community School, Juvenile Court School, Job Training Partnership Act, and Outdoor School.

The Merced County Office of Education maintains an administrative office complex, library/media center, teachers' center, print shop, and warehouse/stores and has 200 school sites that are employee workstations.

Charter Schools MCOE has approved charters for Merced Scholars Charter School and Come Back Charter School pursuant to *Education Code* Section 47605. The Merced Scholars Charter School and Come Back Charter School are operated by MCOE, and their financial activities are presented in the Charter Schools Fund. MCOE receives revenue on behalf of the Merced Scholars Charter School and Come Back Charter School and their activity is accounted for in the Charter Schools Fund.

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. MCOE's funds are grouped into two broad fund categories: governmental and fiduciary.

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 MCOE's major and non-major governmental funds:

Major Governmental Funds

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

Two funds currently defined as special revenue funds in the California State Accounting Manual (CSAM) do not meet the GASB Statement No. 54 special revenue fund definition. Specifically, Fund 17, Special Reserve Non-Capital Fund and Fund 20, Special Reserve Postemployment Benefits Fund, are not substantially composed of restricted or committed revenue sources. While these funds are authorized by statute and will remain open for internal reporting purposes, these funds function effectively as extensions of the General Fund, and accordingly have been combined with the General Fund for presentation in these audited financial statements. As a result, the General Fund reflects an increase in fund balance of \$16,740,735.

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

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.

Non-Major Governmental Funds

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

- **Student Activities Fund** The Student Activities Fund is used to account separately for the operating activities of the associated student body accounts that are not fiduciary in nature, including student clubs, general operations, athletics, and other student body activities.
- **Charter Schools Fund** The Charter Schools Fund may be used by authorizing districts to account separately for the operating activities of district-operated charter schools that would otherwise be reported in the authorizing county office of education's General Fund.
- **Adult Education Fund** The Adult Education Fund is used to account separately for Federal, State, and local revenues that are restricted or committed for adult education programs and is to be expended for adult education purposes only.

Capital Project Funds The Capital Project funds are used to account for financial resources to be used for the acquisition or construction of major 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 established pursuant to *Education Code* Section 17070.43 to receive apportionments from the 1998 State School Facilities Fund (Proposition 1A), the 2002 State School Facilities Fund (Proposition 47), the 2004 State School Facilities Fund (Proposition 55), the 2006 State School Facilities Fund (Proposition 1D), or the 2016 State School Facilities Fund (Proposition 51) authorized by the State Allocation Board for new school facility construction,

modernization projects, and facility hardship grants, as provided in the Leroy F. Greene School Facilities Act of 1998 (*Education Code* Section 17070 et seq.).

Fiduciary Funds Fiduciary funds are used to account for resources held for the benefit of parties outside MCOE and are not available to support MCOE's own programs. The Fiduciary funds of MCOE are considered custodial funds.

Custodial funds are used to account for resources, not in a trust, that are held by MCOE for other parties outside MCOE's reporting entity. MCOE's custodial funds are for payroll clearing for Districts within the County.

Basis of Accounting - Measurement Focus

Government-Wide Financial Statements The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting.

The government-wide statement of activities presents a comparison between expenses, both direct and indirect, of MCOE and for each governmental function, and exclude fiduciary activity. Direct expenses are those that are specifically associated with a service, program, or department and are therefore, clearly identifiable to a particular function. MCOE does not allocate indirect expenses to functions in the Statement of Activities, except for depreciation and amortization of leased assets and subscription IT assets. 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 is self-financing or draws from the general revenues of MCOE.

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

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

- **Governmental Funds** All governmental funds are accounted for using the 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 financial statements are prepared. Governmental fund financial statements, therefore, include reconciliations with brief explanations to better identify the relationship between the government-wide financial statements, prepared using the economic resources measurement focus and the accrual basis of accounting, and the

governmental fund financial statements, prepared using the flow of current financial resources measurement focus and the modified accrual basis of accounting.

- **Fiduciary Funds** Fiduciary funds are accounted for using the flow of economic resources measurement focus and the accrual basis of accounting. Fiduciary funds are excluded from the government-wide financial statements because they do not represent resources of MCOE.

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. MCOE considers revenues to be available if they are collected within one year after year-end, except for property taxes, which are considered available if collected within 60 days. 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 MCOE 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.

Unearned Revenue Unearned revenues arise when resources are received by MCOE before it has a legal claim to them, such as when certain grants are received prior to the occurrence of qualifying expenditures. In the subsequent periods, when MCOE has a legal claim to the resources, the liability for unearned revenue is removed from the balance sheet and the revenue is recognized.

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. Principal and interest on long-term liabilities, 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.

Investments

Investments 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.

Stores Inventories

Inventories consist of expendable food and supplies held for consumption. Inventories are stated at cost, on the first-in, first-out basis. The costs of inventory items are recorded as expenditures in the governmental type funds when consumed rather than when purchased.

Capital Assets, Depreciation, and Amortization

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 MCOE. MCOE maintains a capitalization threshold of \$10,000 for equipment and \$25,000 for facilities improvements. MCOE 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.

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

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/infrastructure, 5 to 50 years; equipment, 2 to 15 years.

MCOE records impairments of capital assets when it becomes probable that the carrying value of the assets will not be fully recovered over their estimated useful life. Impairments are recorded to reduce the carrying value of the assets to their net realizable value based on facts and circumstances in existence at the time of the determination. No impairments were recorded during the year ended June 30, 2023.

MCOE records the value of intangible right-to-use assets based on the underlying leased asset in accordance with GASB Statement No. 87, *Leases*. The right-to-use intangible asset is amortized each year for the term of the contract or useful life of the underlying asset.

MCOE records the value of right-to-use subscription IT assets based on the underlying subscription asset in accordance with GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*. The right-to-use subscription IT asset is amortized each year for the term of the contract or useful life of the underlying asset.

Interfund Balances

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

Compensated Absences

Compensated absences are accrued as a liability as the benefits are earned. The entire compensated absence liability is reported on the government-wide statement of net position.

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 MCOE'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 Liabilities

All payables, accrued liabilities, and long-term liabilities are reported in the government-wide and proprietary fund financial statements. 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 liabilities of the governmental 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 governmental fund financial statements only to the extent that they are due for payment during the current year. Bonds, leases, and other long-term liabilities are recognized as liabilities in the governmental fund financial statements when due.

Debt Premiums

In the government-wide financial statements, long-term liabilities are reported as liabilities in the governmental activities statement of net position. Debt premiums are amortized over the life of the debt using the straight-line method, which approximates the effective interest method.

In governmental fund financial statements, debt premiums are recognized in the period the debt is issued. The face amount of the debt is reported as other financing sources. Premiums received on debt issuance are also reported as other financing sources.

Deferred Outflows of Resources and Deferred Inflows of Resources

In addition to assets, the Statement of Net Position also reports deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. MCOE reports deferred outflows of resources for pension and OPEB related items.

In addition to liabilities, the Statement of Net Position reports a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The deferred amounts related to pension and OPEB relate to differences between expected and actual return on plan assets, changes of assumptions and other related actuarial differences. MCOE reports deferred inflows of resources for pension related items and for OPEB related items.

The deferred amounts related to pension and OPEB relate to differences between expected and actual return on plan assets, changes of assumptions and other related actuarial differences.

Pensions

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

Postemployment Benefits Other Than Pensions (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the County Plan and the CalSTRS Medicare Premium Payment (MPP) Program and additions to/deductions from the County Plan and the MPP's fiduciary net position have been determined on the same basis as they are reported by the County Plan and the MPP. For this purpose, the County Plan and the MPP recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for money market investments and participating interest-earning investment contracts that have a maturity at the time of purchase of one year or less, which are reported at cost. The total OPEB liability attributable to the governmental activities will be paid primarily by the General Fund.

Leases

MCOE recognizes a lease liability and an intangible right-to-use lease asset (lease asset) in the government-wide financial statements. At the commencement of the lease term, MCOE measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The lease asset is initially measured as the initial amount of the lease liability, plus certain initial direct costs. Subsequently, the lease asset is amortized on a straight-line basis over the lease term or useful life of the underlying asset.

Subscriptions

MCOE recognizes a subscription liability and an intangible right-to-use subscription IT asset (subscription IT asset) in the government-wide financial statements. At the commencement of the subscription term, MCOE measures the subscription liability at the present value of payments expected to be made during the subscription term. Subsequently, the subscription liability is reduced by the principal portion of subscription payments made. The subscription IT asset is initially measured as the initial amount of the subscription liability, plus certain initial direct costs. Subsequently, the subscription IT asset is amortized on a straight-line basis over the subscription term or useful life of the underlying asset. The amortization period varies from three to five years.

Fund Balances - Governmental Funds

As of June 30, 2023, 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.

Committed - amounts that can be used only for specific purposes determined by a formal action of the County Superintendent of Schools. The County Superintendent of Schools is the highest level of decision-making authority for MCOE. Commitments may be established, modified, or rescinded only through resolutions or other action as approved by the County Superintendent of Schools. MCOE has no committed fund balances.

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 MCOE's adopted policy, only the Assistant Superintendent of Business Services (CBO) may assign amounts for specific purposes.

Unassigned - all other spendable amounts. This category also provides the resources necessary to meet the California Department of Education's established minimum reserves for economic uncertainty.

Spending Order Policy

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

Minimum Fund Balance Policy

The governing board adopted a minimum fund balance policy for the General Fund in order to protect the local educational agency against revenue shortfalls or unpredicted one-time expenditures. The policy requires a Reserve for Economic Uncertainties consisting of unassigned amounts equal to no less than 14% of General Fund expenditures and other financing uses.

Net Position

Net position represents the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources. Net position net of investment in capital assets 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. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by MCOE or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. MCOE first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available. The government-wide financial statements report \$28,953,952 of restricted net position.

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.

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 Merced bills and collects the taxes on behalf of MCOE. Local property tax revenues are recorded when received.

Change in Accounting Principles**Implementation of GASB Statement No. 96**

As of July 1, 2022, MCOE adopted GASB Statement No. 96, *Subscription-Based Information Technology Arrangements (SBITAs)*. The implementation of this standard establishes that a SBITA results in a right-to-use subscription IT asset - an intangible asset - and a corresponding liability. The standard provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA. The Statement requires recognition of certain SBITA assets and liabilities for SBITAs that previously were recognized as outflows of resources based on the payment provisions of the contract. The effect of the implementation of this standard on beginning net position is disclosed in Note 16 and the additional disclosures required by this standard are included in Notes 5 and 9.

Note 2 - Deposits and Investments**Summary of Deposits and Investments**

Deposits and investments as of June 30, 2023, are classified in the accompanying financial statements as follows:

Governmental funds	\$ 57,208,492
Fiduciary funds	<u>16,853,337</u>
Total deposits and investments	<u><u>\$ 74,061,829</u></u>

Deposits and investments as of June 30, 2023, consist of the following:

Cash on hand and in banks	\$ 32,932
Cash in revolving	25,940
Investments	<u>74,002,957</u>
Total deposits and investments	<u><u>\$ 74,061,829</u></u>

Policies and Practices

MCOE 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 - MCOE is considered to be an involuntary participant in an external investment pool as MCOE is required to deposit all receipts and collections of monies with their County Treasurer (*Education Code* Section 41001). The fair value of MCOE's investment in the pool is reported in the accounting financial statements at amounts based upon MCOE'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.

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. MCOE has a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. MCOE manages its exposure to interest rate risk by investing in the County Pool which purchases a combination of shorter term and longer term investments and which also times cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations. MCOE maintains an investment of \$73,420,369 in the Merced County Treasury Investment Pool that has an average weighted maturity of 552 days.

Custodial Credit Risk - Investments

This is the risk that, in the event of the failure of the counterparty, MCOE will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. Of the investment in the investment contract, of which \$582,588 is reflected in these financials statements as the remaining balance in being held in trust to defease the related debt, MCOE has a custodial credit risk exposure of \$332,588 because the related securities are uninsured, unregistered and held by the brokerage firm which is also the counterparty for these securities. MCOE does not have a policy limiting the amount of securities that can be held by counterparties.

Custodial Credit Risk - Deposits

This is the risk that in the event of a bank failure, MCOE's deposits may not be returned to it. MCOE does not have a policy for custodial credit risk for deposits. However, the 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% 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% of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105% of the secured deposits. As of June 30, 2023, none of MCOE's bank balances was exposed to custodial credit risk because it was insured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the name of MCOE.

Note 3 - Fair Value Measurements

MCOE categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value. The following provides a summary of the hierarchy used to measure fair value:

- Level 1 - Quoted prices in active markets for identical assets that MCOE has the ability to access at the measurement date. Level 1 assets may include debt and equity securities that are traded in an active exchange market and that are highly liquid and are actively traded in over-the-counter markets.
- Level 2 - Observable inputs other than Level 1 prices such as quoted prices for similar assets in active markets, quoted prices for identical or similar assets in markets that are not active, or other inputs that are observable, such as interest rates and curves observable at commonly quoted intervals, implied volatilities, and credit spreads. For financial reporting purposes, if an asset has a specified term, a Level 2 input is required to be observable for substantially the full term of the asset.

- Level 3 - Unobservable inputs should be developed using the best information available under the circumstances, which might include MCOE's own data. MCOE should adjust that data if reasonably available information indicates that other market participants would use different data or certain circumstances specific to MCOE are not available to other market participants.

MCOE's fair value measurements are as follows at June 30, 2023:

Investment Type	Reported Amount	Fair Value Measurements Using		
		Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Investment Contract	\$ 582,588	\$ -	\$ 582,588	\$ -
County Pool	73,420,369	-	73,420,369	-
Total	<u>\$ 74,002,957</u>	<u>\$ -</u>	<u>\$ 74,002,957</u>	<u>\$ -</u>

All assets have been valued using a market approach, with quoted market prices.

Note 4 - Receivables

Receivables at June 30, 2023, consist of intergovernmental grants, entitlements, and local sources. All receivables are considered collectible in full.

	General Fund	Special Education Pass-Through Fund	Child Development Fund	Non-Major Governmental Funds	Total
Federal Government					
Categorical aid	\$ 7,476,881	\$ 6,865,522	\$ 3,989,555	\$ 14,233	\$ 18,346,191
State Government					
LCFF apportionment	5,606	-	-	-	5,606
Other State	2,738,083	-	932,186	68,394	3,738,663
Local Sources	5,887,670	-	2,470,469	140,350	8,498,489
Total	<u>\$ 16,108,240</u>	<u>\$ 6,865,522</u>	<u>\$ 7,392,210</u>	<u>\$ 222,977</u>	<u>\$ 30,588,949</u>

Note 5 - Capital Assets, Right-to-Use Leased Assets, and Right-to-Use Subscription IT Assets

Capital assets, right-to-use leased assets, and right-to-use subscription IT assets activities for the fiscal year ended June 30, 2023, was as follows:

	Balance July 1, 2022 as Restated	Additions	Deductions	Balance June 30, 2023
Governmental Activities				
Capital assets not being depreciated				
Land	\$ 6,170,257	\$ -	\$ -	\$ 6,170,257
Construction in progress	5,315,481	3,322,241	(4,916,033)	3,721,689
Total capital assets not being depreciated	11,485,738	3,322,241	(4,916,033)	9,891,946
Capital assets being depreciated				
Land improvements	8,010,888	64,560	-	8,075,448
Buildings and improvements	107,560,675	7,893,861	-	115,454,536
Furniture and equipment	14,958,823	1,480,469	(1,176,548)	15,262,744
Total capital assets being depreciated	130,530,386	9,438,890	(1,176,548)	138,792,728
Total capital assets	142,016,124	12,761,131	(6,092,581)	148,684,674
Accumulated depreciation				
Land improvements	(3,808,762)	(263,454)	-	(4,072,216)
Buildings and improvements	(36,677,680)	(3,329,258)	-	(40,006,938)
Furniture and equipment	(12,419,264)	(715,579)	1,168,443	(11,966,400)
Total accumulated depreciation	(52,905,706)	(4,308,291)	1,168,443	(56,045,554)
Net depreciable capital assets	77,624,680	5,130,599	(8,105)	82,747,174
Right-to-use leased assets being amortized				
Buildings and improvements	1,134,703	-	(538,099)	596,604
Accumulated amortization				
Buildings and improvements	(847,821)	(208,781)	538,099	(518,503)
Net right-to-use leased assets	286,882	(208,781)	-	78,101
Right-to-use subscription IT assets being amortized				
Right-to-use subscription IT assets	379,191	337,326	(36,010)	680,507
Accumulated amortization	-	(288,519)	36,010	(252,509)
Net right-to-use subscription IT assets	379,191	48,807	-	427,998
Governmental activities capital assets, right-to-use leased assets, and right-to-use subscription IT assets, net	\$ 89,776,491	\$ 8,292,866	\$ (4,924,138)	\$ 93,145,219

Depreciation and amortization expenses were charged to governmental functions as follows:

Governmental Activities	
Instruction	\$ 2,295,457
Supervision of instruction	25,419
Instructional library, media, and technology	104,261
School site administration	320,968
Home-to-school transportation	742,749
Food services	20,680
All other pupil services	76,257
Community services	12,925
Data processing	479,376
All other administration	107,707
Plant services	619,792
	<u> </u>
Total depreciation and amortization expenses - governmental activities	<u><u>\$ 4,805,591</u></u>

Note 6 - 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 at June 30, 2023, between major and non-major governmental funds are as follows:

<u>Funds</u>	<u>Due from Other Funds</u>	<u>Due to Other Funds</u>
Major Governmental Funds		
General	\$ 5,869,243	\$ 2,194,501
Special Education Pass-Through	1,479,182	-
Child Development	40,742	4,628,531
Non-Major Governmental Funds		
Charter Schools	673,144	1,207,673
Adult Education	1,433	33,039
	<u> </u>	<u> </u>
Total	<u><u>\$ 8,063,744</u></u>	<u><u>\$ 8,063,744</u></u>

Merced County Office of Education

Notes to Financial Statements

June 30, 2023

The General Fund owes the Charter School Non-Major Governmental Fund for shared operating costs.	\$ 34,997
The General Fund owes the Charter School Non-Major Governmental Fund for mental health state revenue.	14,723
The General Fund owes the Charter School Non-Major Governmental Fund for operating costs.	72,612
The General Fund owes the Charter School Non-Major Governmental Fund for a COVID resource allocation.	417,286
The General Fund owes the Charter School Non-Major Governmental Fund for Title I costs.	168,523
The General Fund owes the Special Education Pass-Through Fund for mental health state revenue.	1,421,238
The General Fund owes the Special Education Pass-Through Fund for special education costs.	57,944
The General Fund owes the Adult Education Non-Major Governmental Fund for a maintenance allocation.	1,433
The General Fund owes the Child Development Fund for maintenance costs.	5,745
The Child Development Fund owes the General Fund for a cash flow loan.	2,000,000
The Child Development Fund owes the General Fund for indirect costs.	1,253,934
The Child Development Fund owes the General Fund for a maintenance allocation.	1,233,587
The Child Development Fund owes the General Fund for transportation costs.	88,188
The Child Development Fund owes the General Fund for interest earned.	22,188
The Child Development Fund owes the General Fund for operating costs.	30,634
The Charter School Non-Major Governmental Fund owes the General Fund for indirect costs.	420,610
The Charter School Non-Major Governmental Fund owes the General Fund for transportation costs.	184,434
The Charter School Non-Major Governmental Fund owes the General Fund for operating costs.	72,023
The Charter School Non-Major Governmental Fund owes the General Fund for a maintenance allocation.	482,560
The Charter School Non-Major Governmental Fund owes the General Fund for oversight fees.	48,046
The Adult Education Non-Major Governmental Fund owes the General Fund for indirect costs.	18,008
The Adult Education Non-Major Governmental Fund owes the General Fund for a maintenance allocation.	14,531
The Adult Education Non-Major Governmental Fund owes the General Fund for operating costs.	500
	<hr/>
Total	\$ 8,063,744
	<hr/>

Note 7 - Accounts Payable

Accounts payable at June 30, 2023, consist of the following:

	General Fund	Special Education Pass-Through Fund	Child Development Fund	Non-Major Governmental Funds	Total
Vendor payables	\$ 8,519,801	\$ 8,458,668	\$ 2,999,243	\$ 123,615	\$ 20,101,327
Salaries and benefits	6,436,798	-	-	-	6,436,798
Total	<u>\$ 14,956,599</u>	<u>\$ 8,458,668</u>	<u>\$ 2,999,243</u>	<u>\$ 123,615</u>	<u>\$ 26,538,125</u>

Note 8 - Unearned Revenue

Unearned revenue at June 30, 2023, consists of the following:

	General Fund	Child Development Fund	Non-Major Governmental Funds	Total
Federal financial assistance	\$ 1,197,317	\$ 1,765	\$ 4,925	\$ 1,204,007
State categorical aid	1,291,973	-	25,000	1,316,973
Total	<u>\$ 2,489,290</u>	<u>\$ 1,765</u>	<u>\$ 29,925</u>	<u>\$ 2,520,980</u>

Note 9 - Long-Term Liabilities Other than OPEB and Pensions

Summary

The changes in MCOE's long-term liabilities other than OPEB and pensions during the year consisted of the following:

	Balance July 1, 2022 as Restated	Additions	Deductions	Balance June 30, 2023	Due in One Year
Long-Term Liabilities					
Certificates of participation	\$ 7,135,000	\$ -	\$ (295,000)	\$ 6,840,000	\$ 310,000
Unamortized premium	280,918	-	(16,524)	264,394	-
Leases	322,642	-	(234,712)	87,930	60,992
Subscription-based IT arrangements	29,925	302,126	(188,530)	143,521	54,122
Compensated absences	747,377	94,290	-	841,667	-
Total	<u>\$ 8,515,862</u>	<u>\$ 396,416</u>	<u>\$ (734,766)</u>	<u>\$ 8,177,512</u>	<u>\$ 425,114</u>

Certificates of participation are paid by the General Fund. The premiums will be amortized over the life of the related debt. Payments on leases and subscription-based IT arrangements are made from the General Fund. The compensated absences will be paid by the fund for which the employee works.

Certificates of Participation

On October 9, 2018, MCOE issued certificates of participation in the amount of \$7,935,000 with fixed interest rates between 3.0 - 5.0%. The certificates were issued at a premium in the amount of \$347,014 and is being amortized over the life of the certificates at \$16,524 per year. As of June 30, 2023, the principal balance outstanding was \$6,840,000.

The certificates mature through 2039 as follows:

Year Ending June 30,	Principal	Interest	Total
2024	\$ 310,000	\$ 263,789	\$ 573,789
2025	325,000	251,087	576,087
2026	335,000	241,028	576,028
2027	340,000	228,969	568,969
2028	360,000	211,469	571,469
2029-2033	2,080,000	767,157	2,847,157
2034-2038	2,530,000	328,422	2,858,422
2039	560,000	10,150	570,150
Total	<u>\$ 6,840,000</u>	<u>\$ 2,302,071</u>	<u>\$ 9,142,071</u>

Leases

MCOE has entered into agreements to lease various facilities and equipment. MCOE's liability on lease agreements is summarized below:

Lease	Leases Outstanding July 1, 2022	Payments	Leases Outstanding June 30, 2023
Gerbi Enterprises	\$ 58,164	\$ (28,645)	\$ 29,519
Castle Building 465 and 467	40,267	(40,267)	-
Windecker 40W	17,370	(17,370)	-
Windecker 60W	21,750	(21,750)	-
Windecker 110W	18,459	(18,459)	-
Clifford Caton	72,531	(66,812)	5,719
George Washington Carver	77,317	(24,625)	52,692
Castle CAT	16,784	(16,784)	-
Total	<u>\$ 322,642</u>	<u>\$ (234,712)</u>	<u>\$ 87,930</u>

Gerbi Enterprises

On July 1, 2021, MCOE entered into a facility lease with Gerbi Enterprises. Under the terms of the lease, MCOE will pay monthly payments of \$2,500, which amounted to total principal and interest costs of \$90,001. The annual interest rate charged on the lease is 3.0%. At June 30, 2023, MCOE has recognized a right-to-use asset of \$86,181 and a lease liability of \$29,519 related to this agreement. During the fiscal year, MCOE recorded \$28,728 in amortization expense and \$1,355 in interest expense for the right-to-use the facility.

Castle Building

On May 19, 2018, MCOE entered into a facility lease with Merced County. Under the terms of the lease, MCOE will pay monthly payments of \$4,110, which amounted to total principal and interest costs of \$246,601. The annual interest rate charged on the lease is 4.5%. At April 19, 2023, the lease contract ended. During the fiscal year, MCOE recorded \$36,885 in amortization expense and \$834 in interest expense for the final payments of the right-to-use the facility.

Windecker 40W

On July 1, 2018, MCOE entered into a facility lease with Windecker Inc. Under the terms of the lease, MCOE will pay monthly payments ranging from \$1,300 to \$1,483, which amounted to total principal and interest costs of \$83,064. The annual interest rate charged on the lease is 4.5%. At June 30, 2023, the lease contract ended. During the fiscal year, MCOE recorded \$14,864 in amortization expense and \$426 in interest expense for the final payments of the right-to-use the facility.

Windecker 60W

On July 1, 2018, MCOE entered into a facility lease with Windecker Inc. Under the terms of the lease, MCOE will pay monthly payments ranging from \$1,650 to \$1,857, which amounted to total principal and interest costs of \$105,108. The annual interest rate charged on the lease is 4.5%. At June 30, 2023, the lease contract ended. During the fiscal year, MCOE recorded \$18,814 in amortization expense and \$534 in interest expense for the final payments of the right-to-use the facility.

Windecker 110W

On July 1, 2018, MCOE entered into a facility lease with Windecker Inc. Under the terms of the lease, MCOE will pay monthly payments ranging from \$1,400 to \$1,576, which amounted to total principal and interest costs of \$89,196. The annual interest rate charged on the lease is 4.5%. At June 30, 2023, the lease contract ended. During the fiscal year, MCOE recorded \$15,965 in amortization expense and \$453 in interest expense for the final payments of the right-to-use the facility.

Clifford Caton

On August 1, 2018, MCOE entered into a facility lease with Clifford Caton. Under the terms of the lease, MCOE will pay monthly payments ranging from \$5,100 to \$5,740, which amounted to total principal and interest costs of \$321,533. The annual interest rate charged on the lease is 4.5%. At June 30, 2023, MCOE has recognized a right-to-use asset of \$287,665 and a lease liability of \$5,719 related to this agreement. During the fiscal year, MCOE recorded \$57,533 in amortization expense and \$1,901 in interest expense for the right-to-use the facility.

George Washington Carver

On July 1, 2015, MCOE entered into a facility lease with George Washington Carver. Under the terms of the lease, MCOE will pay monthly payments of \$2,300, which amounted to total principal and interest costs of \$275,999. The annual interest rate charged on the lease is 3.75%. At June 30, 2023, MCOE has recognized a right-to-use asset of \$222,758 and a lease liability of \$52,692 related to this agreement. During the fiscal year, MCOE recorded \$22,272 in amortization expense and \$2,975 in interest expense for the right-to-use the facility.

Castle CAT

On July 1, 2018, MCOE entered into a facility lease with Merced County. Under the terms of the lease, MCOE will pay monthly payments ranging from \$1,134 to \$1,433, which amounted to total principal and interest costs of \$76,848. The annual interest rate charged on the lease is 4.5%. At June 30, 2023, the lease contract ended. During the fiscal year, MCOE recorded \$13,720 in amortization expense and \$412 in interest expense for the final payments of the right-to-use the facility.

Merced County Office of Education

Notes to Financial Statements

June 30, 2023

The remaining principal and interest payment requirements for the lease obligation debt as of June 30, 2023, are as follows:

Year Ending June 30,	Principal	Interest	Total
2024	\$ 60,992	\$ 2,348	\$ 63,340
2025	26,938	661	27,599
Total	<u>\$ 87,930</u>	<u>\$ 3,009</u>	<u>\$ 90,939</u>

Subscriptions-Based Information Technology Arrangements (SBITAs)

MCOE entered into SBITAs for the general operations of MCOE. At June 30, 2023, MCOE recognized right-to-use subscriptions IT assets of \$680,507 and a SBITA liability of \$143,521 related to these agreements. During the fiscal year, MCOE recorded \$252,509 in amortization expense and \$6,382 in interest expense. The subscriptions have an interest rate of 6.0%.

The remaining principal and interest payment requirements for the SBITA obligation debt as of June 30, 2023, are as follows:

Year Ending June 30,	Principal	Interest	Total
2024	\$ 54,122	\$ 567	\$ 54,689
2025	40,192	335	40,527
2026	24,051	185	24,236
2027	25,156	94	25,250
Total	<u>\$ 143,521</u>	<u>\$ 1,181</u>	<u>\$ 144,702</u>

Compensated Absences

Compensated absences (unpaid employee vacation) for MCOE at June 30, 2023, amounted to \$841,667.

Note 10 - Other Postemployment Benefit (OPEB) Liability

For the fiscal year ended June 30, 2023, Merced County Office of Education reported a net OPEB liability, deferred outflows of resources, deferred inflows of resources, and OPEB expense for the following plans:

OPEB Plan	Net OPEB Liability	Deferred Outflows of Resources	Deferred Inflows of Resources	OPEB Expense
MCOE Plan	\$ 11,746,078	\$ 3,691,674	\$ 1,533,414	\$ 921,995
Medicare Premium Payment (MPP) Program	206,979	-	-	(49,283)
Total	<u>\$ 11,953,057</u>	<u>\$ 3,691,674</u>	<u>\$ 1,533,414</u>	<u>\$ 872,712</u>

The details of each plan are as follows:

MCOE Plan

Plan Administration

Self Insured Schools of California (SISC) administers the Postemployment Benefits Plan (the Plan). The Plan is an agent multiple employer benefit plan that is used to provide postemployment benefits other than pensions (OPEB) for eligible retirees and their spouses.

The plans assets are maintained in the Self Insured Schools of California (SISC) postemployment benefits trust and financial information can be found on their website at www.sisc.kern.org.

Plan Membership

At June 30, 2021, the valuation date, the Plan membership consisted of the following:

Inactive employees or beneficiaries currently receiving benefits payments	54
Active employees	<u>295</u>
Total	<u>349</u>

Benefits Provided

The Plan provides medical, dental, and vision insurance benefits to eligible retirees and their spouses. Benefits are provided through a third-party insurer, and the full cost of benefits is covered by the Plan. MCOE's governing board has the authority to establish and amend the benefit terms as contained within the negotiated labor agreements.

Contributions

The contribution requirements of Plan members and MCOE are established and may be amended by MCOE, the Merced County Office Teachers Association (MCOTA), the local California Service Employees Association (CSEA), and unrepresented groups. Voluntary contributions based on projected pay-as-you-go financing requirements, and any additional amounts to prefund benefits with MCOE, MCOTA, CSEA, and the unrepresented groups are based on availability of funds. For the measurement period of June 30, 2022, MCOE contributed \$924,981 to the Plan and \$678,097 of plan funds were used to fund retiree premiums. The contribution includes \$44,990 due to implied rate subsidy.

Net OPEB Liability of MCOE

MCOE's net OPEB liability of \$11,746,078 as measured as of June 30, 2022, by applying certain roll-forward procedures to an actuarial valuation dated June 30, 2021. The components of the net OPEB liability of MCOE were as follows:

Total OPEB liability	\$ 12,213,449
Plan fiduciary net position	<u>(467,371)</u>
Net OPEB liability	<u>\$ 11,746,078</u>
Plan fiduciary net position as a percentage of the total OPEB liability	<u>3.83%</u>

Actuarial Assumptions

The net OPEB liability in the June 30, 2022 actuarial measurement was determined using the following assumptions, applied to all periods included in the measurement, unless otherwise specified:

Valuation interest rate	3.85%
Inflation	2.50%
Salary increases	2.75%, average, including inflation
Expected investment rate of return	3.85%, net of OPEB plan investment expense, including inflation
Healthcare cost trend rates	4.0% for 2022

The expected investment rate of return was determined using the "Building Block Method" further explained within the actuarial study. The assessment of long-term returns for employer assets is based on long-term historical returns for surplus funds invested pursuant to California Government Code Sections 53601 et seq.

Mortality rates were based on the 2020 CalSTRS Mortality Table for certificated employees and the 2017 CalPERS Active Mortality for Miscellaneous Employees Table for classified employees. Mortality rates vary by age and sex. (Unisex mortality rates are not often used as individual OPEB benefits do not depend on the mortality table used.) If employees die prior to retirement, past contributions are available to fund benefits for employees who live to retirement. After retirement, death results in benefit termination or reduction. Although higher mortality rates reduce service costs, the mortality assumption is not likely to vary from employer to employer.

The actuarial assumptions used in the June 30, 2021 valuation were based on the results of an actual experience study for the period July 1, 2020 to June 30, 2021.

Changes in the Net OPEB Liability

	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
Balance, June 30, 2021	\$ 13,502,768	\$ 251,520	\$ 13,251,248
Service cost	459,670	-	459,670
Interest	353,850	(30,690)	384,540
Changes of assumptions and other inputs	(1,343,271)	-	(1,343,271)
Benefit payments	(678,097)	(678,097)	-
Employer contributions	-	924,981	(924,981)
Investment (losses)	(81,471)	-	(81,471)
Administrative expense	-	(343)	343
Net change in total OPEB liability	(1,289,319)	215,851	(1,505,170)
Balance, June 30, 2022	\$ 12,213,449	\$ 467,371	\$ 11,746,078

Changes in Benefit Terms - There were no changes in the benefit terms since the previous valuation.

Changes of Assumptions - The expected investment rate of return assumption was changed from 2.65% to 3.85% since the previous valuation.

Sensitivity of the Net OPEB Liability to Changes in the Expected Rate of Return

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

Expected Rate of Return	Net OPEB Liability
1% decrease (2.85%)	\$ 12,872,611
Current expected rate of return (3.85%)	11,746,078
1% increase (4.85%)	10,942,790

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rate

The following presents the net OPEB liability of MCOE, as well as what MCOE's net OPEB liability would be if it were calculated using healthcare cost trend rates that are one percent lower or higher than the current healthcare costs trend rate:

<u>Healthcare Cost Trend Rate</u>	<u>Net OPEB Liability</u>
1% decrease (3.0%)	\$ 10,464,469
Current healthcare cost trend rate (4.0%)	11,746,078
1% increase (5.0%)	13,164,408

OPEB Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2023, MCOE recognized OPEB expense of \$921,995. At June 30, 2023, MCOE reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
OPEB contributions subsequent to measurement date	\$ 725,000	\$ -
Differences between expected and actual experience	-	290,694
Changes of assumptions	2,966,674	1,238,327
Net difference between projected and actual earnings on OPEB plan investments	-	4,393
Total	<u>\$ 3,691,674</u>	<u>\$ 1,533,414</u>

The deferred outflows of resources related to OPEB resulting from MCOE contributions subsequent to the measurement date will be recognized as a reduction of the OPEB liability in the subsequent fiscal year.

The deferred outflows of resources and deferred inflows of resources related to the difference between projected and actual earnings on OPEB trust investments will be amortized over a closed five-year period and will be recognized in OPEB expense as follows:

<u>Year Ended June 30,</u>	<u>Deferred Outflows/(Inflows) of Resources</u>
2023	\$ (4,748)
2024	(4,324)
2025	(6,143)
2026	10,822
Total	<u>\$ (4,393)</u>

The deferred outflows of resources related to the changes of assumptions will be amortized over the Expected Average Remaining Service Life (EARSL) of all members that are provided benefits (active, inactive, and retirees) as of the beginning of the measurement period and will be recognized as OPEB expense as follows:

Year Ended June 30,	Deferred Outflows of Resources
2023	\$ 274,693
2024	274,693
2025	274,693
2026	274,693
2027	274,693
Thereafter	1,593,209
Total	<u>\$ 2,966,674</u>

The deferred inflows of resources related to change of assumptions and the difference between the expected and actual experience will be amortized over the Expected Average Remaining Service Life (EARSL) of all members that are provided benefits (active, inactive, and retirees) as of the beginning of the measurement period and will be recognized as OPEB expense as follows:

Year Ended June 30,	Deferred Inflows of Resources
2023	\$ (132,031)
2024	(132,031)
2025	(132,031)
2026	(132,031)
2027	(132,031)
Thereafter	(868,866)
Total	<u>\$ (1,529,021)</u>

Medicare Premium Payment (MPP) Program

Plan Description

The Medicare Premium Payment (MPP) Program is administered by the California State Teachers' Retirement System (CalSTRS). The MPP Program is a cost-sharing multiple-employer other postemployment benefit plan (OPEB) established pursuant to Chapter 1032, Statutes 2000 (SB 1435). CalSTRS administers the MPP Program through the Teachers' Health Benefits Fund (THBF).

A full description of the MPP Program regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2021, annual actuarial valuation report, Medicare Premium Payment Program Actuarial Valuation. This report and CalSTRS audited financial information are publicly available reports that can be found on the CalSTRS website under Publications at: <http://www.calstrs.com/member-publications>.

Benefits Provided

The MPP Program pays Medicare Part A premiums and Medicare Parts A and B late enrollment surcharges for eligible members of the State Teachers Retirement Plan (STRP) Defined Benefit (DB) Program who were retired or began receiving a disability allowance prior to July 1, 2012 and were not eligible for premium free Medicare Part A. The payments are made directly to the Centers for Medicare and Medicaid Services (CMS) on a monthly basis.

The MPP Program is closed to new entrants as members who retire after July 1, 2012, are not eligible for coverage under the MPP Program.

The MPP Program is funded on a pay-as-you go basis from a portion of monthly District benefit payments. In accordance with California *Education Code* Section 25930, contributions that would otherwise be credited to the DB Program each month are instead credited to the MPP Program to fund monthly program and administrative costs. Total redirections to the MPP Program are monitored to ensure that total incurred costs do not exceed the amount initially identified as the cost of the program.

Net OPEB Liability and OPEB Expense

At June 30, 2023, MCOE reported a liability of \$206,979 for its proportionate share of the net OPEB liability for the MPP Program. The net OPEB liability was measured as of June 30, 2022, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2021. MCOE's proportion of the net OPEB liability was based on a projection of MCOE's long-term share of contributions to the OPEB Plan relative to the projected contributions of all participating school districts, actuarially determined. MCOE's proportionate share for the measurement period June 30, 2022 and June 30, 2021, respectively, was 0.0628% and 0.0642%, resulting in a net decrease in the proportionate share of 0.0014%.

For the year ended June 30, 2023, MCOE recognized OPEB expense of \$(49,283).

Actuarial Methods and Assumptions

The June 30, 2022 total OPEB liability was determined by applying update procedures to the financial reporting actuarial valuation as of June 30, 2021, and rolling forward the total OPEB liability to June 30, 2022, using the assumptions listed in the following table:

Measurement Date	June 30, 2022	June 30, 2021
Valuation Date	June 30, 2021	June 30, 2020
Experience Study	July 1, 2015 through June 30, 2018	July 1, 2015 through June 30, 2018
Actuarial Cost Method	Entry age normal	Entry age normal
Investment Rate of Return	3.54%	2.16%
Medicare Part A Premium Cost Trend Rate	4.50%	4.50%
Medicare Part B Premium Cost Trend Rate	5.40%	5.40%

For the valuation as of June 30, 2021, CalSTRS uses a generational mortality assumption, which involves the use of a base mortality table and projection scales to reflect expected annual reductions in mortality rates at each age, resulting in increases in life expectancies each year into the future. The base mortality tables are CalSTRS custom tables derived to best fit the patterns of mortality among members. The projection scale was set equal to 110% of the ultimate improvement factor from the Mortality Improvement Scale (MP-2019) table, issued by the Society of Actuaries.

Assumptions were made about future participation (enrollment) into the MPP Program because CalSTRS is unable to determine which members not currently participating meet all eligibility criteria for enrollment in the future. Assumed enrollment rates were derived based on past experience and are stratified by age with the probability of enrollment diminishing as the members' age increases. This estimated enrollment rate was then applied to the population of members who may meet criteria necessary for eligibility and are not currently enrolled in the MPP Program. Based on this, the estimated number of future enrollments used in the financial reporting valuation was 209 or an average of 0.14% of the potentially eligible population (145,282).

The MPP Program is funded on a pay-as-you-go basis with contributions generally being made at the same time and in the same amount as benefit payments and expenses coming due. Any funds within the MPP Program as of June 30, 2022, were to manage differences between estimated and actual amounts to be paid and were invested in the Surplus Money Investment Fund, which is a pooled investment program administered by the State Treasurer.

Discount Rate

The discount rate used to measure the total OPEB liability as of June 30, 2022, is 3.54%. As the MPP Program is funded on a pay-as-you-go basis as previously noted, the OPEB Plan's fiduciary net position was not projected to be sufficient to make projected future benefit payments. Therefore, a discount rate of 3.54%, which is the Bond Buyer 20-Bond GO Index from Bondbuyer.com as of June 30, 2022, was applied to all periods of projected benefit payments to measure the total OPEB liability. The discount rate increased 1.38% from 2.16% as of June 30, 2021.

Sensitivity of MCOE's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate

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

Investment Rate of Return	Net OPEB Liability
1% decrease (2.54%)	\$ 225,646
Discount rate (3.54%)	206,979
1% increase (4.54%)	190,815

Sensitivity of MCOE's Proportionate Share of the Net OPEB Liability to Changes in the Medicare Costs Trend Rates

The following presents MCOE's proportionate share of the net OPEB liability calculated using the current Medicare costs trend rates, as well as what the net OPEB liability would be if it were calculated using Medicare costs trend rates that are one percent lower or higher than the current rates:

Healthcare Cost Trend Rates	Net OPEB Liability
1% decrease (3.5% Part A and 4.4% Part B)	\$ 189,910
Current discount rates (4.5% Part A and 5.4% Part B)	206,979
1% increase (5.5% Part A and 6.4% Part B)	226,326

Note 11 - Fund Balances

Fund balances are composed of the following elements:

	General Fund	Child Development Fund	Non-Major Governmental Funds	Total
Nonspendable				
Revolving cash	\$ 25,940	\$ -	\$ -	\$ 25,940
Stores inventories	96,654	-	-	96,654
Total nonspendable	122,594	-	-	122,594
Restricted				
Legally restricted programs	22,271,199	938,221	1,750,189	24,959,609
Capital projects	-	-	3,994,343	3,994,343
Total restricted	22,271,199	938,221	5,744,532	28,953,952
Assigned				
Complex facilities	500,000	-	-	500,000
Safety	552,148	-	-	552,148
LCFF ADA fluctuation	264,832	-	-	264,832
Differentiated assistance	890,628	-	-	890,628
Charter oversight	142,491	-	-	142,491
District support services	668,407	-	-	668,407
Special educational services	1,765,685	-	-	1,765,685
ROP/Career tech	996,996	-	-	996,996
Community school and juvenile hall	2,259,633	-	-	2,259,633
Transportation	313,192	-	-	313,192
Other postemployment benefits	1,518,914	-	-	1,518,914
CGM facility projects	1,000,000	-	-	1,000,000
ITS capital expenditures	300,000	-	-	300,000
Alternative Education expenses	587,616	-	-	587,616
Educational Services expenses	233,272	-	-	233,272
Special education expenses	1,409	-	-	1,409
Facility repairs	1,603,154	-	-	1,603,154
Total assigned	13,598,377	-	-	13,598,377
Unassigned				
Reserve for economic uncertainties	2,492,000	-	-	2,492,000
Remaining unassigned	13,668,067	-	-	13,668,067
Total unassigned	16,160,067	-	-	16,160,067
Total	\$ 52,152,237	\$ 938,221	\$ 5,744,532	\$ 58,834,990

Note 12 - Risk Management

MCOE 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.

MCOE's risk management activities are recorded in the General Fund. Employee life, health, and disability programs are administered by the General Fund through the Self-Insured Schools of California (SISC III) public entity risk pool (JPA). MCOE participates in the Merced County Schools Insurance Group public entity risk pool (JPA) for the workers' compensation program. Refer to Note 16 for additional information regarding the JPAs. The Property and Liability Program, for which MCOE retains risk of loss, is administered by the General Fund through the purchase of insurance from the Self-Insured Schools of California (SISC II) public entity risk pool (JPA). Excess property and liability coverage is obtained by the JPA through AIG, CHUBB, and the National Union Fire Insurance Company.

Note 13 - Employee Retirement Systems

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

For the fiscal year ended June 30, 2023, MCOE reported its proportionate share of net pension liabilities, deferred outflows of resources, deferred inflows of resources, and pension expense for each of the above plans as follows:

Pension Plan	Net Pension Liability	Deferred Outflows of Resources	Deferred Inflows of Resources	Pension Expense
CalSTRS	\$ 29,091,266	\$ 8,056,682	\$ 4,909,165	\$ 2,616,563
CalPERS	75,332,447	24,915,159	1,874,368	11,126,059
Total	<u>\$ 104,423,713</u>	<u>\$ 32,971,841</u>	<u>\$ 6,783,533</u>	<u>\$ 13,742,622</u>

The details of each plan are as follows:

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

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

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2021, annual actuarial valuation report, Defined Benefit Program Actuarial Valuation. This report and CalSTRS audited financial information are publicly available reports that can be found on the CalSTRS website under Publications at: <http://www.calstrs.com/member-publications>.

Benefits Provided

The STRP provides retirement, disability and survivor benefits to beneficiaries. Benefits are based on members' final compensation, age, and years of service credit. Members hired on or before December 31, 2012, with five years of credited service are eligible for the normal retirement benefit at age 60. Members hired on or after January 1, 2013, with five years of credited service are eligible for the normal retirement benefit at age 62. The normal retirement benefit is equal to 2.0% of final compensation for each year of credited service.

The STRP is comprised of four programs: Defined Benefit Program, Defined Benefit Supplement Program, Cash Balance Benefit Program, and Replacement Benefits Program. The STRP holds assets for the exclusive purpose of providing benefits to members and beneficiaries of these programs. CalSTRS also uses plan assets to defray reasonable expenses of administering the STRP. Although CalSTRS is the administrator of the STRP, the state is the sponsor of the STRP and obligor of the trust. In addition, the state is both an employer and nonemployer contributing entity to the STRP.

MCOE contributes exclusively to the STRP Defined Benefit Program, thus disclosures are not included for the other plans.

The STRP provisions and benefits in effect at June 30, 2023, are summarized as follows:

	STRP Defined Benefit Program	
	On or before December 31, 2012	On or after January 1, 2013
Hire date		
Benefit formula	2% at 60	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	60	62
Monthly benefits as a percentage of eligible compensation	2.0% - 2.4%	2.0% - 2.4%
Required employee contribution rate	10.25%	10.205%
Required employer contribution rate	19.10%	19.10%
Required state contribution rate	10.828%	10.828%

Contributions

Required member, County and State of California contributions rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. The contributions rates are expressed as a level percentage of payroll using the entry age normal actuarial method. In accordance with AB 1469, employer contributions into the CalSTRS will be increasing to a total of 19.1% of applicable member earnings phased over a seven-year period. The contribution rates for each plan for the year ended June 30, 2023, are presented above and MCOE's total contributions were \$3,875,468.

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

At June 30, 2023, MCOE reported a liability for its proportionate share of the net pension liability that reflected a reduction for State pension support provided to MCOE. The amount recognized by MCOE as its proportionate share of the net pension liability, the related state support and the total portion of the net pension liability that was associated with MCOE were as follows:

Total net pension liability, including State share

Proportionate share of net pension liability	\$ 29,091,266
State's proportionate share of the net pension liability	<u>14,568,792</u>
Total	<u>\$ 43,660,058</u>

The net pension liability was measured as of June 30, 2022. MCOE's proportion of the net pension liability was based on a projection of MCOE's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts and the State, actuarially determined. MCOE's proportionate share for the measurement period June 30, 2022 and June 30, 2021, respectively, was 0.0419% and 0.0427%, resulting in a net decrease in the proportionate share of 0.0008%.

For the year ended June 30, 2023, MCOE recognized pension expense of \$2,616,563. In addition, MCOE recognized pension expense and revenue of \$1,174,963 for support provided by the State. At June 30, 2023, MCOE reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 3,875,468	\$ -
Change in proportion and differences between contributions made and District's proportionate share of contributions	2,714,635	1,305,308
Differences between projected and actual earnings on pension plan investments	-	1,422,619
Differences between expected and actual experience in the measurement of the total pension liability	23,864	2,181,238
Changes of assumptions	<u>1,442,715</u>	<u>-</u>
Total	<u>\$ 8,056,682</u>	<u>\$ 4,909,165</u>

The deferred outflows of resources related to pensions resulting from County contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the subsequent fiscal year.

The deferred outflows of resources and deferred inflows of resources related to the difference between projected and actual earnings on pension plan investments will be amortized over a closed five-year period and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2024	\$ (1,045,018)
2025	(1,132,101)
2026	(1,700,647)
2027	2,455,147
Total	<u>\$ (1,422,619)</u>

The deferred outflows of resources and deferred inflows of resources related to the change in proportion and differences between contributions made and MCOE's proportionate share of contributions, differences between expected and actual experience in the measurement of the total pension liability, and changes of assumptions will be amortized over the Expected Average Remaining Service Life (EARSL) of all members that are provided benefits (active, inactive, and retirees) as of the beginning of the measurement period. The EARSL for the measurement period is seven years and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2024	\$ 1,205,946
2025	235,833
2026	38,799
2027	(107,751)
2028	(402,262)
Thereafter	(275,897)
Total	<u>\$ 694,668</u>

Actuarial Methods and Assumptions

Total pension liability for STRP was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2021, and rolling forward the total pension liability to June 30, 2022. The financial reporting actuarial valuation as of June 30, 2021, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2021
Measurement date	June 30, 2022
Experience study	July 1, 2015 through June 30, 2018
Actuarial cost method	Entry age normal
Discount rate	7.10%
Investment rate of return	7.10%
Consumer price inflation	2.75%
Wage growth	3.50%

CalSTRS uses a generational mortality assumption, which involves the use of a base mortality table and projection scales to reflect expected annual reductions in mortality rates at each age, resulting in increases in life expectancies each year into the future. The base mortality tables are CalSTRS custom tables derived to best fit the patterns of mortality among its members. The projection scale was set equal to 110% of the ultimate improvement factor from the Mortality Improvement Scale (MP-2019) table, issued by the Society of Actuaries.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. The best estimate ranges were developed using capital market assumptions from CalSTRS general investment consultant as an input to the process. The actuarial investment rate of return assumption was adopted by the board in January 2020 in conjunction with the most recent experience study. For each current and future valuation, CalSTRS' independent consulting actuary (Milliman) reviews the return assumption for reasonableness based on the most current capital market assumptions. Best estimates of 20-year geometrically linked real rates of return and the assumed asset allocation for each major asset class for the year ended June 30, 2022, are summarized in the following table:

Asset Class	Assumed Asset Allocation	Long-Term Expected Real Rate of Return
Public equity	42%	4.8%
Real estate	15%	3.6%
Private equity	13%	6.3%
Fixed income	12%	1.3%
Risk mitigating strategies	10%	1.8%
Inflation sensitive	6%	3.3%
Cash/liquidity	2%	(0.4%)

Discount Rate

The discount rate used to measure the total pension liability was 7.10%. The projection of cash flows used to determine the discount rate assumed the contributions from plan members and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return of 7.10% and assume that contributions, benefit payments and administrative expense occurred midyear. Based on these assumptions, the STRP's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine total pension liability.

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

Discount Rate	Net Pension Liability
1% decrease (6.10%)	\$ 49,407,759
Current discount rate (7.10%)	29,091,266
1% increase (8.10%)	12,222,468

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

Qualified employees are eligible to participate in the School Employer Pool (SEP) under the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Law.

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2021, annual actuarial valuation report, Schools Pool Actuarial Valuation. This report and CalPERS audited financial information are publicly available reports that can be found on the CalPERS website under Forms and Publications at:
<https://www.calpers.ca.gov/page/forms-publications>.

Benefits Provided

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

The CalPERS provisions and benefits in effect at June 30, 2023, are summarized as follows:

	School Employer Pool (CalPERS)	
	On or before December 31, 2012	On or after January 1, 2013
Hire date		
Benefit formula	2% at 55	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	55	62
Monthly benefits as a percentage of eligible compensation	1.1% - 2.5%	1.0% - 2.5%
Required employee contribution rate	7.00%	8.00%
Required employer contribution rate	25.37%	25.37%

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on July 1 following notice of a change in the rate. Total plan contributions are calculated through the CalPERS annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. MCOE is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. The contributions rates are expressed as percentage of annual payroll. The contribution rates for each plan for the year ended June 30, 2023, are presented above and the total County contributions were \$7,974,436.

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

As of June 30, 2023, MCOE reported net pension liabilities for its proportionate share of the CalPERS net pension liability totaling \$75,332,447. The net pension liability was measured as of June 30, 2022. MCOE's proportion of the net pension liability was based on a projection of MCOE's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts, actuarially determined. MCOE's proportionate share for the measurement period June 30, 2022 and June 30, 2021, respectively, was 0.2189% and 0.2125%, resulting in a net increase in the proportionate share of 0.0064%.

For the year ended June 30, 2023, MCOE recognized pension expense of \$11,126,059. At June 30, 2023, MCOE reported deferred outflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 7,974,436	\$ -
Change in proportion and differences between contributions made and District's proportionate share of contributions	2,132,885	-
Differences between projected and actual earnings on pension plan investments	8,894,713	-
Differences between expected and actual experience in the measurement of the total pension liability	340,459	1,874,368
Changes of assumptions	5,572,666	-
	<u>\$ 24,915,159</u>	<u>\$ 1,874,368</u>
Total	<u>\$ 24,915,159</u>	<u>\$ 1,874,368</u>

The deferred outflows of resources related to pensions resulting from County contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the subsequent fiscal year.

The deferred outflows of resources and deferred inflows of resources related to the difference between projected and actual earnings on pension plan investments will be amortized over a closed five-year period and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2024	\$ 1,483,355
2025	1,315,634
2026	672,043
2027	5,423,681
	<u>\$ 8,894,713</u>
Total	<u>\$ 8,894,713</u>

The deferred outflows of resources and deferred inflows of resources related to the change in proportion and differences between contributions made and MCOE's proportionate share of contributions, differences between expected and actual experience in the measurement of the total pension liability, and changes of assumptions will be amortized over the Expected Average Remaining Service Life (EARSL) of all members that are provided benefits (active, inactive, and retirees) as of the beginning of the measurement period. The EARSL for the measurement period is 3.9 years and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2024	\$ 2,673,281
2025	1,912,902
2026	1,599,011
2027	(13,552)
Total	<u>\$ 6,171,642</u>

Actuarial Methods and Assumptions

Total pension liability for the SEP was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2021, and rolling forward the total pension liability to June 30, 2022. The financial reporting actuarial valuation as of June 30, 2021, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2021
Measurement date	June 30, 2022
Experience study	July 1, 1997 through June 30, 2015
Actuarial cost method	Entry age normal
Discount rate	6.90%
Investment rate of return	6.90%
Consumer price inflation	2.30%
Wage growth	Varies by entry age and service

The mortality table used was developed based on CalPERS-specific data. The rates incorporate Generational Mortality to capture ongoing mortality improvement using 80% of Scale MP-2020 published by the Society of Actuaries.

In determining the long-term expected rate of return, CalPERS took into account long-term market return expectations as well as the expected pension fund cash flows. Projected returns for all asset classes are estimated and, combined with risk estimates, are used to project compound (geometric) returns over the long term. The discount rate used to discount liabilities was informed by the long-term projected portfolio return. The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Assumed Asset Allocation	Long-Term Expected Real Rate of Return
Global Equity - cap-weighted	30%	4.45%
Global Equity non-cap-weighted	12%	3.84%
Private Equity	13%	7.28%
Treasury	5%	0.27%
Mortgage-backed Securities	5%	0.50%
Investment Grade Corporates	10%	1.56%
High Yield	5%	2.27%
Emerging Market Debt	5%	2.48%
Private Debt	5%	3.57%
Real Assets	15%	3.21%
Leverage	(5%)	(0.59%)

Discount Rate

The discount rate used to measure the total pension liability was 6.90%. The projection of cash flows used to determine the discount rate assumed the contributions from plan members and employers will be made at the current member contribution rates and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on these assumptions, the School Employer Pool fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term expected rate of return on the School Employer Pool investments was applied to all periods of projected benefit payments to determine total pension liability.

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

Discount Rate	Net Pension Liability
1% decrease (5.90%)	\$ 108,821,534
Current discount rate (6.90%)	75,332,447
1% increase (7.90%)	47,654,947

On Behalf Payments

The State of California makes contributions to CalSTRS on behalf of MCOE. These payments consist of State General Fund contributions to CalSTRS in the amount of \$2,337,141 (10.828% of annual payroll). Contributions are no longer appropriated in the annual *Budget Act* for the legislatively mandated benefits to CalPERS. Therefore, there is no on behalf contribution rate for CalPERS. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures.

Note 14 - Commitments and Contingencies**Grants**

MCOE 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 MCOE at June 30, 2023.

Litigation

MCOE is not currently a party to any legal proceedings.

Construction Commitments

As of June 30, 2023, the MCOE had the following commitments with respect to the unfinished capital projects:

<u>Capital Project</u>	<u>Remaining Construction Commitment</u>	<u>Expected Date of Completion</u>
Thorington Building remodel	<u>\$ 380,000</u>	November 2023

Note 15 - Participation in Public Entity Risk Pools and Joint Power Authorities

MCOE is a member of the Self-Insured Schools of California Health and Welfare Program (SISC III), Self-Insured Schools of California Property and Liability Program (SISC II), and the Merced County Schools Insurance Group (MCSIG) public entity risk pools. MCOE pays an annual premium to each entity for its health, workers' compensation, and property liability coverage. The relationships between MCOE and pools are such that they are not component units of MCOE 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 MCOE are included in these statements. Audited financial statements are available from the respective entities.

MCOE has appointed one member to the governing board of SISC III.

During the year ended June 30, 2023, MCOE made payment of \$13,323,091 to SISC III for medical, dental, and vision insurance.

MCOE has appointed one member to the governing board of SISC II.

During the year ended June 30, 2023, MCOE made payment of \$185,731 to SISC II for property and liability insurance.

MCOE has appointed one member to the governing board of MCSIG.

During the year ended June 30, 2023, MCOE made payment of \$2,462,754 to MCSIG for workers' compensation.

Note 16 - Adoption of New Accounting Standard

As of July 1, 2022, MCOE adopted GASB Statement No. 96, *Subscription-Based Information Technology Arrangements (SBITAs)*. The implementation of this standard establishes that a SBITA results in a right-to-use subscription IT asset – an intangible asset – and a corresponding liability. The standard provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA. The Statement requires recognition of certain SBITA assets and liabilities for SBITAs that previously were recognized as outflows of resources based on the payment provisions of the contract. Beginning net position was restated to retroactively adopt the provisions of GASB Statement No. 96 as follows:

Governmental Activities	
Net Position - Beginning, as previously reported on June 30, 2022	\$ 47,222,020
Right-to-use subscription IT assets, net of amortization	379,191
Subscription liabilities	<u>(29,925)</u>
Net Position - Beginning as Restated on July 1, 2022	<u>\$ 47,571,286</u>



Required Supplementary Information
June 30, 2023

Merced County Office of Education

Merced County Office of Education
Budgetary Comparison Schedule – General Fund
Year Ended June 30, 2023

	Budgeted Amounts		Actual	Variances - Positive (Negative)
	Original	Final		Final to Actual
Revenues				
Local Control Funding Formula	\$ 23,323,707	\$ 26,688,616	\$ 27,536,361	\$ 847,745
Federal sources	25,917,519	26,040,597	18,280,016	(7,760,581)
Other State sources	28,167,786	31,918,264	37,621,384	5,703,120
Other local sources	26,394,671	28,666,578	34,730,754	6,064,176
Total revenues ¹	103,803,683	113,314,055	118,168,515	4,854,460
Expenditures				
Current				
Certificated salaries	24,647,187	25,389,513	24,003,468	1,386,045
Classified salaries	33,186,093	33,180,207	31,889,899	1,290,308
Employee benefits	30,755,772	30,165,659	29,812,677	352,982
Books and supplies	5,405,543	7,809,561	5,027,780	2,781,781
Services and operating expenditures	16,813,015	22,482,065	19,386,240	3,095,825
Other outgo	(3,297,175)	(4,439,598)	(4,124,489)	(315,109)
Capital outlay	2,236,634	9,143,190	6,797,497	2,345,693
Debt service				
Debt service - principal	295,000	295,000	483,530	(188,530)
Debt service - interest and other	277,363	277,363	286,045	(8,682)
Total expenditures ¹	110,319,432	124,302,960	113,562,647	10,740,313
Excess (Deficiency) of Revenues Over Expenditures	(6,515,749)	(10,988,905)	4,605,868	15,594,773
Other Financing Sources (Uses)				
Transfers in	-	922,680	-	(922,680)
Proceeds from subscription-based IT arrangements	-	-	302,126	302,126
Net financing sources (uses)	-	922,680	302,126	(620,554)
Net Change in Fund Balances	(6,515,749)	(10,066,225)	4,907,994	14,974,219
Fund Balance - Beginning	47,244,243	47,244,243	47,244,243	-
Fund Balance - Ending	\$ 40,728,494	\$ 37,178,018	\$ 52,152,237	\$ 14,974,219

¹ Due to the consolidation of Fund 17, Special Reserve Fund for Other than Capital Outlay Projects, and Fund 20, Special Reserve Fund for Postemployment Benefits for reporting purposes into the General Fund, additional revenues and expenditures pertaining to these funds are included in the actual revenues and expenditures, however, are not included in the original and final General Fund budgets.

Merced County Office of Education
 Budgetary Comparison Schedule – Special Education Pass-Through Fund
 Year Ended June 30, 2023

	Budgeted Amounts			Variances - Positive (Negative) Final to Actual
	Original	Final	Actual	
Revenues				
Federal sources	\$ 11,349,918	\$ 11,349,918	\$ 4,107,288	\$ (7,242,630)
Other State sources	26,749,724	26,760,829	28,114,229	1,353,400
Total revenues	38,099,642	38,110,747	32,221,517	(5,889,230)
Expenditures				
Current				
Other outgo	38,099,642	38,110,747	32,221,517	5,889,230
Net Change in Fund Balances	-	-	-	-
Fund Balance - Beginning	-	-	-	-
Fund Balance - Ending	\$ -	\$ -	\$ -	\$ -

Merced County Office of Education
 Budgetary Comparison Schedule – Child Development Fund
 Year Ended June 30, 2023

	Budgeted Amounts		Actual	Variances - Positive (Negative)
	Original	Final		Final to Actual
Revenues				
Federal sources	\$ 26,729,644	\$ 38,306,747	\$ 37,907,174	\$ (399,573)
Other State sources	7,655,847	10,312,543	8,828,477	(1,484,066)
Other local sources	7,386,135	8,744,944	8,671,896	(73,048)
Total revenues	41,771,626	57,364,234	55,407,547	(1,956,687)
Expenditures				
Current				
Certificated salaries	5,743,748	5,785,776	5,611,904	173,872
Classified salaries	7,449,672	7,814,004	7,323,923	490,081
Employee benefits	7,095,005	7,057,237	6,468,657	588,580
Books and supplies	2,756,481	4,034,146	2,777,094	1,257,052
Services and operating expenditures	15,570,373	28,285,283	28,567,008	(281,725)
Other outgo	2,964,330	4,113,445	3,901,088	212,357
Capital Outlay	256,000	494,333	445,956	48,377
Total expenditures	41,835,609	57,584,224	55,095,630	2,488,594
Net Change in Fund Balances	(63,983)	(219,990)	311,917	531,907
Fund Balance - Beginning	626,304	626,304	626,304	626,304
Fund Balance - Ending	\$ 562,321	\$ 406,314	\$ 938,221	\$ 531,907

Merced County Office of Education
Schedule of Changes in the County Office of Education's Net OPEB Liability and Related Ratios
Year Ended June 30, 2023

	2023	2022	2021
Total OPEB Liability			
Service cost	\$ 459,670	\$ 196,810	\$ 191,543
Interest	353,850	634,618	629,425
Changes of benefit terms	-	-	-
Experience gains	(81,471)	(127,151)	(78,752)
Expected minus actual benefit payments	-	(57,430)	-
Changes of assumptions	(1,343,271)	3,516,060	-
Benefit payments	(678,091)	(707,599)	(643,648)
Net change in total OPEB liability	(1,289,313)	3,455,308	98,568
Total OPEB Liability - Beginning	13,502,768	10,047,460	9,948,892
Total OPEB Liability - Ending (a)	<u>\$ 12,213,455</u>	<u>\$ 13,502,768</u>	<u>\$ 10,047,460</u>
Plan Fiduciary Net Position			
Contributions - employer	\$ 924,981	\$ 456,983	\$ 792,407
Net investment income	(30,690)	17,834	11,318
Investment gains	-	84,834	-
Benefit payments	(678,091)	(707,599)	(643,648)
Administrative expense	(343)	(406)	(144)
Net change in plan fiduciary net position	215,857	(148,354)	159,933
Plan Fiduciary Net Position - Beginning	251,520	399,874	239,941
Plan Fiduciary Net Position - Ending (b)	<u>\$ 467,377</u>	<u>\$ 251,520</u>	<u>\$ 399,874</u>
Net OPEB Liability - Ending (a) - (b)	<u>\$ 11,746,078</u>	<u>\$ 13,251,248</u>	<u>\$ 9,647,586</u>
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	3.83%	1.86%	3.98%
Covered Payroll	N/A ¹	N/A ¹	N/A ¹
Net OPEB Liability as a Percentage of Covered Payroll	N/A ¹	N/A ¹	N/A ¹
Measurement Date	June 30, 2022	June 30, 2021	June 30, 2020

¹ MCOE's OPEB Plan is administered through a trust, however, contributions are not made based on a measure of pay; therefore, no measure of payroll is presented.

Note: In the future, as data becomes available, ten years of information will be presented.

See Notes to Required Supplementary Information

Merced County Office of Education
Schedule of Changes in the County Office of Education's Net OPEB Liability and Related Ratios
Year Ended June 30, 2023

	2020	2019	2018
Total OPEB Liability			
Service cost	\$ 20,469	\$ 19,921	\$ 19,388
Interest	457,113	476,369	497,485
Changes of benefit terms	2,769,719	-	-
Experience gains	(316,720)	-	-
Expected minus actual benefit payments	(52,610)	-	-
Changes of assumptions	375,364	-	-
Benefit payments	(706,046)	(826,964)	(857,553)
Net change in total OPEB liability	2,547,289	(330,674)	(340,680)
Total OPEB Liability - Beginning	7,401,603	7,732,277	8,072,957
Total OPEB Liability - Ending (a)	<u>\$ 9,948,892</u>	<u>\$ 7,401,603</u>	<u>\$ 7,732,277</u>
Plan Fiduciary Net Position			
Contributions - employer	\$ 930,000	\$ 678,106	\$ 189,106
Net investment income	7,686	34,786	51,436
Investment gains	2,138	-	-
Benefit payments	(706,046)	(826,964)	(857,553)
Administrative expense	(223)	(313)	(575)
Net change in plan fiduciary net position	233,555	(114,385)	(617,586)
Plan Fiduciary Net Position - Beginning	6,386	120,771	738,357
Plan Fiduciary Net Position - Ending (b)	<u>\$ 239,941</u>	<u>\$ 6,386</u>	<u>\$ 120,771</u>
Net OPEB Liability - Ending (a) - (b)	<u>\$ 9,708,951</u>	<u>\$ 7,395,217</u>	<u>\$ 7,611,506</u>
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	2.41%	0.09%	1.56%
Covered Payroll	N/A ¹	N/A ¹	N/A ¹
Net OPEB Liability as a Percentage of Covered Payroll	N/A ¹	N/A ¹	N/A ¹
Measurement Date	June 30, 2019	June 30, 2018	June 30, 2017

¹ MCOE's OPEB Plan is administered through a trust, however, contributions are not made based on a measure of pay; therefore, no measure of payroll is presented.

Note: In the future, as data becomes available, ten years of information will be presented.

See Notes to Required Supplementary Information

Merced County Office of Education
Schedule of the County Office of Education's Proportionate Share of the Net OPEB Liability – MPP Program
Year Ended June 30, 2023

Year ended June 30,	2023	2022	2021	2020	2019	2018
Proportion of the net OPEB liability	0.0628%	0.0642%	0.0722%	0.0689%	0.0661%	0.0634%
Proportionate share of the net OPEB liability	\$ 206,979	\$ 256,262	\$ 306,115	\$ 256,411	\$ 252,968	\$ 266,754
Covered payroll	N/A ¹	N/A ¹	N/A ¹	N/A ¹	N/A ¹	N/A ¹
Proportionate share of the net OPEB liability as a percentage of it's covered payroll	N/A ¹	N/A ¹	N/A ¹	N/A ¹	N/A ¹	N/A ¹
Plan fiduciary net position as a percentage of the total OPEB liability	(0.94%)	(0.80%)	(0.71%)	(0.81%)	(0.40%)	0.01%
Measurement Date	June 30, 2022	June 30, 2021	June 30, 2020	June 30, 2019	June 30, 2018	June 30, 2017

¹ As of June 30, 2012, active members are no longer eligible for future enrollment in the MPP Program; therefore, the covered payroll disclosure is not applicable.

Note: In the future, as data becomes available, ten years of information will be presented.

Merced County Office of Education
Schedule of the County Office of Education's Proportionate Share of the Net Pension Liability
Year Ended June 30, 2023

	2023	2022	2021	2020	2019
CalSTRS					
Proportion of the net pension liability	0.0419%	0.0427%	0.0415%	0.0389%	0.0368%
Proportionate share of the net pension liability	\$ 29,091,266	\$ 19,450,998	\$ 40,173,657	\$ 35,153,218	\$ 33,840,589
State's proportionate share of the net pension liability	14,568,792	9,786,988	20,709,525	19,178,427	19,375,320
Total	<u>\$ 43,660,058</u>	<u>\$ 29,237,986</u>	<u>\$ 60,883,182</u>	<u>\$ 54,331,645</u>	<u>\$ 53,215,909</u>
Covered payroll	<u>\$ 24,263,162</u>	<u>\$ 23,418,533</u>	<u>\$ 23,078,082</u>	<u>\$ 21,353,213</u>	<u>\$ 19,378,559</u>
Proportionate share of the net pension liability as a percentage of its covered payroll	<u>119.90%</u>	<u>83.06%</u>	<u>174.08%</u>	<u>164.63%</u>	<u>174.63%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>81%</u>	<u>87%</u>	<u>72%</u>	<u>73%</u>	<u>71%</u>
Measurement Date	June 30, 2022	June 30, 2021	June 30, 2020	June 30, 2019	June 30, 2018
CalPERS					
Proportion of the net pension liability	0.2189%	0.2125%	0.2115%	0.1961%	0.1899%
Proportionate share of the net pension liability	\$ 75,332,447	\$ 43,214,030	\$ 64,908,966	\$ 57,154,203	\$ 50,630,196
Covered payroll	<u>\$ 33,823,985</u>	<u>\$ 30,820,237</u>	<u>\$ 30,702,317</u>	<u>\$ 27,175,363</u>	<u>\$ 25,148,458</u>
Proportionate share of the net pension liability as a percentage of its covered payroll	<u>222.72%</u>	<u>140.21%</u>	<u>211.41%</u>	<u>210.32%</u>	<u>201.33%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>70%</u>	<u>81%</u>	<u>70%</u>	<u>70%</u>	<u>71%</u>
Measurement Date	June 30, 2022	June 30, 2021	June 30, 2020	June 30, 2019	June 30, 2018

Note: In the future, as data becomes available, ten years of information will be presented.

Merced County Office of Education
Schedule of the County Office of Education's Proportionate Share of the Net Pension Liability
Year Ended June 30, 2023

	2018	2017	2016	2015
CalSTRS				
Proportion of the net pension liability	0.0350%	0.0373%	0.0396%	0.0414%
Proportionate share of the net pension liability	\$ 32,388,952	\$ 30,180,918	\$ 26,684,856	\$ 24,194,489
State's proportionate share of the net pension liability	19,161,030	17,181,458	14,113,347	14,609,677
Total	<u>\$ 51,549,982</u>	<u>\$ 47,362,376</u>	<u>\$ 40,798,203</u>	<u>\$ 38,804,166</u>
Covered payroll	<u>\$ 18,668,967</u>	<u>\$ 18,507,241</u>	<u>\$ 18,462,973</u>	<u>\$ 18,557,976</u>
Proportionate share of the net pension liability as a percentage of its covered payroll	<u>173.49%</u>	<u>163.08%</u>	<u>144.53%</u>	<u>130.37%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>69%</u>	<u>70%</u>	<u>74%</u>	<u>77%</u>
Measurement Date	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014
CalPERS				
Proportion of the net pension liability	0.1850%	0.1898%	0.2054%	0.2175%
Proportionate share of the net pension liability	\$ 44,154,452	\$ 37,492,124	\$ 30,269,214	\$ 24,694,067
Covered payroll	<u>\$ 23,602,520</u>	<u>\$ 22,775,985</u>	<u>\$ 22,729,131</u>	<u>\$ 22,842,169</u>
Proportionate share of the net pension liability as a percentage of its covered payroll	<u>187.08%</u>	<u>164.61%</u>	<u>133.17%</u>	<u>108.11%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>72%</u>	<u>74%</u>	<u>79%</u>	<u>83%</u>
Measurement Date	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014

Note: In the future, as data becomes available, ten years of information will be presented.

Merced County Office of Education
Schedule of the County Office of Education's Contributions
Year Ended June 30, 2023

	<u>2022</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>
CalSTRS					
Contractually required contribution	\$ 3,875,468	\$ 4,105,327	\$ 3,782,093	\$ 3,946,352	\$ 3,476,303
Less contributions in relation to the contractually required contribution	<u>3,875,468</u>	<u>4,105,327</u>	<u>3,782,093</u>	<u>3,946,352</u>	<u>3,476,303</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	<u>\$ 20,290,408</u>	<u>\$ 24,263,162</u>	<u>\$ 23,418,533</u>	<u>\$ 23,078,082</u>	<u>\$ 21,353,213</u>
Contributions as a percentage of covered payroll	<u>19.10%</u>	<u>16.92%</u>	<u>16.15%</u>	<u>17.10%</u>	<u>16.28%</u>
CalPERS					
Contractually required contribution	\$ 7,974,436	\$ 7,749,075	\$ 6,379,789	\$ 6,054,804	\$ 4,908,414
Less contributions in relation to the contractually required contribution	<u>7,974,436</u>	<u>7,749,075</u>	<u>6,379,789</u>	<u>6,054,804</u>	<u>4,908,414</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	<u>\$ 31,432,542</u>	<u>\$ 33,823,985</u>	<u>\$ 30,820,237</u>	<u>\$ 30,702,317</u>	<u>\$ 27,175,363</u>
Contributions as a percentage of covered payroll	<u>25.370%</u>	<u>22.910%</u>	<u>20.700%</u>	<u>19.721%</u>	<u>18.062%</u>

Note: In the future, as data becomes available, ten years of information will be presented.

Merced County Office of Education
Schedule of the County Office of Education's Contributions
Year Ended June 30, 2023

	2018	2017	2016	2015
CalSTRS				
Contractually required contribution	\$ 2,796,326	\$ 2,348,556	\$ 1,985,827	\$ 1,639,512
Less contributions in relation to the contractually required contribution	<u>2,796,326</u>	<u>2,348,556</u>	<u>1,985,827</u>	<u>1,639,512</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	<u>\$ 19,378,559</u>	<u>\$ 18,668,967</u>	<u>\$ 18,507,241</u>	<u>\$ 18,462,973</u>
Contributions as a percentage of covered payroll	<u>14.43%</u>	<u>12.58%</u>	<u>10.73%</u>	<u>8.88%</u>
CalPERS				
Contractually required contribution	\$ 3,905,807	\$ 3,277,918	\$ 2,698,271	\$ 2,675,446
Less contributions in relation to the contractually required contribution	<u>3,905,807</u>	<u>3,277,918</u>	<u>2,698,271</u>	<u>2,675,446</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	<u>\$ 25,148,458</u>	<u>\$ 23,602,520</u>	<u>\$ 22,775,985</u>	<u>\$ 22,729,131</u>
Contributions as a percentage of covered payroll	<u>15.531%</u>	<u>13.888%</u>	<u>11.847%</u>	<u>11.771%</u>

Note: In the future, as data becomes available, ten years of information will be presented.

Note 1 - Purpose of Schedules

Budgetary Comparison Schedules

MCOE employs budget control by object codes and by individual appropriation accounts. Budgets are prepared on the modified accrual basis of accounting in accordance with accounting principles generally accepted in the United State of America as prescribed by the Governmental Accounting Standards Board and provisions of the California *Education Code*. The governing board is required to hold a public hearing and adopt an operating budget no later than July 1 of each year. 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.

These schedules present information for the original and final budgets and actual results of operations, as well as the variances from the final budget to actual results of operations.

Schedule of Changes in the County Office of Education's Net OPEB Liability and Related Ratios

This schedule presents information on MCOE's changes in the net OPEB liability, including beginning and ending balances, the plan's fiduciary net position, and the net OPEB liability. In the future, as data becomes available, ten years of information will be presented.

- *Changes in Benefit Terms* – There were no changes in the benefit terms since the previous valuation.
- *Changes of Assumptions* – The expected investment rate of return assumption was changed from 2.65% to 3.85% since the previous valuation.

Schedule of the County Office of Education's Proportionate Share of the Net OPEB Liability – MPP Program

This schedule presents information on MCOE's proportionate share of the net OPEB Liability – MPP Program and the plan's fiduciary net position. In the future, as data becomes available, ten years of information will be presented.

- *Changes in Benefit Terms* – There were no changes in the benefit terms since the previous valuation.
- *Changes of Assumptions* – The plan rate of investment return assumption was changed from 2.16% to 3.54% since the previous valuation.

Schedule of the County Office of Education's Proportionate Share of the Net Pension Liability

This schedule presents information on MCOE's proportionate share of the net pension liability (NPL), the plans' fiduciary net position and, when applicable, the State's proportionate share of the NPL associated with MCOE. In the future, as data becomes available, ten years of information will be presented.

- *Changes in Benefit Terms* – There were no changes in benefit terms since the previous valuations for both CalSTRS and CalPERS.
- *Changes of Assumptions* – There were no changes in economic assumptions for the CalSTRS plan from the previous valuations. The CalPERS plan rate of investment return assumption was changed from 7.15% to 6.90% since the previous valuation.

Schedule of the County Office of Education's Contributions

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



Supplementary Information
June 30, 2023

Merced County Office of Education

Merced County Office of Education
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2023

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal Financial Assistance Listing Number	Pass-Through Entity Identifying Number	Federal Expenditures	Amounts Passed Through to Subrecipients
U.S. Department of Education				
Passed Through California Department of Education (CDE)				
Special Education Cluster				
Special Education Grants to States - Basic Local Assistance	84.027	13379	\$ 5,284,106	\$ 2,723,743
COVID-19: Special Ed: ARP IDEA Part B, Section 611, Local Assistance Entitlement	84.027	15638	1,412,652	884,903
Special Ed: IDEA Mental Health Average Daily Attendance (ADA) Allocation, Part B, Section 611	84.027A	15197	663,177	362,115
Special Ed: Alternate Dispute Resolution, Part B, Section 611	84.027A	13007	14,922	-
Subtotal (84.027)			7,374,857	3,970,761
Special Education Preschool Grants	84.173	13430	235,104	89,695
COVID-19: Special Ed: ARP IDEA Part B, Section 619, Preschool Grants	84.173	15639	46,832	46,832
Special Ed: Alternate Dispute Resolution, Part B, Section 611	84.173A	13431	2,517	-
Special Ed: IDEA Preschool Staff Development, Part B, Section 619	84.173A	13007	-	-
Subtotal (84.173)			284,453	136,527
Total Special Education Cluster			7,659,310	4,107,288
ESEA (ESSA): Title I, Part A, Basic Grants Low-Income and Neglected	84.010	14329	619,097	-
ESEA (ESSA): Title I, Part D, Subpart 2, Local Delinquent Programs	84.010	14357	146,108	-
ESEA (ESSA) School Improvement (CSI) Funding for LEAs	84.010	15438	229,655	-
ESEA (ESSA) School Improvement (CSI) Funding for COEs	84.010	15439	62,505	-
Subtotal (84.010)			1,057,365	-

Merced County Office of Education
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2023

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal Financial Assistance Listing Number	Pass-Through Entity Identifying Number	Federal Expenditures	Amounts Passed Through to Subrecipients
U.S. Department of Education				
Passed Through California Department of Education (CDE)				
COVID-19: After School Education and Safety (ASES) Rate Increase: ESSER III State Reserve Afterschool programs	84.425U	15649	722,997	-
COVID-19: After School Education and Safety (ASES) Rate Increase: ESSER III State Reserve Summer Learning programs	84.425U	15652	126,301	-
COVID-19 Elementary and Secondary School Emergency Relief Fund II (ESSER II)	84.425D	15547	454,289	-
COVID-19: Elementary and Secondary School Emergency Relief III (ESSER III) Fund	84.425U	15559	1,418,755	-
COVID-19: Elementary and Secondary School Emergency Relief III (ESSER III) Fund Learning Loss	84.425U	10155	495,502	-
COVID-19: Expanded Learning Opportunities (ELO) Grant ESSER II State Reserve	84.425D	15618	230,453	-
COVID-19: Expanded Learning Opportunities (ELO) Grant: ESSER III State Reserve Emergency Needs	84.425U	15620	97,252	-
COVID-19: Expanded Learning Opportunities (ELO) Grant: ESSER III State Reserve Learning Loss	84.425U	15621	220,098	-
COVID-19: Expanded Learning Opportunities (ELO) Grant GEER II	84.425C	15619	42,773	-
COVID-19: American Rescue Plan - Homeless Children and Youth II (ARP HYC II)	84.425W	15566	2,049	-
COVID-19: American Rescue Plan-Homeless Children and Youth (ARP-HCY) Program	84.425W	15564	15,633	-
COVID-19: American Rescue Plan-Homeless Children and Youth (ARP-HCY) Program Statewide Activities	84.425W	15636	214	-
Subtotal (84.425)			3,826,316	-
Twenty-First Century Community Learning Centers	84.287	14350	138,094	-
Twenty-First Century Community Learning Centers	84.287	14349	73,296	-
Subtotal (84.287)			211,390	-

Merced County Office of Education
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2023

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal Financial Assistance Listing Number	Pass-Through Entity Identifying Number	Federal Expenditures	Amounts Passed Through to Subrecipients
U.S. Department of Education				
Passed Through California Department of Education (CDE)				
ESEA (ESSA): Title I, Part C, Migrant Ed (Regular and Summer Program)	84.011	14326	8,277,089	-
Supporting Effective Instruction State Grants - Teacher Quality	84.367	14341	56,154	-
ESEA (ESSA): Title III, English Learner Student Program	84.365	14346	144,007	-
Student Support and Academic Enrichment Program	84.424	15396	43,686	-
Strengthening Career and Technical Education for the 21st Century	84.048	15294	40,301	-
Special Education- ARP IDEA Part C, Early Education Program	84.181X	25657	22,455	-
Special Education-Grants for Infants and Families	84.181	23761	89,865	-
Education for Homeless Children and Youth	84.196	14332	74,550	-
Passed Through the California Department of Developmental Services				
Family Resource Center/Network	84.181	[1]	88,073	-
We-Can-Work	84.216	[1]	128,285	-
Total U.S. Department of Education			21,718,846	4,107,288
U.S. Department of Health and Human Services				
Head Start Cluster, Head Start	93.600	10016	18,527,332	-
Total Head Start Cluster			18,527,332	-
Passed Through California Department of Health Care Services				
Child Care and Development Fund Cluster				
Child Development: Federal General Child Care and Dev (CCTR)	93.575	15136	253,139	-
Child Development: Quality Improvement Activities	93.575	14092	889,528	-
Child Development: Federal Alternative Payment, Stage 3 (Contract Prefix C2AP)	93.575	14178	585,896	-
Child Care and Development Programs Administered by CA Department of Social Services (Federal Funds)	93.575	10163	2,975,083	-
Child Development: Federal Local Planning Councils (Contract Prefix CLPC)	93.575	13946	100,610	-
Subtotal (93.575)			4,804,256	-

[1] The pass-through entity identifying number not available.

See Notes to Supplementary Information

Merced County Office of Education
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2023

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal Financial Assistance Listing Number	Pass-Through Entity Identifying Number	Federal Expenditures	Amounts Passed Through to Subrecipients
U.S. Department of Health and Human Services				
Passed Through California Department of Health Care Services				
Child Care and Development Fund Cluster				
Child Development: Federal Alternative Payment, Stage 3 (Contract Prefix C3AP)	93.596	14153	8,973,871	
Child Development: Federal Alternative Payment (Contract Prefix CAPP)	93.596	14153	2,017,976	-
Total Child Care and Development Fund Cluster			15,796,103	-
Total U.S. Department of Health and Human Services			34,323,435	-
U.S. Department of Labor				
Passed Through California Department of Education				
WIOA Cluster, Workforce Investment Act-Youth Activities	17.259	10055	1,034,999	-
Total Workforce Innovation and Opportunity Act (WIOA) Cluster			1,034,999	-
U.S. Department of Agriculture				
Passed Through California Department of Education				
Child Nutrition Cluster				
Child Nutrition School Program	10.553	13390	38,977	-
School Breakfast Program - Especially Needy Breakfast	10.553	13526	16,372	-
Supply Chain Assistance (SCA) Funds	10.555	15655	8,950	-
Total Child Nutrition Cluster			64,299	-
Passed Through California Department of Social Services				
Child and Adult Care Food Program	10.558	13393	545,353	-
Total U.S. Department of Agriculture			609,652	-
Total Federal Financial Assistance			\$ 57,686,932	\$ 4,107,288

Organization

The Merced County Office of Education (MCOE) provides services to twenty school districts with a total K-12 enrollment of approximately fifty-nine thousand students (59,000). The mission of MCOE, as the educational leader of the Central Valley and trusted community partner, is to transform education and inspire personal, social, and academic achievement of students through collaborative partnerships, accountable leadership and inspired personnel. MCOE operates education programs for special populations of students and manages many programs with education related objectives.

Services provided to districts include administrative, fiscal, personnel related, technology, educational technology, educational television, curriculum, professional development, leadership training, Education Specialist Intern Program for current Special Education teachers, Multiple Subject Intern Program, Teacher Induction Program (TIP), Clear Administrative Services Credential Program (ADMIN KEYS), Special Education services, Foster Youth Coordinating services, and governmental relations.

Educational programs operated for special populations of students are three-county regional Migrant (Merced, Stanislaus, and Madera), Special Education, Regional Occupational Program, Valley Community School, Juvenile Court School, Workforce Investment Act Youth Programs, Merced Scholars Charter School, Come Back Charter School, and Head Start/Early Head Start.

Programs with educational related objectives include child care subsidy programs (for CalWORKS recipients and other financially eligible families), a multitude of child care and workforce support services, a six-county regional California Preschool Instructional Network and Foster Youth Services Coordinating Program (FYSCO), Quality Rating and Improvement System (QRIS). Other education-related grant programs supporting business-education partnerships, the work of the Family Resource Council, California student opportunity and access program (CALSOAP), outdoor school, and an after school program.

MCOE has a main administrative complex, which houses the Superintendent, Human Resources, and other various administrative offices as well as an educational technology center and a print shop. The MCOE operates over 130 sites housing students and staff. The MCOE has an ancillary administrative complex, which houses Information Technology, Maintenance, Operations and Transportation and a warehouse. MCOE owns two buildings in downtown Merced. The Historic Mondo building, which is the MCOE professional development center that includes a large training room, conference rooms and offices. The second building, Thorington, was purchased in June of 2022. This new addition was purchased to support a collaboration with Merced County Behavioral Health.

Governing Board

<u>Member</u>	<u>Office</u>	<u>Term Expires</u>
Geneva Brett	Chairperson	2026
Fred Honore	Vice Chairperson	2024
Dennis Hanks	Member	2026
Frank Fagundes	Member	2024
Tim Razzari	Member	2026

Administration

Steve M. Tietjen, Ed.D.
Janet Riley, MBA

County Superintendent of Schools
Assistant Superintendent, Business Services

Merced County Office of Education

Schedule of Average Daily Attendance

Year Ended June 30, 2023

	Second Period Report	Annual Report
Elementary School ADA		
Juvenile halls, homes, and camp	0.81	1.34
Probation referred, on probation or parole, expelled	18.28	22.75
Total Elementary School ADA	19.09	24.09
High School ADA		
Juvenile halls, homes, and camp	31.55	32.48
Probation referred, on probation or parole, expelled	202.51	201.00
Total High School ADA	234.06	233.48
Total ADA	253.15	257.57
Merced Scholars Charter School		
Regular ADA - Classroom-based		
Transitional kindergarten through third	22.63	22.90
Regular ADA - Nonclassroom-based		
Transitional kindergarten through third	33.55	33.83
Fourth through sixth	37.98	37.71
Seventh and eighth	46.30	47.50
Ninth through twelfth	128.54	134.03
Total Regular ADA - Nonclassroom-based	246.37	253.07
Total Charter School ADA	269.00	275.97
Come Back Charter		
Regular ADA (All non-classroom based)		
Ninth through twelfth	68.11	68.12

Merced Scholars Charter School

<u>Grade Level</u>	<u>1986-1987 Minutes Requirement</u>	<u>2022-2023 Actual Minutes</u>	<u>Total Days Offered</u>	<u>Status</u>
Kindergarten	36,000	56,670	179	Complied
Grades 1 - 3	50,400			
Grade 1		53,090	179	Complied

Merced County Office of Education
Reconciliation of Annual Financial and Budget Report with Audited Financial Statements
Year Ended June 30, 2023

There were no adjustments to the Unaudited Actual Financial Report, which required reconciliation to the audited financial statements at June 30, 2023.

Merced County Office of Education
Schedule of Financial Trends and Analysis
Year Ended June 30, 2023

	(Budget) 2024 ¹	2023	2022 ¹	2021 ¹
General Fund ⁴				
Revenues	\$ 121,024,132	\$ 116,602,879	\$ 106,214,114	\$ 92,811,263
Other sources and transfers in	-	302,126	2,896,181	-
Total Revenues and Other Sources	121,024,132	116,905,005	109,110,295	92,811,263
Expenditures	124,538,852	113,562,647	99,006,005	90,585,681
Other uses and transfers out	-	750,000	3,392,941	1,339,000
Total Expenditures and Other Uses	124,538,852	114,312,647	102,398,946	91,924,681
Increase/(Decrease) in Fund Balance	(3,514,720)	2,592,358	6,711,349	886,582
Ending Fund Balance	\$ 31,896,782	\$ 35,411,502	\$ 32,819,144	\$ 26,107,795
Available Reserves ²	\$ 16,159,445	\$ 16,160,067	\$ 13,761,525	\$ 15,349,327
Available Reserves as a Percentage of Total Outgo ⁴	12.98%	14.14%	13.44%	16.70%
Long-Term Liabilities ⁵	Not Available	\$ 124,554,282	\$ 84,688,400	\$ 124,323,800
Average Daily Attendance at P-2 ³	262	253	176	279

The General Fund balance has increased by \$9,303,707 over the past two years. For a county office of education this size, the State recommends available reserves of at least 2.0% of total General Fund expenditures, transfers out, and other uses (total outgo). The fiscal year 2023-2024 budget projects a decrease of \$3,514,720.

MCOE has incurred operating surpluses in each of the past three years but anticipates incurring an operating deficit during the 2023-2024 fiscal year. Total long-term obligations have increased by \$230,482 over the past two years primarily due to an increase in the net pension liability.

Average daily attendance has decreased by 26 ADA over the past two years due primarily to the restructuring of the Community School Independent Study Program and student retention. An increase of nine ADA is anticipated during fiscal year 2023-2024.

¹ Financial information for 2024, 2022, and 2021 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 within the General Fund.

³ Excludes Charter School ADA.

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

⁵ Long-term liabilities balance was restated as of June 30, 2022, due to the implementation of GASB Statement No. 96. Long-term liabilities balance was restated as of June 30, 2021, due to the implementation of GASB Statement No. 87.

See Notes to Supplementary Information

Merced County Office of Education
Schedule of Charter Schools
Year Ended June 30, 2023

Name of Charter School	Charter Number	Included in Audit Report
Merced Scholars Charter School	0631	Yes
Come Back Charter	2002	Yes

Merced County Office of Education
Combining Balance Sheet – Non-Major Governmental Funds
June 30, 2023

	Student Activities Fund	Charter Schools Fund	Adult Education Fund	County School Facilities Fund	Total Non-Major Governmental Funds
Assets					
Deposits and investments	\$ 32,712	\$ 2,149,102	\$ 65,073	\$ 3,994,343	\$ 6,241,230
Receivables	-	43,259	179,718	-	222,977
Due from other funds	-	673,144	1,433	-	674,577
Total assets	<u>\$ 32,712</u>	<u>\$ 2,865,505</u>	<u>\$ 246,224</u>	<u>\$ 3,994,343</u>	<u>\$ 7,138,784</u>
Liabilities and Fund Balances					
Liabilities					
Accounts payable	\$ -	\$ 119,033	\$ 4,582	\$ -	\$ 123,615
Due to other funds	-	1,207,673	33,039	-	1,240,712
Unearned revenue	-	29,925	-	-	29,925
Total liabilities	<u>-</u>	<u>1,356,631</u>	<u>37,621</u>	<u>-</u>	<u>1,394,252</u>
Fund Balances					
Restricted	<u>32,712</u>	<u>1,508,874</u>	<u>208,603</u>	<u>3,994,343</u>	<u>5,744,532</u>
Total liabilities and fund balances	<u>\$ 32,712</u>	<u>\$ 2,865,505</u>	<u>\$ 246,224</u>	<u>\$ 3,994,343</u>	<u>\$ 7,138,784</u>

Merced County Office of Education

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Non-Major Governmental Funds

Year Ended June 30, 2023

	Student Activities Fund	Charter Schools Fund	Adult Education Fund	County School Facilities Fund	Total Non-Major Governmental Funds
Revenues					
Local Control Funding Formula	\$ -	\$ 4,804,547	\$ -	\$ -	\$ 4,804,547
Federal sources	-	432,005	-	-	432,005
Other State sources	-	1,524,473	630,795	552,465	2,707,733
Other local sources	25,937	106,672	698,654	57,089	888,352
Total revenues	25,937	6,867,697	1,329,449	609,554	8,832,637
Expenditures					
Current					
Instruction	-	3,372,594	1,001,744	-	4,374,338
Instruction-related activities					
Supervision of instruction	-	548,796	100,378	-	649,174
School site administration	-	589,320	-	-	589,320
Pupil services					
Home-to-school transportation	-	191,463	-	-	191,463
All other pupil services	-	467,727	-	-	467,727
Administration					
All other administration	-	432,161	62,015	-	494,176
Plant services	-	525,904	161,953	-	687,857
Ancillary services	15,957	-	-	-	15,957
Facility acquisition and construction	-	47,975	-	-	47,975
Total expenditures	15,957	6,175,940	1,326,090	-	7,517,987
Net Change in Fund Balances	9,980	691,757	3,359	609,554	1,314,650
Fund Balance - Beginning	22,732	817,117	205,244	3,384,789	4,429,882
Fund Balance - Ending	\$ 32,712	\$ 1,508,874	\$ 208,603	\$ 3,994,343	\$ 5,744,532

See Notes to Supplementary Information

Note 1 - Purpose of Schedules

Schedule of Expenditures of Federal Awards (SEFA)

Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the schedule) includes the federal award activity of the Merced County Office of Education (MCOE) under programs of the federal government for the year ended June 30, 2023. The information is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the Merced County Office of Education, it is not intended to and does not present the net position, changes in net position or fund balances of Merced County Office of Education.

Summary of Significant Accounting Policies

Expenditures reported in the schedule are reported on the modified accrual basis of accounting. When applicable, such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. No federal financial assistance has been provided to a subrecipient.

Indirect Cost Rate

MCOE has not elected to use the ten percent de minimis cost rate.

SEFA Reconciliation

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 Child Care and Development Programs Administered by California Department of Social Services (Federal Funds) prior year revenues expended in the current year, the National School Lunch Program – Supply Chain Assistance Funds and Child Development: ARP California State Preschool Program One-time Stipend revenue received that is not required to be reflected on the Schedule of Expenditures of Federal Awards but has been recorded as revenues.

	Federal Financial Assistance Listing Number	Amount
Description		
Total Federal Revenues reported on the financial statements		\$ 60,726,483
Child Care and Development Programs Administered by California Department of Social Services (Federal Funds)	93.575	100,861
Child Development: ARP California State Preschool Program One-time Stipend	93.575	(3,139,248)
National School Lunch Program - Supply Chain Assistance Funds	10.555	<u>(1,164)</u>
Total Federal Financial Assistance		<u>\$ 57,686,932</u>

Local Education Agency Organization Structure

This schedule provides information about the County Office of Education'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 MCOE. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionments of State funds are made to school districts. This schedule provides information regarding the attendance of students at various grade levels and in different programs.

Schedule of Instructional Time

MCOE has received incentive funding for increasing instructional time as provided by the Incentives for Longer Instructional Day. MCOE has met its target funding. This schedule presents information on the amount of instructional time offered by MCOE and whether MCOE complied with the provisions of *Education Code* Sections 46200 through 46207.

Districts must maintain their instructional minutes at the 1986-87 requirements, as required by *Education Code* Section 46201.

Reconciliation of Annual Financial and Budget Report with Audited Financial Statements

This schedule provides the information necessary to reconcile the fund balance of all funds reported on the Annual Financial and Budget Report Unaudited Actuals to the audited financial statements.

Schedule of Financial Trends and Analysis

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

Schedule of Charter Schools

This schedule lists all charter schools chartered by the County Office of Education, and displays information for each charter school on whether or not the charter school is included in the County Office of Education audit.

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

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



Independent Auditor's Reports
June 30, 2023

Merced County Office of Education



**Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance
and Other Matters Based on an Audit of Financial Statements Performed in Accordance with
*Government Auditing Standards***

To the Governing Board
Merced County Office of Education
Merced, California

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*), the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Merced County Office of Education (MCOE), as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise MCOE's basic financial statements and have issued our report thereon dated December 15, 2023.

Adoption of New Accounting Standard

As discussed in Notes 1 and 16 to the financial statements, MCOE has adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 96, *Subscription-Based Information Technology Arrangements*, for the year ended June 30, 2023. Accordingly, a restatement has been made to the governmental activities net position as of July 1, 2022, to restate beginning net position. Our opinions are not modified with respect to this matter.

Report on Internal Control over Financial Reporting

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

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

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

Report on Compliance and Other Matters

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

Purpose of this Report

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

A handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Fresno, California
December 15, 2023



Independent Auditor's Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance Required by the Uniform Guidance

To the Governing Board
Merced County Office of Education
Merced, California

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Merced County Office of Education's (MCOE) compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of MCOE's major federal programs for the year ended June 30, 2023. MCOE's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

In our opinion, MCOE 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, 2023.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of MCOE and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of MCOE's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to MCOE's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on MCOE's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about MCOE's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding MCOE's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of MCOE's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of MCOE's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying Schedule of Findings and Questioned Costs as item 2023-001. Our opinion on each major federal program is not modified with respect to these matters.

Government Auditing Standards requires the auditor to perform limited procedures on Merced County Office of Education's response to the noncompliance findings identified in our audit described in the accompanying schedule of findings and questioned costs. Merced County Office of Education response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below we did identify a deficiency in internal control over compliance that we consider to be a material weakness.

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 a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2023-001 to be a material weakness.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

Government Auditing Standards requires the auditor to perform limited procedures on Merced County Office of Education's response to the internal control over compliance findings identified in our compliance audit described in the accompanying schedule of findings and questioned costs. Merced County Office of Education's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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

A handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Fresno, California
December 15, 2023



Independent Auditor's Report on State Compliance

To the Governing Board
Merced County Office of Education
Merced, California

Report on Compliance

Opinion on State Compliance

We have audited Merced County Office of Education's (MCOE) compliance with the requirements specified in the *2022-2023 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, applicable to MCOE's state program requirements identified below for the year ended June 30, 2023.

In our opinion, MCOE complied, in all material respects, with the compliance requirements referred to above that are applicable to the laws and regulations of the state programs noted in the table below for the year ended June 30, 2023.

Basis for Opinion

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS), the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*), and the *2022-2023 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of MCOE and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion. Our audit does not provide a legal determination of MCOE's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to MCOE's state programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on MCOE's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the *2022-2023 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* will always detect a material noncompliance when it exists. The risk of not detecting a material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about MCOE's compliance with the requirements of the state programs as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the *2022-2023 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding MCOE's compliance with the compliance requirements referred to above and performing such other procedures as we consider necessary in the circumstances.
- Obtain an understanding of MCOE's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the *2022-2023 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, but not for the purpose of expressing an opinion on the effectiveness of MCOE's internal controls over compliance. Accordingly, we express no such opinion; and
- Select and test transactions and records to determine MCOE's compliance with the state laws and regulations applicable to the following items:

2022-2023 K-12 Audit Guide Procedures	Procedures Performed
Local Education Agencies Other Than Charter Schools	
Attendance	Yes
Teacher Certification and Misassignments	Yes
Kindergarten Continuance	No (see below)
Independent Study	Yes
Continuation Education	No (see below)
Instructional Time	No (see below)
Instructional Materials	Yes
Ratios of Administrative Employees to Teachers	No (see below)

2022-2023 K-12 Audit Guide Procedures	Procedures Performed
Local Education Agencies Other Than Charter Schools	
Classroom Teacher Salaries	No (see below)
Early Retirement Incentive	No (see below)
Gann Limit Calculation	Yes
School Accountability Report Card	Yes
Juvenile Court Schools	Yes
Middle or Early College High Schools	No (see below)
K-3 Grade Span Adjustment	No (see below)
Transportation Maintenance of Effort	Yes
Apprenticeship: Related and Supplemental Instruction	No (see below)
Comprehensive School Safety Plan	Yes
District of Choice	No (see below)
Home to School Transportation Reimbursement	Yes
Independent Study Certification for ADA Loss Mitigation	Yes
School Districts, County Offices of Education, and Charter Schools	
California Clean Energy Jobs Act	No (see below)
After/Before School Education and Safety Program	Yes
Proper Expenditure of Education Protection Account Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control and Accountability Plan	Yes
Independent Study - Course Based	No (see below)
Immunizations	Yes
Educator Effectiveness	Yes
Expanded Learning Opportunities Grant (ELO-G)	Yes
Career Technical Education Incentive Grant	Yes
Transitional Kindergarten	No (see below)
Charter Schools	
Attendance	Yes
Mode of Instruction	Yes
Nonclassroom-Based Instruction/Independent Study	Yes
Determination of Funding for Nonclassroom-Based Instruction	Yes
Annual Instructional Minutes - Classroom Based	Yes
Charter School Facility Grant Program	No (see below)

MCOE does not offer kindergarten instruction; therefore, we did not perform procedures related to Kindergarten Continuance.

We did not perform Continuation Education procedures because the program is not offered by MCOE.

Instructional Time does not apply to the County; therefore, we did not perform procedures related to Instructional Time.

Ratio of Administrative Employees to Teachers does not apply to the County; therefore, we did not perform procedures related to Ratio of Administrative Employees to Teachers.

Classroom Teachers Salaries does not apply to the County; therefore, we did not perform procedures related to Classroom Teacher Salaries.

MCOE did not have any employees retire under the CalSTRS Early Retirement Incentive program; therefore, testing was not required.

We did not perform Middle or Early College High Schools procedures because the program is not offered by MCOE.

K-3 Grade Span Adjustment does not apply to the County; therefore, we did not perform procedures related to K-3 Grade Span Adjustment.

We did not perform Apprenticeship: Related and Supplemental Instruction procedures because the program is not offered by MCOE.

MCOE did not elect to operate as a school district of choice; therefore, we did not perform procedures related to District of Choice.

We did not perform California Clean Energy Jobs Act procedures because the related procedures were performed in a previous year.

MCOE does not offer an Independent Study - Course Based program; therefore, we did not perform any procedures related to the Independent Study - Course Based Program.

MCOE did not report ADA for transitional kindergarten; therefore, we did not perform procedures related to Transitional Kindergarten.

Additionally, we did not perform procedures for the Charter School Facility Grant Program because MCOE did not receive funding for this program.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identify during the audit.

Report on 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 on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that a material noncompliance with a compliance requirement will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention from those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the *2022-2023 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Fresno, California
December 15, 2023



Schedule of Findings and Questioned Costs
June 30, 2023

Merced County Office of Education

Financial Statements

Type of auditor's report issued	Unmodified
Internal control over financial reporting	
Material weaknesses identified	No
Significant deficiencies identified not considered to be material weaknesses	None Reported
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major program	
Material weaknesses identified	Yes
Significant deficiencies identified not considered to be material weaknesses	None Reported
Type of auditor's report issued on compliance for major programs	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance 2 CFR 200.516(a)	Yes

Identification of major programs

Name of Federal Program or Cluster	Federal Financial Assistance Listing Number
COVID-19: After School Education and Safety (ASES) Rate Increase: ESSER III State Reserve Afterschool programs	84.425U
COVID-19: After School Education and Safety (ASES) Rate Increase: ESSER III State Reserve Summer Learning programs	84.425U
COVID-19 Elementary and Secondary School Emergency Relief Fund II (ESSER II)	84.425D
COVID-19: Elementary and Secondary School Emergency Relief III (ESSER III) Fund	84.425U
COVID-19: Elementary and Secondary School Emergency Relief III (ESSER III) Fund Learning Loss	84.425U
COVID-19: Expanded Learning Opportunities (ELO) Grant ESSER II State Reserve	84.425D
COVID-19: Expanded Learning Opportunities (ELO) Grant: ESSER III State Reserve Emergency Needs	84.425U
COVID-19: Expanded Learning Opportunities (ELO) Grant: ESSER III State Reserve Learning Loss	84.425U
COVID-19: Expanded Learning Opportunities (ELO) Grant GEER II	84.425C
COVID-19: American Rescue Plan - Homeless Children and Youth II (ARP HYC II)	84.425W
COVID-19: American Rescue Plan-Homeless Children and Youth (ARP-HCY) Program	84.425W
COVID-19: American Rescue Plan-Homeless Children and Youth (ARP-HCY) Program Statewide Activities	84.425W
Special Education Cluster	84.027, 84.173, 84.027A, 84.173
Title I Programs	84.010

Federal Awards

Dollar threshold used to distinguish between type A and type B programs	\$ 1,730,608
Auditee qualified as low-risk auditee?	Yes

State Compliance

Internal control over state compliance programs	
Material weaknesses identified	No
Significant deficiencies identified not considered to be material weaknesses	None Reported
Type of auditor's report issued on compliance for programs	Unmodified

None reported.

The following finding represents a material weakness in internal controls over compliance that is required to be reported by the Uniform Guidance. The finding has been coded as follows:

Five Digit Code	AB 3627 Finding Type
50000	Federal Compliance

2023-001 50000

Federal Program Affected

Program Name: Education Stabilization Funds
Assistance Listing Number: 84.425
Pass-Through Entity Number: 15536, 15559, 10155
Pass-Through Entity: California Department of Education (CDE)
Federal Agency: U.S. Department of Treasury
Compliance Requirement: Reporting
Type of Finding: Material Weakness in Controls over Compliance

Criteria or Specific Requirements

Local education agencies must comply with all reporting requirements that the Department of Education may reasonably require. Section 15011 of Division B of the Coronavirus Aid, Relief, and Economic Security (CARES) Act requires that a grantee submit annual reports. In addition, the Uniform Guidance, Section 200.303 Internal Controls, requires that the non-Federal entity must establish and maintain documentation of effective internal controls over Federal awards that provide reasonable assurance that awards are being managed in compliance with Federal statutes, regulations and the terms and conditions of the Federal award.

Condition

During our testing over reporting of the Education Stabilization Fund awards, we noted that the County did complete the required annual reports on time. However, the County reported the accumulation of the previous quarterly reports rather than the final end of year accumulation. This did not agree with the most up to date general ledger reports that supported the prior year ending Schedule of Expenditures of Federal Awards (SEFA) amounts, which should have been the proper amounts reported on the annual expenditure reports. ESSER III, Resource 3213, reported expenditures of \$901,021 while the SEFA reported \$952,102. ESSER III - Learning Loss, Resource 3214, reported expenditures of \$145,070 while the SEFA reported \$159,989.

Questioned Costs

Since the correct expenditures were reported on the SEFA, and the annual expenditure reports were only off due to incorrect dates being used to run general ledger reports, the likely questioned cost will be \$0.

Context

The County did not comply with the reporting requirements as specified by the California Department of Education because of the incorrect date used to run reports.

Effect

The County did not comply with the reporting requirements as specified by the California Department of Education, as well as the internal control requirements for Federal awards.

Cause

The condition identified appears to have materialized due to the Business Services personnel not using the most up to date general ledger reports when preparing their annual expenditure reports.

Repeat Finding

No.

Recommendation

The District should review their policies and procedures related to required reporting requirements of federal awards and ensure that general ledger reports being used are the most accurate and up to date reports.

Corrective Action Plan and Views of Responsible Officials

All staff responsible for reporting have reviewed all established procedures to avoid a date error in the future.

None reported.

There were no audit findings reported in the prior year's Schedule of Findings and Questioned Costs.