



Financial Statements
June 30, 2024

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, 2024, 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 the Merced County Office of Education, as of June 30, 2024, 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.

Error Correction

As discussed in Note 16 to the financial statements, certain errors resulting in an understatement of deferred outflows of resources related to pension in Governmental Activities as of June 30, 2023, were discovered by management of the County during the current year. Accordingly, a restatement has been made to the Governmental Activities net position as of July 1, 2023, to correct the errors. 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 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 Information

Management is responsible for the other information included in the financial statements. The other information comprises the Local Education Agency Organization Structure but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 16, 2024 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, 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.

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

Fresno, California
December 16, 2024

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, 2024. 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, 2023 and June 30, 2024.

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, improvement science, leadership training, Education Specialist Intern Program, Multiple Subject Intern Program, Teacher Induction Program (TIP), Clear Administrative Services Credential Program (ADMIN KEYS), 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, 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 (CPIN) 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 expanded learning program.

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, Leadership and Systems, and other various administrative offices as well as an educational technology center and a print shop. 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 and a centralized kitchen operated by Head Start staff. 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, Strategic Systems Improvement,

and Data and Research Program. MCOE's Thorington building houses the Family Resource Council, Merced County Behavioral Health Department's Student Resiliency Center, administrative offices for the EMPOWER program, Education for Homeless Children and Youth, and Foster Youth Coordinating Services.

The Superintendent provides general administrative and executive functions for the organization and employs over 1,300 staff. MCOE has a \$197.1million annual operating expenditure budget. This includes a General Fund budget of \$131.1 million, a Child Development Fund budget of \$57.9 million, a Charter School Fund budget of \$7.1 million, and an Adult Education Fund budget of \$1.0 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 resources of MCOE (including infrastructure) as well as all liabilities and deferred inflows of resources (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 \$83.6 million for the fiscal year ended June 30, 2024, and \$59.1 million for the fiscal year ended June 30, 2023. This is an increase of \$27.1 million. Of this amount, \$42.7 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	
	2024	2023 as restated
Assets		
Current and other assets	\$ 111,690,089	\$ 87,894,095
Capital assets	98,787,404	93,145,219
Total assets	210,477,493	181,039,314
Deferred Outflows of Resources	45,624,077	40,010,307
Liabilities		
Current liabilities	29,305,777	29,059,105
Long-term liabilities	130,446,903	124,554,282
Total liabilities	159,752,680	153,613,387
Deferred Inflows of Resources	10,106,710	8,316,947
Net Position		
Net investment in capital assets	91,893,197	85,809,374
Restricted	42,699,540	28,953,952
Unrestricted (deficit)	(48,350,557)	(55,644,039)
Total net position	\$ 86,242,180	\$ 59,119,287

The \$86.2 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 \$7.3 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	
	2024	2023 as restated
Revenues		
Program revenues		
Charges for services	\$ 18,891,942	\$ 14,646,790
Operating grants and contributions	174,984,355	143,003,041
Capital grants and contributions	-	624,158
General revenues		
Federal and State aid not restricted	24,347,869	18,472,760
Property taxes	18,516,041	17,592,407
Other general revenues	16,557,735	19,145,406
Total revenues	253,297,942	213,484,562
Expenses		
Instruction-related	95,245,655	90,576,522
Pupil services	30,262,741	29,828,607
Administration	16,143,975	14,410,075
Plant services	9,572,024	9,168,470
All other services	74,950,654	64,646,471
Total expenses	226,175,049	208,630,145
Change in net position	\$ 27,122,893	\$ 4,854,417

Governmental Activities

As reported in the Statement of Activities, the cost of all of our governmental activities this year was approximately \$226.2 million as compared to \$208.6 million in the prior year. However, the amount that our taxpayers ultimately financed for these activities through local taxes was only \$18.5 million because the cost was paid by those who benefited from the programs totaling \$18.9 million or by government and other organizations who subsidized certain programs with grants and contributions of \$175 million. We paid for the remaining “public benefit” portion of our governmental activities with \$24.3 million in State and Federal unrestricted funds, and with other revenues like interest and general entitlements of \$16.6 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	
	2024	2023 as restated	2024	2023 as restated
Instruction-related	\$ 95,245,655	\$ 90,576,522	\$ (21,998,459)	\$ (25,899,392)
Pupil services	30,262,741	29,828,607	(10,676,676)	(10,352,872)
Administration	16,143,975	14,410,075	(5,895,828)	(5,650,941)
Plant services	9,572,024	9,168,470	6,013,976	(3,636,247)
All other services	74,950,654	64,646,471	258,235	(4,816,704)
Total	\$ 226,175,049	\$ 208,630,145	\$ (32,298,752)	\$ (50,356,156)

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 \$82.4 million while the prior year reported a balance of \$58.8 million. This was an increase of \$23.6 million over the fiscal year 2022-2023 ending fund balances.

Our General Fund is our principal operating fund. The fund balance in the General Fund increased by \$14.9 million to approximately \$67 million in 2023-2024.

Our special revenue fund balances increased by approximately \$8.5 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 \$0.2 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 2023-2024 budget over the course of the year. MCOE had budgeted a decrease in the General Fund of approximately \$4.2 million. However, revenues and other sources were \$11 million more than expected, while expenditures ended the year \$8.1 million less than what was budgeted, resulting in an actual increase to the fund of \$14.9 million.

CAPITAL ASSETS AND LONG-TERM LIABILITIES

Capital Assets

At June 30, 2024, MCOE had \$98.8 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, 2023, net capital assets totaled \$93.1 million. This amount represents a net increase (including additions, deductions, depreciation, and amortization) of \$5.7 million from the prior year. Table 4 displays our capital assets.

Table 4

	Governmental Activities	
	2024	2023
Land and construction in progress	\$ 12,190,224	\$ 9,891,946
Buildings and improvements	82,948,568	79,450,830
Equipment	3,462,224	3,296,344
Right-to-use leased assets	22,310	78,101
Right-to-use subscription IT assets	164,078	427,998
Total	\$ 98,787,404	\$ 93,145,219

This year’s major additions include continuing costs related to the Hopeton modernization and Head Start central kitchen. MCOE also completed construction of the Los Banos classroom building and purchased four school buses.

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 2023-2024, MCOE had \$129.8 million in long-term liabilities. Table 5 displays our long-term liabilities.

Table 5

	Governmental Activities	
	2024	2023
Long-Term Liabilities		
Certificates of participation	\$ 6,530,000	\$ 6,840,000
Unamortized premiums	247,870	264,394
Leases	26,938	87,930
Subscription-based IT arrangements	89,399	143,521
Compensated absences	887,473	841,667
Net OPEB liability	6,884,054	11,953,057
Aggregate net pension liability	115,781,169	104,423,713
Total	\$ 130,446,903	\$ 124,554,282

MCOE’s S&P rating at the time of its last issuance was “AA”.

At year-end, MCOE has a net pension liability of \$115.8 million versus \$104.4 million last year, an increase of \$11.4 million, or 10%. MCOE also reported deferred outflows of resources from pension activities of \$42.1 million, and deferred inflows of resources from pension activities of \$6.1 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 Gavin Newsom signed several budget and trailer bills before the end of June to adopt and implement the 2024-2025 State Budget. On June 26, 2024, Assembly Bill (AB) 107 was signed as the 2024-2025 Budget Bill. In the Budget Summary it is stated “In addressing a \$46.8 billion deficit, the Budget maintains the multiyear fiscal structure of the May Revision, providing positive balances in the state’s operating reserve, the Special Fund for Economic Uncertainties (SFEU), not only in the 2024-2025 fiscal year—but also for the fiscal year that follows, 2025-2026.”

On June 29, 2024, both SB 108 (Budget Bill Junior) and SB 153 (Education Omnibus Budget Trailer Bill) were signed.

The California State Budget has experienced revenue volatility over the last several years. Unprecedented revenue growth was quickly followed by corrections back toward historical trends. The Budget maintains the multiyear fiscal structure of the May Revision, providing positive balances in the state's operating reserve, the Special Fund for Economic Uncertainties (SFEU), for both 2024-2025 and 2025-2026 fiscal years.

The Enacted State Budget maintains core programs; reflects LCFF apportionment and categorical program deferrals; statutory changes to allow LEAs to provide attendance recovery opportunities for students to make up lost instruction time; and further expand the state's education training infrastructure.

The Legislative Analyst Office (LAO) 2025-2026 Fiscal Outlook report was published on November 20, 2024. The major takeaways of the report include: The State would have \$2.8B available for new commitments in 2025-2026 which is sustainable under the LAO's main forecast and the State's commitment in building budget resiliency avoiding reductions in school funding. The LAO points out ways the legislature can allocate the additional funding by using \$487M to eliminate deferrals and apply remaining \$2.3B to one-time funding or a combination of one-time funding and increased investments of ongoing funding such as LCFF beyond COLA.

The LAO projects the Proposition 98 (Prop98) guarantee (minimum funding requirement for schools) across 2023-2024, 2024-2025, and 2025-2026 will be \$119.8 billion higher than the estimates from June 2024. The total increase in the minimum funding requirement is \$0 in 2023-2024 (Proposition 98 was suspended), \$3.0 billion in 2024-2025, and \$116.8 billion in 2025-2026.

The LAO projects an estimated statutory COLA of 2.46% for 2025-2026.

LCFF COLA is 1.07 percent for 2024-2025 and the 2025-2026 COLA is estimated at 2.93 percent. The LAO projected in their December 2025-2026 Fiscal Outlook report the 2025-2026 COLA estimate to be reduced to 2.46%.

Local Control Funding Formula (LCFF) - The Merced County Office of Education (MCOE) LCFF funding is under 24% 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 - COLA of 1.07 percent.

Deferrals - The Enacted Budget imposes a partial deferral of \$245.6 million from the June 2025 payment to July 2025 - less than 5% of the most recent June second principal apportionment payment.

Federal Revenue - The outlook of federal funding levels for 2024-2025 is known but future years are still uncertain. We plan a \$1.2M reduction in funding in on-going federal funding sources in subsequent budget years due to ESSER funding expiring in 2024-2025 fiscal year.

The 2025-2026 State Budget proposal will be due on January 10, 2025. The LAO reports Prop98 Guarantee to be approximately 1.3% higher than reported at Enacted Budget. Their estimate of the minimum guarantee in 2025-2026 is \$116.8 billion. Our second interim report will include details of the Governor's 2025-2026 State Budget.

MCOE is committed to ensuring every student is 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, Deputy 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, 2024

	Governmental Activities
Assets	
Deposits and investments	\$ 60,789,802
Receivables	50,809,923
Stores inventories	90,364
Capital assets not depreciated or amortized	12,190,224
Capital assets, net of accumulated depreciation and amortization	86,597,180
Total assets	210,477,493
Deferred Outflows of Resources	
Deferred outflows of resources related to OPEB	3,526,981
Deferred outflows of resources related to pensions	42,097,096
Total deferred outflows of resources	45,624,077
Liabilities	
Accounts payable	28,414,157
Unearned revenue	891,620
Long-term liabilities	
Long-term liabilities other than OPEB and pensions due within one year	392,130
OPEB liability in one year	614,024
Long-term liabilities other than OPEB and pensions due in more than one year	7,389,550
Net other postemployment benefits liability (OPEB)	6,270,030
Aggregate net pension liabilities	115,781,169
Total liabilities	159,752,680
Deferred Inflows of Resources	
Deferred inflows of resources related to OPEB	6,136,555
Deferred inflows of resources related to pensions	3,970,155
Total deferred inflows of resources	10,106,710
Net Position	
Net investment in capital assets	91,893,197
Restricted for	
Capital projects	4,197,109
Educational programs	38,473,349
Student activities	29,082
Unrestricted (deficit)	(48,350,557)
Total net position	\$ 86,242,180

Merced County Office of Education
Statement of Activities
Year Ended June 30, 2024

Functions/Programs	Expenses	Program Revenues		Net (Expenses) Revenues and Changes in Net Position Governmental Activities
		Charges for Services and Sales	Operating Grants and Contributions	
Governmental Activities				
Instruction	\$ 64,251,836	\$ 4,955,064	\$ 47,613,003	\$ (11,683,769)
Instruction-related activities				
Supervision of instruction	19,065,557	826,308	11,921,168	(6,318,081)
Instructional library, media, and technology	1,087,023	120,526	674,766	(291,731)
School site administration	10,841,239	574,149	6,562,212	(3,704,878)
Pupil services				
Home-to-school transportation	9,465,613	167	2,130	(9,463,316)
Food services	1,753,311	21,572	1,705,508	(26,231)
All other pupil services	19,043,817	3,288,934	14,567,754	(1,187,129)
Administration				
Data processing	5,069,394	-	-	(5,069,394)
All other administration	11,074,581	918,327	9,329,820	(826,434)
Plant services	9,572,024	1,608,502	13,977,498	6,013,976
Ancillary services	9,192	-	5,562	(3,630)
Community services	38,757,525	1,623,461	38,048,123	914,059
Enterprise services	486,138	46,935	265,402	(173,801)
Interest on long-term liabilities	388,323	-	-	(388,323)
Other outgo	35,309,476	4,907,997	30,311,409	(90,070)
Total governmental activities	<u>\$ 226,175,049</u>	<u>\$ 18,891,942</u>	<u>\$ 174,984,355</u>	<u>(32,298,752)</u>
General Revenues and Subventions				
Property taxes, levied for general purposes				18,271,616
Taxes levied for other specific purposes				244,425
Federal and State aid not restricted to specific purposes				24,347,869
Interest and investment earnings				3,007,581
Interagency revenues				4,016,570
Miscellaneous				9,533,584
Subtotal, general revenues and subventions				<u>59,421,645</u>
Change in Net Position				27,122,893
Net Position - Beginning as previously reported				55,772,495
Adjustments (Note 16)				3,346,792
Net Position - Beginning, as restated				<u>59,119,287</u>
Net Position - Ending				<u>\$ 86,242,180</u>

Merced County Office of Education
Balance Sheet – Governmental Funds
June 30, 2024

	General Fund	Special Education Pass-Through Fund	Child Development Fund	Non-Major Governmental Funds	Total Governmental Funds
Assets					
Deposits and investments	\$ 50,331,472	\$ -	\$ 3,784,667	\$ 6,673,663	\$ 60,789,802
Receivables	22,558,728	11,230,673	16,716,734	303,788	50,809,923
Due from other funds	8,763,579	-	-	789,364	9,552,943
Stores inventories	90,364	-	-	-	90,364
Total assets	\$ 81,744,143	\$ 11,230,673	\$ 20,501,401	\$ 7,766,815	\$ 121,243,032
Liabilities and Fund Balances					
Liabilities					
Accounts payable	\$ 13,275,385	\$ 11,230,673	\$ 3,774,015	\$ 134,084	\$ 28,414,157
Due to other funds	789,364	-	7,488,186	1,275,393	9,552,943
Unearned revenue	661,260	-	188,752	41,608	891,620
Total liabilities	14,726,009	11,230,673	11,450,953	1,451,085	38,858,720
Fund Balances					
Nonspendable	116,079	-	-	-	116,079
Restricted	27,333,362	-	9,050,448	6,315,730	42,699,540
Assigned	20,915,980	-	-	-	20,915,980
Unassigned	18,652,713	-	-	-	18,652,713
Total fund balances	67,018,134	-	9,050,448	6,315,730	82,384,312
Total liabilities and fund balances	\$ 81,744,143	\$ 11,230,673	\$ 20,501,401	\$ 7,766,815	\$ 121,243,032

Merced County Office of Education
 Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position
 June 30, 2024

Total Fund Balance - Governmental Funds		\$ 82,384,312
<p>Amounts Reported for Governmental Activities in the Statement of Net Position are Different Because</p> <p>Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.</p>		
The cost of capital assets is		\$ 159,149,161
Accumulated depreciation and amortization is		<u>(60,361,757)</u>
Net capital assets		98,787,404
<p>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</p>		
Other postemployment benefits (OPEB)		3,526,981
Net pension liability		<u>42,097,096</u>
Total deferred outflows of resources		45,624,077
<p>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</p>		
Other postemployment benefits (OPEB)		(6,136,555)
Net pension liability		<u>(3,970,155)</u>
Total deferred inflows of resources		(10,106,710)
<p>Net pension liability is not due and payable in the current period, and is not reported as a liability in the funds.</p>		
		(115,781,169)
<p>MCOE's OPEB liability is not due and payable in the current period, and is not reported as a liability in the funds.</p>		
		(6,884,054)
<p>Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.</p>		
<p>Long-term liabilities at year-end consist of</p>		
Certificates of participation including unamortized premium		(6,777,870)
Leases		(26,938)
Subscription-based IT arrangements		(89,399)
Compensated absences		<u>(887,473)</u>
Total long-term liabilities		<u>(7,781,680)</u>
Total net position - governmental activities		<u>\$ 86,242,180</u>

Merced County Office of Education
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds
Year Ended June 30, 2024

	General Fund	Special Education Pass-Through Fund	Child Development Fund	Non-Major Governmental Funds	Total Governmental Funds
Revenues					
Local Control Funding Formula (LCFF)	\$ 31,127,332	\$ -	\$ -	\$ 6,038,101	\$ 37,165,433
Federal sources	17,333,672	11,971,605	42,608,195	470,509	72,383,981
Other State sources	44,959,018	23,200,721	21,435,684	1,691,620	91,287,043
Other local sources	41,585,667	-	10,274,427	979,326	52,839,420
Total revenues	<u>135,005,689</u>	<u>35,172,326</u>	<u>74,318,306</u>	<u>9,179,556</u>	<u>253,675,877</u>
Expenditures					
Current					
Instruction	47,643,319	-	8,381,815	5,368,447	61,393,581
Instruction-related activities					
Supervision of instruction	16,740,140	-	1,376,661	633,530	18,750,331
Instructional library, media, and technology	969,686	-	-	-	969,686
School site administration	6,455,877	-	3,238,716	644,127	10,338,720
Pupil services					
Home-to-school transportation	8,462,359	-	-	222,439	8,684,798
Food services	232,672	-	1,484,700	-	1,717,372
All other pupil services	14,099,953	-	4,173,606	416,835	18,690,394
Administration					
Data processing	4,595,929	-	-	-	4,595,929
All other administration	5,634,092	-	4,597,331	559,449	10,790,872
Plant services	6,583,426	-	1,860,157	638,996	9,082,579
Ancillary services	-	-	-	9,192	9,192
Community services	924,120	-	37,723,719	-	38,647,839
Other outgo	137,150	35,172,326	-	-	35,309,476
Enterprise services	465,679	-	-	-	465,679
Facility acquisition and construction	6,497,067	-	3,369,374	115,343	9,981,784
Debt service					
Principal	425,114	-	-	-	425,114
Interest and other	273,209	-	-	-	273,209
Total expenditures	<u>120,139,792</u>	<u>35,172,326</u>	<u>66,206,079</u>	<u>8,608,358</u>	<u>230,126,555</u>

Merced County Office of Education
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds
Year Ended June 30, 2024

	General Fund	Special Education Pass-Through Fund	Child Development Fund	Non-Major Governmental Funds	Total Governmental Funds
Net Change in Fund Balances	14,865,897	-	8,112,227	571,198	23,549,322
Fund Balance - Beginning	52,152,237	-	938,221	5,744,532	58,834,990
Fund Balance - Ending	\$ 67,018,134	\$ -	\$ 9,050,448	\$ 6,315,730	\$ 82,384,312

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, 2024

Total Net Change in Fund Balances - Governmental Funds \$ 23,549,322

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

Capital outlay 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 expense in the Statement of Activities.

This is the amount by which capital outlay exceeds depreciation and amortization expense in the period.

Capital outlay	\$ 10,376,647	
Depreciation and amortization expense	(4,734,462)	

Net expense adjustment		5,642,185
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In the Statement of Activities, certain operating expenses, such as compensated absences 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. (45,806)

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. (2,765,615)

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. 301,169

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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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, 2024

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	310,000
Leases	60,992
Subscription-based IT arrangements	<u>54,122</u>
Change in net position of governmental activities	<u>\$ 27,122,893</u>

Merced County Office of Education
Statement of Net Position – Fiduciary Funds
June 30, 2024

	<u>Custodial Funds</u>
Assets	
Deposits and investments	<u>\$ 16,449,365</u>
Liabilities	
Payroll revolving	<u>\$ 16,449,365</u>

Merced County Office of Education
Statement of Changes in Net Position – Fiduciary Funds
Year Ended June 30, 2024

	Custodial Funds
Additions	
Employer contributions	\$ 781,118,527
Deductions	
Payroll related payments	781,118,527
Net Increase (Decrease) in Fiduciary Net Position	-
Net Position - Beginning	-
Net Position - Ending	\$ -

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 out 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 \$20,068,021.

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 17070.10 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 of capital assets 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.

MCOE's investment in the county treasury is measured at fair value on a recurring basis, which is determined by the fair value per share of the underlying portfolio determined by the program sponsor. Positions in this investment pool are not required to be categorized within the fair value hierarchy.

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, 2024.

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 leased asset (leased 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 leased asset is initially measured as the initial amount of the lease liability, plus certain initial direct costs. Subsequently, the leased 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, 2024, 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 \$42,699,540 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.

Note 2 - Deposits and Investments

Summary of Deposits and Investments

Deposits and investments as of June 30, 2024, are classified in the accompanying financial statements as follows:

Governmental funds	\$ 60,789,802
Fiduciary funds	<u>16,449,365</u>
Total deposits and investments	<u><u>\$ 77,239,167</u></u>

Deposits and investments as of June 30, 2024, consist of the following:

Cash on hand and in banks	\$ 611,890
Cash in revolving	25,715
Investments	<u>76,601,562</u>
Total deposits and investments	<u><u>\$ 77,239,167</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 \$76,601,562 in the Merced County Treasury Investment Pool that has an average weighted maturity of 611 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 \$582,588 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, 2024, 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, 2024:

Investment Type	Reported Amount	Fair Value Measurements Using		
		Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Investment Contract	\$ 582,587	\$ -	\$ 582,587	\$ -

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

Note 4 - Receivables

Receivables at June 30, 2024, 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	\$ 10,021,472	\$ 11,230,673	\$ 11,059,766	\$ 107,506	\$ 32,419,417
State Government					
LCFF apportionment	119,437	-	-	-	119,437
Other State	6,068,427	-	1,741,483	136,782	7,946,692
Local Sources	6,349,392	-	3,915,485	59,500	10,324,377
Total	\$ 22,558,728	\$ 11,230,673	\$ 16,716,734	\$ 303,788	\$ 50,809,923

Note 5 - Capital Assets

Capital assets activity for the fiscal year ended June 30, 2024, was as follows:

	Balance July 1, 2023	Additions	Deductions	Balance June 30, 2024
Governmental Activities				
Capital assets not being depreciated or amortized				
Land	\$ 6,170,257	\$ -	\$ -	\$ 6,170,257
Construction in progress	3,721,689	5,294,214	(2,995,936)	6,019,967
Total capital assets not being depreciated or amortized	<u>9,891,946</u>	<u>5,294,214</u>	<u>(2,995,936)</u>	<u>12,190,224</u>
Capital assets being depreciated and amortized				
Land improvements	8,075,448	-	-	8,075,448
Buildings and improvements	115,454,536	7,160,758	-	122,615,294
Furniture and equipment	15,262,744	917,611	(472,244)	15,708,111
Right-to-use leased buildings and improvements	596,604	-	(373,846)	222,758
Right-to-use subscription IT assets	680,507	-	(343,181)	337,326
Total capital assets being depreciated and amortized	<u>140,069,839</u>	<u>8,078,369</u>	<u>(1,189,271)</u>	<u>146,958,937</u>
Total capital assets	<u>149,961,785</u>	<u>13,372,583</u>	<u>(4,185,207)</u>	<u>159,149,161</u>
Accumulated depreciation and amortization				
Land improvements	(4,072,216)	(288,186)	-	(4,360,402)
Buildings and improvements	(40,006,938)	(3,374,834)	-	(43,381,772)
Furniture and equipment	(11,966,400)	(751,731)	472,244	(12,245,887)
Right-to-use leased buildings and improvements	(518,503)	(55,791)	373,846	(200,448)
Right-to-use subscription IT assets	(252,509)	(263,920)	343,181	(173,248)
Total accumulated depreciation and amortization	<u>(56,816,566)</u>	<u>(4,734,462)</u>	<u>1,189,271</u>	<u>(60,361,757)</u>
Net depreciable and amortizable capital assets	<u>83,253,273</u>	<u>3,343,907</u>	<u>-</u>	<u>86,597,180</u>
Governmental activities capital assets, net	<u>\$ 93,145,219</u>	<u>\$ 8,638,121</u>	<u>\$ (2,995,936)</u>	<u>\$ 98,787,404</u>

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

Governmental Activities	
Instruction	\$ 2,352,180
Supervision of instruction	26,047
Instructional library, media, and technology	106,837
School site administration	328,899
Home-to-school transportation	761,103
Food services	21,191
All other pupil services	78,141
Community services	13,244
Data processing	195,573
All other administration	110,369
Plant services	<u>740,878</u>
 Total depreciation and amortization expense - governmental activities	 <u><u>\$ 4,734,462</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, 2024, 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	\$ 8,763,579	\$ 789,364
Child Development	-	7,488,186
Non-Major Governmental Funds		
Charter Schools	789,364	1,262,462
Adult Education	-	<u>12,931</u>
 Total	 <u><u>\$ 9,552,943</u></u>	 <u><u>\$ 9,552,943</u></u>

The General Fund owes the Charter School Non-Major Governmental Fund for shared operating costs.	\$ 286,159
The General Fund owes the Charter School Non-Major Governmental Fund for a COVID resource allocation.	503,205
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.	4,026,918
The Child Development Fund owes the General Fund for a maintenance allocation.	1,300,892
The Child Development Fund owes the General Fund for transportation costs.	32,196
The Child Development Fund owes the General Fund for interest earned.	83,020
The Child Development Fund owes the General Fund for operating costs.	45,160
The Charter School Non-Major Governmental Fund owes the General Fund for indirect costs.	508,970
The Charter School Non-Major Governmental Fund owes the General Fund for transportation costs.	89,904
The Charter School Non-Major Governmental Fund owes the General Fund for operating costs.	103,106
The Charter School Non-Major Governmental Fund owes the General Fund for a maintenance allocation.	500,080
The Charter School Non-Major Governmental Fund owes the General Fund for oversight fees.	60,402
The Adult Education Non-Major Governmental Fund owes the General Fund for indirect costs.	7,748
The Adult Education Non-Major Governmental Fund owes the General Fund for a maintenance allocation.	5,098
The Adult Education Non-Major Governmental Fund owes the General Fund for operating costs.	85
	<u>85</u>
Total	<u><u>\$ 9,552,943</u></u>

Note 7 - Accounts Payable

Accounts payable at June 30, 2024, consist of the following:

	General Fund	Special Education Pass-Through Fund	Child Development Fund	Non-Major Governmental Funds	Total
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Vendor payables	\$ 8,952,707	\$ 11,230,673	\$ 3,744,951	\$ 119,416	\$ 24,047,747
Salaries and benefits	4,322,678	-	29,064	14,668	4,366,410
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total	<u><u>\$ 13,275,385</u></u>	<u><u>\$ 11,230,673</u></u>	<u><u>\$ 3,774,015</u></u>	<u><u>\$ 134,084</u></u>	<u><u>\$ 28,414,157</u></u>

Note 8 - Unearned Revenue

Unearned revenue at June 30, 2024, consists of the following:

	General Fund	Child Development Fund	Non-Major Governmental Funds	Total
Federal financial assistance	\$ 179,318	\$ 1,602	\$ 35,179	\$ 216,099
State categorical aid	481,942	187,150	6,429	675,521
Total	\$ 661,260	\$ 188,752	\$ 41,608	\$ 891,620

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, 2023	Deductions	Balance June 30, 2024	Due in One Year
Long-Term Liabilities				
Certificates of participation	\$ 6,840,000	\$ (310,000)	\$ 6,530,000	\$ 325,000
Unamortized premium	264,394	(16,524)	247,870	-
Leases	87,930	(60,992)	26,938	26,938
Subscription-based IT arrangements	143,521	(54,122)	89,399	40,192
Compensated absences	841,667	45,806	887,473	-
Total	\$ 8,177,512	\$ (395,832)	\$ 7,781,680	\$ 392,130

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 (additions and deductions for compensated absences are reported net to cumulative change in the current year).

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, 2024, the principal balance outstanding was \$6,530,000.

The certificates mature through 2039 as follows:

Year Ending June 30,	Principal	Interest	Total
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	375,000	193,094	568,094
2030-2034	2,180,000	673,438	2,853,438
2035-2039	2,615,000	239,197	2,854,197
Total	<u>\$ 6,530,000</u>	<u>\$ 2,038,282</u>	<u>\$ 8,568,282</u>

Leases

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

Lease	Leases Outstanding July 1, 2023	Payments	Leases Outstanding June 30, 2024
Gerbi Enterprises	\$ 29,519	\$ (29,519)	\$ -
Clifford Caton	5,719	(5,719)	-
George Washington Carver	52,692	(25,754)	26,938
Total	<u>\$ 87,930</u>	<u>\$ (60,992)</u>	<u>\$ 26,938</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, 2024, the lease agreement had ended and it was not renewed. During the fiscal year, MCOE recorded \$28,725 in amortization expense and \$482 in interest expense for 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, 2024, the lease agreement had ended and it was not renewed. During the fiscal year, MCOE recorded \$4,794 in amortization expense and \$21 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, 2024, MCOE has recognized a right-to-use leased asset of \$222,758 and a lease liability of \$26,938 related to this agreement. During the fiscal year, MCOE recorded \$22,272 in amortization expense and \$1,737 in interest expense for the right-to-use the facility.

The remaining principal and interest payment requirements for the lease obligation debt as of June 30, 2024, are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2025	<u>\$ 26,938</u>	<u>\$ 661</u>	<u>\$ 27,599</u>

Subscriptions-Based Information Technology Arrangements (SBITAs)

MCOE entered into SBITAs for the general operations of MCOE. At June 30, 2024, MCOE recognized right-to-use subscriptions IT assets of \$337,326 and a SBITA liability of \$89,399 related to these agreements. During the fiscal year, MCOE recorded \$263,920 in amortization expense and \$4,772 in interest expense. The subscriptions have an interest rate of 4.5%.

The remaining principal and interest payment requirements for the SBITA obligation debt as of June 30, 2024, are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2025	\$ 40,192	\$ 335	\$ 40,527
2026	24,051	185	24,236
2027	<u>25,156</u>	<u>94</u>	<u>25,250</u>
Total	<u>\$ 89,399</u>	<u>\$ 614</u>	<u>\$ 90,013</u>

Compensated Absences

Compensated absences (unpaid employee vacation) for MCOE at June 30, 2024, amounted to \$887,473.

Note 10 - Net Other Postemployment Benefit (OPEB) Liability

For the fiscal year ended June 30, 2024, 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	\$ 6,681,255	\$ 3,526,981	\$ 6,136,555	\$ 538,011
Medicare Premium Payment (MPP) Program	202,799	-	-	(4,180)
Total	<u>\$ 6,884,054</u>	<u>\$ 3,526,981</u>	<u>\$ 6,136,555</u>	<u>\$ 533,831</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, 2023, the valuation date, the Plan membership consisted of the following:

Inactive employees or beneficiaries currently receiving benefits payments	45
Active employees	<u>296</u>
Total	<u><u>341</u></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, 2023, MCOE contributed \$750,000 to the Plan and \$596,545 of plan funds were used to fund retiree premiums. The contribution includes \$18,628 due to implied rate subsidy.

Net OPEB Liability of MCOE

MCOE’s net OPEB liability of \$6,681,255 as measured as of June 30, 2023, by applying certain roll-forward procedures to an actuarial valuation dated June 30, 2024. The components of the net OPEB liability of MCOE were as follows:

Total OPEB liability	\$ 7,320,648
Plan fiduciary net position	<u>(639,393)</u>
Net OPEB liability	<u>\$ 6,681,255</u>
Plan fiduciary net position as a percentage of the total OPEB liability	<u>8.73%</u>

Actuarial Assumptions

The net OPEB liability in the June 30, 2023 actuarial measurement was determined using the following assumptions, applied to all periods included in the measurement, unless otherwise specified:

Valuation interest rate	6.25%
Inflation	2.50%
Salary increases	2.75%, average, including inflation
Expected investment rate of return	6.25%, 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 2021 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, 2023 valuation were based on the results of an actual experience study for the period July 1, 2022 to June 30, 2023.

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, 2022 (measurement date)	\$ 12,213,449	\$ 467,371	\$ 11,746,078
Service cost	387,770	-	387,770
Interest	462,332	-	462,332
Difference between expected and actual experience	(200,862)	-	(200,862)
Experience gains	(2,167,942)	-	(2,167,942)
Changes of assumptions and other inputs	(2,777,554)	-	(2,777,554)
Benefit payments	(596,545)	(596,545)	-
Employer contributions	-	725,000	(725,000)
Investment gains	-	10,741	(10,741)
Expected investment income	-	33,213	(33,213)
Administrative expense	-	(387)	387
Net change in total OPEB liability	<u>(4,892,801)</u>	<u>172,022</u>	<u>(5,064,823)</u>
Balance, June 30, 2023 (measurement date)	<u>\$ 7,320,648</u>	<u>\$ 639,393</u>	<u>\$ 6,681,255</u>

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 3.85% to 6.25% 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 (5.25%)	\$ 7,199,875
Current expected rate of return (6.25%)	6,681,255
1% increase (7.25%)	6,215,315

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%)	\$ 6,313,908
Current healthcare cost trend rate (4.0%)	6,681,255
1% increase (5.0%)	7,092,944

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

For the year ended June 30, 2024, MCOE recognized OPEB expense of \$538,011. At June 30, 2024, 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	\$ 835,000	\$ -
Differences between expected and actual experience	-	2,441,378
Changes of assumptions	2,691,981	3,686,940
Net difference between projected and actual earnings on OPEB plan investments	-	8,237
Total	<u>\$ 3,526,981</u>	<u>\$ 6,136,555</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>
2024	\$ (6,473)
2025	(8,292)
2026	8,673
2027	(2,145)
Total	<u>\$ (8,237)</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:

<u>Year Ended June 30,</u>	<u>Deferred Outflows of Resources</u>
2024	\$ 274,693
2025	274,693
2026	274,693
2027	274,693
2028	274,693
Thereafter	<u>1,318,516</u>
Total	<u>\$ 2,691,981</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:

<u>Year Ended June 30,</u>	<u>Deferred Inflows of Resources</u>
2024	\$ (547,061)
2025	(547,061)
2026	(547,061)
2027	(547,061)
2028	(547,061)
Thereafter	<u>(3,393,013)</u>
Total	<u>\$ (6,128,318)</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, 2022, 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 MCOE 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, 2024, MCOE reported a liability of \$202,799 for its proportionate share of the net OPEB liability for the MPP Program. The net OPEB liability was measured as of June 30, 2023, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2022. 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, 2023 and June 30, 2022, respectively, was 0.0668% and 0.0628%, resulting in a net increase in the proportionate share of 0.0040%.

For the year ended June 30, 2024, MCOE recognized OPEB expense of \$(4,180).

Actuarial Methods and Assumptions

The June 30, 2023 total OPEB liability was determined by applying update procedures to the financial reporting actuarial valuation as of June 30, 2022, and rolling forward the total OPEB liability to June 30, 2023, using the assumptions listed in the following table:

Measurement Date	June 30, 2023	June 30, 2022
Valuation Date	June 30, 2022	June 30, 2021
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	3.65%	3.54%
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, 2022, 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 179 or an average of 0.13% of the potentially eligible population (138,780).

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, 2023, 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

As the MPP Program is funded on a pay-as-you-go basis, the OPEB plan's fiduciary net position was not projected to be sufficient to make projected future benefit payments. Therefore, the MPP Program used the Bond Buyer's 20-Bond GO Index from Bondbuyer.com as of June 30, 2023, as the discount rate, which was applied to all periods of projected benefit payments to measure the total OPEB liability. The discount rate as of June 30, 2023, was 3.65%, which is an increase of 0.11% from 3.54% as of June 30, 2022.

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:

<u>Investment Rate of Return</u>	<u>Net OPEB Liability</u>
1% decrease (2.65%)	\$ 220,401
Discount rate (3.65%)	202,799
1% increase (4.65%)	187,495

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)	\$ 186,596
Current discount rates (4.5% Part A and 5.4% Part B)	202,799
1% increase (5.5% Part A and 6.4% Part B)	221,093

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	\$ 25,715	\$ -	\$ -	\$ 25,715
Stores inventories	90,364	-	-	90,364
Total nonspendable	<u>116,079</u>	<u>-</u>	<u>-</u>	<u>116,079</u>
Restricted				
Legally restricted programs	27,333,362	9,050,448	2,118,621	38,502,431
Capital projects	-	-	4,197,109	4,197,109
Total restricted	<u>27,333,362</u>	<u>9,050,448</u>	<u>6,315,730</u>	<u>42,699,540</u>
Assigned				
Gallagher survey	162,000	-	-	162,000
Safety	812,306	-	-	812,306
LCFF ADA fluctuation	373,595	-	-	373,595
Differentiated assistance	1,510,725	-	-	1,510,725
Hopeton project	400,000	-	-	400,000
Custodial vans	320,000	-	-	320,000
District support services	1,469,548	-	-	1,469,548
Special educational services	893,297	-	-	893,297
ROP/Career tech	1,015,144	-	-	1,015,144
Community school and juvenile hall	6,182,487	-	-	6,182,487
Transportation	894,593	-	-	894,593
Other postemployment benefits	1,560,881	-	-	1,560,881
CGM facility projects	826,000	-	-	826,000
ITS capital expenditures	300,000	-	-	300,000
Alternative Education expenses	537,075	-	-	537,075
Educational Services expenses	214,830	-	-	214,830
Special education expenses	340,345	-	-	340,345
Facility repairs	2,103,154	-	-	2,103,154
Total assigned	<u>20,915,980</u>	<u>-</u>	<u>-</u>	<u>20,915,980</u>
Unassigned				
Reserve for economic uncertainties	2,698,727	-	-	2,698,727
Remaining unassigned	15,953,986	-	-	15,953,986
Total unassigned	<u>18,652,713</u>	<u>-</u>	<u>-</u>	<u>18,652,713</u>
Total	<u>\$ 67,018,134</u>	<u>\$ 9,050,448</u>	<u>\$ 6,315,730</u>	<u>\$ 82,384,312</u>

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, medical, 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, 2024, 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:

<u>Pension Plan</u>	<u>Net Pension Liability</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>	<u>Pension Expense</u>
CalSTRS	\$ 34,413,192	\$ 12,608,271	\$ 2,720,463	\$ 5,448,173
CalPERS	81,367,977	29,488,825	1,249,692	14,558,904
Total	<u>\$ 115,781,169</u>	<u>\$ 42,097,096</u>	<u>\$ 3,970,155</u>	<u>\$ 20,007,077</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, 2022, 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, 2024, 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, 2024, are presented above and MCOE’s total contributions were \$5,508,697.

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

At June 30, 2024, 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	\$ 34,413,192
State's proportionate share of the net pension liability	<u>16,488,328</u>
Total	<u>\$ 50,901,520</u>

The net pension liability was measured as of June 30, 2023. 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, 2023 and June 30, 2022, respectively, was 0.0452% and 0.0419%, resulting in a net increase in the proportionate share of 0.0033%.

For the year ended June 30, 2024, MCOE recognized pension expense of \$5,448,173. In addition, MCOE recognized pension expense and revenue of \$2,242,868 for support provided by the State. At June 30, 2024, 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	\$ 5,508,697	\$ -
Change in proportion and differences between contributions made and MCOE's proportionate share of contributions	4,048,696	879,182
Differences between projected and actual earnings on pension plan investments	147,303	-
Differences between expected and actual experience in the measurement of the total pension liability	2,704,310	1,841,281
Changes of assumptions	<u>199,265</u>	<u>-</u>
Total	<u>\$ 12,608,271</u>	<u>\$ 2,720,463</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:

<u>Year Ended June 30,</u>	<u>Deferred Outflows/(Inflows) of Resources</u>
2025	\$ (1,082,665)
2026	(1,696,725)
2027	2,788,316
2028	<u>138,377</u>
Total	<u>\$ 147,303</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:

<u>Year Ended June 30,</u>	<u>Deferred Outflows/(Inflows) of Resources</u>
2025	\$ 1,013,155
2026	817,281
2027	679,400
2028	384,457
2029	526,842
Thereafter	<u>810,673</u>
Total	<u>\$ 4,231,808</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, 2022, and rolling forward the total pension liability to June 30, 2023. The financial reporting actuarial valuation as of June 30, 2022, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2022
Measurement date	June 30, 2023
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 expected 20-year geometrically linked real rates of return and the assumed asset allocation for each major asset class for the year ended June 30, 2023, are summarized in the following table:

Asset Class	Assumed Asset Allocation	Long-Term Expected Real Rate of Return
Public equity	38%	5.25%
Real estate	15%	4.05%
Private equity	14%	6.75%
Fixed income	14%	2.45%
Risk mitigating strategies	10%	2.25%
Inflation sensitive	7%	3.65%
Cash/liquidity	2%	0.05%

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:

<u>Discount Rate</u>	<u>Net Pension Liability</u>
1% decrease (6.10%)	\$ 57,725,383
Current discount rate (7.10%)	34,413,192
1% increase (8.10%)	15,049,700

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, 2022, 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, 2024, 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	26.680%	26.680%

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, 2024, are presented above and the total County contributions were \$11,732,763.

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

As of June 30, 2024, MCOE reported net pension liabilities for its proportionate share of the CalPERS net pension liability totaling \$81,367,977. The net pension liability was measured as of June 30, 2023. 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, 2023 and June 30, 2022, respectively, was 0.2248% and 0.2189%, resulting in a net increase in the proportionate share of 0.0059%.

For the year ended June 30, 2024, MCOE recognized pension expense of \$14,558,904. At June 30, 2024, 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	\$ 11,732,763	\$ -
Change in proportion and differences between contributions made and MCOE’s proportionate share of contributions	2,346,860	-
Differences between projected and actual earnings on pension plan investments	8,691,264	-
Differences between expected and actual experience in the measurement of the total pension liability	2,969,348	1,249,692
Changes of assumptions	3,748,590	-
Total	\$ 29,488,825	\$ 1,249,692

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
2025	\$ 1,621,259
2026	960,475
2027	5,839,049
2028	270,481
Total	\$ 8,691,264

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
2025	\$ 3,453,889
2026	3,149,767
2027	1,211,450
Total	<u>\$ 7,815,106</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, 2022, and rolling forward the total pension liability to June 30, 2023. The financial reporting actuarial valuation as of June 30, 2022, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2022
Measurement date	June 30, 2023
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%	4.54%
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%)	\$ 117,637,062
Current discount rate (6.90%)	81,367,977
1% increase (7.90%)	51,392,403

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, 2024.

Litigation

MCOE is involved in various litigation arising from the normal course of business. In the opinion of management and legal counsel, the disposition of all litigation pending is not expected to have a material adverse effect on the overall financial position of MCOE at June 30, 2024.

Construction Commitments

As of June 30, 2024, 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>
Hopeton building remodel	\$ 721,720	October 2024
Cooper kitchen remodel	<u>222,801</u>	November 2024
Total	<u><u>\$ 944,521</u></u>	

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, 2024, MCOE made payment of \$12,909,123 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, 2024, MCOE made payment of \$194,396 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, 2024, MCOE made payment of \$2,388,598 to MCSIG for workers' compensation.

Note 16 - Restatement – Error Correction

During fiscal year 2023-2024, the Merced County Office of Education determined that the amount previously reported for deferred outflows of resources related to pensions as of June 30, 2023, was understated by \$3,346,792. In addition, pension expenses were overstated by \$3,346,792. The effect of this correction on the net position is shown below.

Governmental Activities	
Net Position - Beginning, as previously reported on June 30, 2023	\$ 55,772,495
Deferred outflows of resources related to pensions	3,346,792
Net Position - Beginning as Restated on July 1, 2023	\$ 59,119,287

If this amount had been properly recorded in the prior year, the change in net position for the governmental activities would have increased by \$3,346,792 from the amount previously reported.



Required Supplementary Information
June 30, 2024

Merced County Office of Education

Merced County Office of Education
 Budgetary Comparison Schedule – General Fund
 Year Ended June 30, 2024

	Budgeted Amounts		Actual	Variances - Positive (Negative)
	Original	Final		Final to Actual
Revenues				
Local Control Funding Formula	\$ 28,180,772	\$ 30,226,391	\$ 31,127,332	\$ 900,941
Federal sources	22,982,609	17,708,648	17,333,672	(374,976)
Other State sources	35,816,583	41,334,539	44,959,018	3,624,479
Other local sources	34,044,168	34,770,299	41,585,667	6,815,368
Total revenues ¹	<u>121,024,132</u>	<u>124,039,877</u>	<u>135,005,689</u>	<u>10,965,812</u>
Expenditures				
Current				
Certificated salaries	28,282,748	26,522,966	25,283,709	1,239,257
Classified salaries	37,710,203	36,799,560	35,102,370	1,697,190
Employee benefits	33,491,879	32,072,779	31,450,630	622,149
Books and supplies	5,961,415	6,223,465	5,151,882	1,071,583
Services and operating expenditures	18,572,729	23,434,403	21,271,220	2,163,183
Other outgo	(3,845,593)	(4,064,318)	(5,144,169)	1,079,851
Capital outlay	4,365,471	7,257,522	6,325,827	931,695
Debt service				
Debt service - principal	-	-	425,114	(425,114)
Debt service - interest and other	-	-	273,209	(273,209)
Total expenditures ¹	<u>124,538,852</u>	<u>128,246,377</u>	<u>120,139,792</u>	<u>8,106,585</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(3,514,720)</u>	<u>(4,206,500)</u>	<u>14,865,897</u>	<u>19,072,397</u>
Other Financing Sources (Uses)				
Transfers in	-	5,000	-	(5,000)
Net Change in Fund Balances	(3,514,720)	(4,201,500)	14,865,897	19,067,397
Fund Balance - Beginning	<u>52,152,237</u>	<u>52,152,237</u>	<u>52,152,237</u>	<u>-</u>
Fund Balance - Ending	<u>\$ 48,637,517</u>	<u>\$ 47,950,737</u>	<u>\$ 67,018,134</u>	<u>\$ 19,067,397</u>

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, 2024

	Budgeted Amounts		Actual	Variances - Positive (Negative)
	Original	Final		Final to Actual
Revenues				
Federal sources	\$ 9,884,996	\$ 9,648,558	\$ 11,971,605	\$ 2,323,047
Other State sources	<u>26,549,668</u>	<u>22,465,835</u>	<u>23,200,721</u>	<u>734,886</u>
Total revenues	<u>36,434,664</u>	<u>32,114,393</u>	<u>35,172,326</u>	<u>3,057,933</u>
Expenditures				
Current				
Other outgo	<u>36,434,664</u>	<u>32,114,393</u>	<u>35,172,326</u>	<u>(3,057,933)</u>
Net Change in Fund Balances	-	-	-	-
Fund Balance - Beginning	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balance - Ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Merced County Office of Education
 Budgetary Comparison Schedule – Child Development Fund
 Year Ended June 30, 2024

	Budgeted Amounts		Actual	Variances - Positive (Negative)
	Original	Final		Final to Actual
Revenues				
Federal sources	\$ 33,402,884	\$ 40,234,914	\$ 42,608,195	\$ 2,373,281
Other State sources	10,551,277	11,695,776	21,435,684	9,739,908
Other local sources	10,651,854	10,536,975	10,274,427	(262,548)
Total revenues	<u>54,606,015</u>	<u>62,467,665</u>	<u>74,318,306</u>	<u>11,850,641</u>
Expenditures				
Current				
Certificated salaries	6,319,472	6,052,664	5,837,554	215,110
Classified salaries	7,989,477	8,806,655	8,064,868	741,787
Employee benefits	7,262,034	7,549,163	6,671,805	877,358
Books and supplies	1,958,610	2,339,037	2,364,140	(25,103)
Services and operating expenditures	27,025,149	28,908,469	36,212,904	(7,304,435)
Other outgo	3,967,314	4,198,701	4,597,332	(398,631)
Capital outlay	91,740	4,477,738	2,457,476	2,020,262
Total expenditures	<u>54,613,796</u>	<u>62,332,427</u>	<u>66,206,079</u>	<u>(3,873,652)</u>
Net Change in Fund Balances	(7,781)	135,238	8,112,227	7,976,989
Fund Balance - Beginning	<u>938,221</u>	<u>938,221</u>	<u>938,221</u>	<u>938,221</u>
Fund Balance - Ending	<u>\$ 930,440</u>	<u>\$ 1,073,459</u>	<u>\$ 9,050,448</u>	<u>\$ 7,976,989</u>

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, 2024

	2024	2023	2022	2021
Total OPEB Liability				
Service cost	\$ 387,770	\$ 459,670	\$ 196,810	\$ 191,543
Interest	462,332	353,850	634,618	629,425
Changes of benefit terms	-	-	-	-
Experience gains	(2,167,942)	(81,471)	(127,151)	(78,752)
Expected minus actual benefit payments	(200,862)	-	(57,430)	-
Changes of assumptions	(2,777,554)	(1,343,271)	3,516,060	-
Benefit payments	(596,545)	(678,097)	(707,599)	(643,648)
Net change in total OPEB liability	(4,892,801)	(1,289,319)	3,455,308	98,568
Total OPEB Liability - Beginning	12,213,449	13,502,768	10,047,460	9,948,892
Total OPEB Liability - Ending (a)	<u>\$ 7,320,648</u>	<u>\$ 12,213,449</u>	<u>\$ 13,502,768</u>	<u>\$ 10,047,460</u>
Plan Fiduciary Net Position				
Contributions - employer	\$ 725,000	\$ 924,981	\$ 456,983	\$ 792,407
Net investment income	33,213	(30,690)	17,834	11,318
Investment gains	10,741	-	84,834	-
Benefit payments	(596,545)	(678,097)	(707,599)	(643,648)
Administrative expense	(387)	(343)	(406)	(144)
Net change in plan fiduciary net position	172,022	215,851	(148,354)	159,933
Plan Fiduciary Net Position - Beginning	467,371	251,520	399,874	239,941
Plan Fiduciary Net Position - Ending (b)	<u>\$ 639,393</u>	<u>\$ 467,371</u>	<u>\$ 251,520</u>	<u>\$ 399,874</u>
Net OPEB Liability - Ending (a) - (b)	<u>\$ 6,681,255</u>	<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	8.73%	3.83%	1.86%	3.98%
Covered Payroll	N/A ¹	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	N/A ¹
Measurement Date	June 30, 2023	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.

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, 2024

	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.

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, 2024

Year ended June 30,	2024	2023	2022	2021
Proportion of the net OPEB liability	0.0668%	0.0628%	0.0642%	0.0722%
Proportionate share of the net OPEB liability	\$ 202,799	\$ 206,979	\$ 256,262	\$ 306,115
Covered payroll	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
Plan fiduciary net position as a percentage of the total OPEB liability	(0.96%)	(0.94%)	(0.80%)	(0.71%)
Measurement Date	June 30, 2023	June 30, 2022	June 30, 2021	June 30, 2020

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 OPEB Liability – MPP Program
Year Ended June 30, 2024

Year ended June 30,	<u>2020</u>	<u>2019</u>	<u>2018</u>
Proportion of the net OPEB liability	0.0689%	0.0661%	0.0634%
Proportionate share of the net OPEB liability	\$ 256,411	\$ 252,968	\$ 266,754
Covered payroll	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
Plan fiduciary net position as a percentage of the total OPEB liability	(0.81%)	(0.40%)	0.01%
Measurement Date	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, 2024

	<u>2024</u>	<u>2023*</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>
CalSTRS					
Proportion of the net pension liability	0.0452%	0.0419%	0.0427%	0.0415%	0.0389%
Proportionate share of the net pension liability	\$ 34,413,192	\$ 29,091,266	\$ 19,450,998	\$ 40,173,657	\$ 35,153,218
State's proportionate share of the net pension liability	16,488,328	14,568,792	9,786,988	20,709,525	19,178,427
Total	<u>\$ 50,901,520</u>	<u>\$ 43,660,058</u>	<u>\$ 29,237,986</u>	<u>\$ 60,883,182</u>	<u>\$ 54,331,645</u>
Covered payroll	<u>\$ 27,399,524</u>	<u>\$ 24,263,162</u>	<u>\$ 23,418,533</u>	<u>\$ 23,078,082</u>	<u>\$ 21,353,213</u>
Proportionate share of the net pension liability as a percentage of its covered payroll	<u>125.60%</u>	<u>119.90%</u>	<u>83.06%</u>	<u>174.08%</u>	<u>164.63%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>81%</u>	<u>81%</u>	<u>87%</u>	<u>72%</u>	<u>73%</u>
Measurement Date	June 30, 2023	June 30, 2022	June 30, 2021	June 30, 2020	June 30, 2019
CalPERS					
Proportion of the net pension liability	0.2248%	0.2189%	0.2125%	0.2115%	0.1961%
Proportionate share of the net pension liability	\$ 81,367,977	\$ 75,332,447	\$ 43,214,030	\$ 64,908,966	\$ 57,154,203
Covered payroll	<u>\$ 39,272,326</u>	<u>\$ 33,823,985</u>	<u>\$ 30,820,237</u>	<u>\$ 30,702,317</u>	<u>\$ 27,175,363</u>
Proportionate share of the net pension liability as a percentage of its covered payroll	<u>207.19%</u>	<u>222.72%</u>	<u>140.21%</u>	<u>211.41%</u>	<u>210.32%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>70%</u>	<u>70%</u>	<u>81%</u>	<u>70%</u>	<u>70%</u>
Measurement Date	June 30, 2023	June 30, 2022	June 30, 2021	June 30, 2020	June 30, 2019

* Restatement of Prior Year Information: The Schedule of the County Office of Education's Contributions for the fiscal year ending June 30, 2023, has been restated to correct an error in the calculation of the contractually required contributions. The contractually required contribution was understated by \$1,357,841 for CalSTRS and \$1,988,953 for CalPERS due to a calculation error. The corrected contractually required contribution is \$5,233,309 for CalSTRS and \$9,963,389 for CalPERS.

Merced County Office of Education
Schedule of the County Office of Education's Proportionate Share of the Net Pension Liability
Year Ended June 30, 2024

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
CalSTRS					
Proportion of the net pension liability	0.0368%	0.0350%	0.0373%	0.0396%	0.0414%
Proportionate share of the net pension liability	\$ 33,840,589	\$ 32,388,952	\$ 30,180,918	\$ 26,684,856	\$ 24,194,489
State's proportionate share of the net pension liability	19,375,320	19,161,030	17,181,458	14,113,347	14,609,677
Total	<u>\$ 53,215,909</u>	<u>\$ 51,549,982</u>	<u>\$ 47,362,376</u>	<u>\$ 40,798,203</u>	<u>\$ 38,804,166</u>
Covered payroll	<u>\$ 19,378,559</u>	<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>174.63%</u>	<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>71%</u>	<u>69%</u>	<u>70%</u>	<u>74%</u>	<u>77%</u>
Measurement Date	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014
CalPERS					
Proportion of the net pension liability	0.1899%	0.1850%	0.1898%	0.2054%	0.2175%
Proportionate share of the net pension liability	\$ 50,630,196	\$ 44,154,452	\$ 37,492,124	\$ 30,269,214	\$ 24,694,067
Covered payroll	<u>\$ 25,148,458</u>	<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>201.33%</u>	<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>71%</u>	<u>72%</u>	<u>74%</u>	<u>79%</u>	<u>83%</u>
Measurement Date	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014

Merced County Office of Education
Schedule of the County Office of Education's Contributions
Year Ended June 30, 2024

	<u>2024</u>	<u>2023*</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>
CalSTRS					
Contractually required contribution	\$ 5,508,697	\$ 5,233,309	\$ 4,105,327	\$ 3,782,093	\$ 3,946,352
Less contributions in relation to the contractually required contribution	<u>5,508,697</u>	<u>5,233,309</u>	<u>4,105,327</u>	<u>3,782,093</u>	<u>3,946,352</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	<u>\$ 28,841,346</u>	<u>\$ 27,399,524</u>	<u>\$ 24,263,162</u>	<u>\$ 23,418,533</u>	<u>\$ 23,078,082</u>
Contributions as a percentage of covered payroll	<u>19.10%</u>	<u>19.10%</u>	<u>16.92%</u>	<u>16.15%</u>	<u>17.10%</u>
CalPERS					
Contractually required contribution	\$ 11,732,763	\$ 9,963,389	\$ 7,749,075	\$ 6,379,789	\$ 6,054,804
Less contributions in relation to the contractually required contribution	<u>11,732,763</u>	<u>9,963,389</u>	<u>7,749,075</u>	<u>6,379,789</u>	<u>6,054,804</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	<u>\$ 43,975,873</u>	<u>\$ 39,272,326</u>	<u>\$ 33,823,985</u>	<u>\$ 30,820,237</u>	<u>\$ 30,702,317</u>
Contributions as a percentage of covered payroll	<u>26.680%</u>	<u>25.370%</u>	<u>22.910%</u>	<u>20.700%</u>	<u>19.721%</u>

* Restatement of Prior Year Information: The Schedule of the County Office of Education's Contributions for the fiscal year ending June 30, 2023, has been restated to correct an error in the calculation of the contractually required contributions. The contractually required contribution was understated by \$1,357,841 for CalSTRS and \$1,988,953 for CalPERS due to a calculation error. The corrected contractually required contribution is \$5,233,309 for CalSTRS and \$9,963,389 for CalPERS.

Merced County Office of Education
Schedule of the County Office of Education's Contributions
Year Ended June 30, 2024

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
CaSTRS					
Contractually required contribution	\$ 3,476,303	\$ 2,796,326	\$ 2,348,556	\$ 1,985,827	\$ 1,639,512
Less contributions in relation to the contractually required contribution	<u>3,476,303</u>	<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>	<u>\$ -</u>
Covered payroll	<u>\$ 21,353,213</u>	<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>16.28%</u>	<u>14.43%</u>	<u>12.58%</u>	<u>10.73%</u>	<u>8.88%</u>
CaPERS					
Contractually required contribution	\$ 4,908,414	\$ 3,905,807	\$ 3,277,918	\$ 2,698,271	\$ 2,675,446
Less contributions in relation to the contractually required contribution	<u>4,908,414</u>	<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>	<u>\$ -</u>
Covered payroll	<u>\$ 27,175,363</u>	<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>18.062%</u>	<u>15.531%</u>	<u>13.888%</u>	<u>11.847%</u>	<u>11.771%</u>

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.

At June 30, 2024, the Special Education Pass-Through Fund and Child Development Fund exceeded their budgeted amounts in total as follows:

Fund	Expenditures and Other Uses		
	Budget	Actual	Excess
Special Education Pass-Through Fund	\$ 32,114,393	\$ 35,172,326	\$ 3,057,933
Child Development Fund	\$ 62,332,427	\$ 66,206,079	\$ 3,873,652

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 3.85% to 6.25% 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 3.54% to 3.65% 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 or CalPERS plans from the previous valuations.

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, 2024

Merced County Office of Education

Merced County Office of Education
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2024

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal Financial Assistance Listing	Pass-Through Entity Identifying Number	Federal Expenditures	Amounts Passed Through to Subrecipients
U.S. Department of Education				
Passed through California Department of Education				
Education Stabilization Fund				
COVID 19 GEER II	84.425C	15619	\$ 20,490	\$ -
COVID-19 ESSER II State Reserve	84.425D	15618	24,291	-
COVID-19 Elementary and Secondary School Emergency Relief III (ESSER III) Fund: Learning Loss	84.425U	10155	303,776	-
COVID-19 Elementary and Secondary School Emergency Relief III (ESSER III) Fund	84.425U	15559	1,589,008	-
COVID-19 ESSER III State Reserve Emergency Needs	84.425U	15620	95,588	-
COVID-19 ESSER III State Reserve Learning Loss	84.425U	15621	100,428	-
COVID-19 ESSER III State Reserve Afterschool Programs	84.425U	15651	73,296	-
COVID-19 ESSER III State Reserve Summer Learning Programs	84.425U	15652	786,633	-
COVID-19 American Rescue Plan-Homeless Children and Youth (ARP - Homeless I)	84.425W	15564	4,478	-
COVID-19 American Rescue Plan – Homeless Children and Youth II (ARP HCY II)	84.425W	15566	11,528	-
COVID-19 American Rescue Plan-Homeless Children and Youth - Statewide Activities (ARP - HCY Statewide Activities)	84.425W	15636	176,580	-
Subtotal			3,186,096	-
Title I, Part A, Basic Grants Low Income and Neglected	84.010	14329	539,381	-
Title I Part D, Local Delinquent Programs	84.010	14357	210,419	-
School Improvement Funding for LEAs	84.010	15438	389,799	-
School Improvement Funding for COEs	84.010	15439	64,910	-
Subtotal			1,204,509	-

Merced County Office of Education
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2024

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal Financial Assistance Listing	Pass-Through Entity Identifying Number	Federal Expenditures	Amounts Passed Through to Subrecipients
U.S. Department of Education				
Passed through California Department of Education				
Title I, Part C, Migrant Ed Strengthening Career and Technical Education for the 21st Century (Perkins V): Secondary, Section 131	84.011	14326	8,313,324	-
Title IX, Part A, McKinney-Vento Homeless Assistance Grants	84.048	15294	43,680	-
Title IV, 21st Century Community Learning Centers Technical Assistance	84.196	14332	101,960	-
Title III, English Learner Student Program	84.287	14350	125,278	-
Title II, Part A, Supporting Effective Instruction	84.365	14346	126,294	-
Title IV, Part A, Student Support and Academic Enrichment	84.367	15396	34,939	-
	84.424	15396	45,101	-
Passed through Department of Developmental Service				
We-Can-Work	84.216	[1]	227,507	-
Passed through Merced County SELPA				
Special Education Cluster (IDEA)				
Basic Local Assistance Entitlement, Part B, Sec 611	84.027	13379	14,633,674	11,751,920
COVID-19 ARP Part B, Sec. 611, Local Assistance Entitlement	84.027	15638	114,678	96,515
Alternative Dispute Resolution	84.027A	13007	14,807	-
Mental Health Allocation Plan, Part B, Sec 611	84.027A	15197	53,650	35,276
Subtotal			<u>14,816,809</u>	<u>11,883,711</u>
Preschool Grants, Part B, Sec 619	84.173	13430	224,262	87,893
Preschool Staff Development, Part B, Sec 619	84.173A	13431	2,094	-
Subtotal			<u>226,356</u>	<u>87,893</u>
Subtotal Special Education Cluster (IDEA)			<u>15,043,165</u>	<u>11,971,604</u>

[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, 2024

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal Financial Assistance Listing	Pass-Through Entity Identifying Number	Federal Expenditures	Amounts Passed Through to Subrecipients
U.S. Department of Education Passed through California Department of Education Early Intervention Grants	84.181	23761	<u>89,865</u>	<u>-</u>
Total U.S. Department of Education			<u>28,541,718</u>	<u>11,971,604</u>
U.S. Department of Agriculture Passed through California Department of Education Child Nutrition Cluster				
School Breakfast Needy	10.553	13526	23,859	-
School Lunch - Section 4	10.555	13523	6,703	-
School Lunch - Section 11	10.555	13524	<u>44,352</u>	<u>-</u>
Subtotal			<u>51,055</u>	<u>-</u>
Subtotal Child Nutrition Cluster			<u>74,914</u>	<u>-</u>
Passed through California Department of Social Services Child and Adult Care Food Program (CACFP)				
CACFP Claims - Centers and Family Day Care Homes	10.558	13529	563,518	-
Cash in Lieu of Commodities	10.558	13534	<u>23,220</u>	<u>-</u>
Subtotal			<u>586,738</u>	<u>-</u>
Total U.S. Department of Agriculture			<u>661,652</u>	<u>-</u>

Merced County Office of Education
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2024

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal Financial Assistance Listing	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 and Human Services				
Head Start Cluster				
Head Start	93.600	10016	14,721,740	-
Head Start - Training and Technical Assistance	93.600	10016	105,261	-
Head Start Expansion	93.600	10016	135,901	-
Migrant and Seasonal Head Start Expansion	93.600	10016	6,142,474	-
Subtotal			21,105,376	-
Subtotal Head Start Cluster			21,105,376	-
Passed through California Department of Social Services				
Child Care and Development Fund (CCDF) Cluster				
CDSS Child Care Stipend	93.575	[1]	1,472,086	-
Child Care and Development Programs Administered by CA Department of Social Services (Federal Funds)	93.575	10163	1,203,430	-
Local Planning Councils	93.575	13946	94,956	-
Quality Improvement Activities	93.575	14092	754,189	-
Federal Alternative Payment, Stage 2	93.575	14178	694,491	-
Federal Child Care, Center-based	93.575	15136	2,425,885	-
Subtotal			6,645,037	-
Federal Alternative Payment, Stage 3	93.596	14153	2,067,484	-
Federal Alternative Payment	93.596	14985	12,203,598	-
Subtotal			14,271,082	-

[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, 2024

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal Financial Assistance Listing	Pass-Through Entity Identifying Number	Federal Expenditures	Amounts Passed Through to Subrecipients
U.S. Department of Health and Human Services				
Subtotal Child Care and Development Fund (CCDF) Cluster			20,916,119	-
Total U.S. Department of Health and Human Services			42,021,495	-
U.S. Department of Labor				
Passed through California Department of Education				
Workforce Innovation and Opportunity Act (WIOA) Cluster				
Workforce Innovation and Opportunity Act	17.259	10055	1,149,566	-
Subtotal Workforce Innovation and Opportunity Act (WIOA) Cluster			1,149,566	-
Total U.S. Department of Labor			1,149,566	-
Total Federal Financial Assistance			<u>\$ 72,374,431</u>	<u>\$ 11,971,604</u>

Merced County Office of Education
Schedule of Average Daily Attendance
Year Ended June 30, 2024

	Second Period Report	Annual Report
Elementary School ADA		
Juvenile halls, homes, and camp	1.99	2.33
Probation referred, on probation or parole, expelled	18.73	22.30
Total Elementary School ADA	20.72	24.63
High School ADA		
Juvenile halls, homes, and camp	23.79	23.36
Probation referred, on probation or parole, expelled	235.99	238.65
Total High School ADA	259.78	262.01
Total ADA	280.50	286.64
 Merced Scholars Charter School		
Regular ADA - Classroom-based		
Transitional kindergarten through third	34.73	34.99
Regular ADA - Nonclassroom-based		
Transitional kindergarten through third	38.02	37.68
Fourth through sixth	30.92	32.37
Seventh and eighth	46.44	47.23
Ninth through twelfth	140.53	140.61
Total Regular ADA - Nonclassroom-based	255.91	257.89
Total Charter School ADA	290.64	292.88
 Come Back Charter		
Regular ADA (All non-classroom based)		
Ninth through twelfth	94.29	92.88

Merced Scholars Charter School

Grade Level	1986-1987 Minutes Requirement	2023-2024 Actual Minutes	Total Days Offered	Status
Kindergarten	36,000	52,380	180	Complied
Grades 1 - 3	50,400			
Grade 1		52,380	180	Complied
Grade 2		52,380	180	Complied

Merced County Office of Education
Reconciliation of Annual Financial and Budget Report with Audited Financial Statements
Year Ended June 30, 2024

There were no adjustments to the Unaudited Actual Financial Report, which required reconciliation to the audited financial statements at June 30, 2024.

Merced County Office of Education
Schedule of Financial Trends and Analysis
Year Ended June 30, 2024

	(Budget) 2025 ¹	2024	2023 ¹	2022 ¹
General Fund ⁴				
Revenues	\$ 124,247,072	\$ 133,678,403	\$ 116,602,879	\$ 106,214,114
Other sources and transfers in	-	-	302,126	2,896,181
Total Revenues and Other Sources	<u>124,247,072</u>	<u>133,678,403</u>	<u>116,905,005</u>	<u>109,110,295</u>
Expenditures	131,135,122	120,139,792	113,562,647	99,006,005
Other uses and transfers out	-	2,000,000	750,000	3,392,941
Total Expenditures and Other Uses	<u>131,135,122</u>	<u>122,139,792</u>	<u>114,312,647</u>	<u>102,398,946</u>
Increase/(Decrease) in Fund Balance	<u>(6,888,050)</u>	<u>11,538,611</u>	<u>2,592,358</u>	<u>6,711,349</u>
Ending Fund Balance	<u>\$ 40,062,063</u>	<u>\$ 46,950,113</u>	<u>\$ 35,411,502</u>	<u>\$ 32,819,144</u>
Available Reserves ²	<u>\$ 18,469,523</u>	<u>\$ 18,652,713</u>	<u>\$ 16,160,067</u>	<u>\$ 13,761,525</u>
Available Reserves as a Percentage of Total Outgo ⁴	<u>14.08%</u>	<u>15.27%</u>	<u>14.14%</u>	<u>13.44%</u>
Long-Term Liabilities ⁵	<u>Not Available</u>	<u>\$ 129,832,879</u>	<u>\$ 124,554,282</u>	<u>\$ 84,688,400</u>
Average Daily Attendance at P-2 ³	<u>280</u>	<u>281</u>	<u>253</u>	<u>176</u>

The General Fund balance has increased by \$14,130,969 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 2024-2025 budget projects a decrease of \$6,888,050.

MCOE has incurred operating surpluses in each of the past three years but anticipates incurring an operating deficit during the 2024-2025 fiscal year. Total long-term obligations have increased by \$45,144,479 over the past two years primarily due to an increase in the net pension liability.

Average daily attendance has increased by 105 ADA over the past two years due primarily to the restructuring of the Community School Independent Study Program and student retention. A decrease of one ADA is anticipated during fiscal year 2024-2025.

¹ Financial information for 2025, 2023, and 2022 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.

Merced County Office of Education
Schedule of Charter Schools
Year Ended June 30, 2024

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, 2024

	Student Activities Fund	Charter Schools Fund	Adult Education Fund	County School Facilities Fund	Total Non-Major Governmental Funds
Assets					
Deposits and investments	\$ 29,082	\$ 2,271,751	\$ 175,721	\$ 4,197,109	\$ 6,673,663
Receivables	-	164,126	139,662	-	303,788
Due from other funds	-	789,364	-	-	789,364
	<u>29,082</u>	<u>2,271,751</u>	<u>175,721</u>	<u>4,197,109</u>	<u>6,673,663</u>
Total assets	<u>\$ 29,082</u>	<u>\$ 3,225,241</u>	<u>\$ 315,383</u>	<u>\$ 4,197,109</u>	<u>\$ 7,766,815</u>
Liabilities and Fund Balances					
Liabilities					
Accounts payable	\$ -	\$ 120,158	\$ 13,926	\$ -	\$ 134,084
Due to other funds	-	1,262,462	12,931	-	1,275,393
Unearned revenue	-	41,608	-	-	41,608
	<u>-</u>	<u>1,424,228</u>	<u>26,857</u>	<u>-</u>	<u>1,451,085</u>
Total liabilities	<u>-</u>	<u>1,424,228</u>	<u>26,857</u>	<u>-</u>	<u>1,451,085</u>
Fund Balances					
Restricted	<u>29,082</u>	<u>1,801,013</u>	<u>288,526</u>	<u>4,197,109</u>	<u>6,315,730</u>
Total liabilities and fund balances	<u>\$ 29,082</u>	<u>\$ 3,225,241</u>	<u>\$ 315,383</u>	<u>\$ 4,197,109</u>	<u>\$ 7,766,815</u>

Merced County Office of Education

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Non-Major Governmental Funds
Year Ended June 30, 2024

	Student Activities Fund	Charter Schools Fund	Adult Education Fund	County School Facilities Fund	Total Non-Major Governmental Funds
Revenues					
Local Control Funding Formula	\$ -	\$ 6,038,101	\$ -	\$ -	\$ 6,038,101
Federal sources	-	470,509	-	-	470,509
Other State sources	-	883,509	808,111	-	1,691,620
Other local sources	5,562	87,494	683,504	202,766	979,326
Total revenues	5,562	7,479,613	1,491,615	202,766	9,179,556
Expenditures					
Current					
Instruction	-	4,247,141	1,121,306	-	5,368,447
Instruction-related activities					
Supervision of instruction	-	533,019	100,511	-	633,530
School site administration	-	644,127	-	-	644,127
Pupil services					
Home-to-school transportation	-	222,439	-	-	222,439
All other pupil services	-	414,577	2,258	-	416,835
Administration					
All other administration	-	498,897	60,552	-	559,449
Plant services	-	511,931	127,065	-	638,996
Ancillary services	9,192	-	-	-	9,192
Facility acquisition and construction	-	115,343	-	-	115,343
Total expenditures	9,192	7,187,474	1,411,692	-	8,608,358
Net Change in Fund Balances	(3,630)	292,139	79,923	202,766	571,198
Fund Balance - Beginning	32,712	1,508,874	208,603	3,994,343	5,744,532
Fund Balance - Ending	\$ 29,082	\$ 1,801,013	\$ 288,526	\$ 4,197,109	\$ 6,315,730

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, 2024. 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, except for subrecipient expenditures, which are recorded on the cash basis. 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.

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	Amount
Description		
Total Federal Revenues reported on the financial statements		\$ 72,383,981
National School Lunch Program - Supply Chain Assistance Funds	10.555	(9,550)
Total Federal Financial Assistance		\$ 72,374,431

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 local education agencies. 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.

Local education agencies 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.



Other Information
June 30, 2024

Merced County Office of Education

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>
Fred Honore	Chairperson	2024
Dennis Hanks	Vice Chairperson	2026
Geneva Brett	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



Independent Auditor's Reports
June 30, 2024

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, 2024, and the related notes to the financial statements, which collectively comprise MCOE’s basic financial statements and have issued our report thereon dated December 16, 2024.

Error Correction

As discussed in Note 16 to the financial statements, certain errors resulting in an understatement of deferred outflows of resources related to pension in Governmental Activities as of June 30, 2023, were discovered by management of the County during the current year. Accordingly, a restatement has been made to the Governmental Activities net position as of July 1, 2023, to correct the errors. 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified a deficiency in internal control, described in the accompanying Schedule of Findings and Questioned Costs as item 2024-001 that we consider to be a material weakness.

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*.

MCOE's Response to Finding

Government Auditing Standards requires the auditor to perform limited procedures on MCOE's response to the finding identified in our audit and described in the accompanying Schedule of Findings and Questioned Costs. MCOE's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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 cursive script that reads "Eide Bailly LLP".

Fresno, California
December 16, 2024



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, 2024. 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, 2024.

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.

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 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.

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 requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

The image shows a handwritten signature in cursive script that reads "Eide Bailly LLP". The signature is written in dark ink and is positioned above the typed name and date.

Fresno, California
December 16, 2024



Independent Auditor's Report on State Compliance and on Internal Control Over Compliance

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

Report on Compliance

Opinion of State Compliance

We have audited Merced County Office of Education's (MCOE) compliance with the requirements specified in the *2023-2024 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, 2024.

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, 2024.

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 *2023-2024 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 *2023-2024 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 *2023-2024 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 *2023-2024 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:

2023-2024 K-12 Audit Guide Procedures	Procedures Performed
Local Education Agencies Other Than Charter Schools	
Attendance	Yes
Teacher Certification and Misassignments	Yes
Kindergarten Continuance	Not Applicable
Independent Study	Yes
Continuation Education	Not Applicable
Instructional Time	Not Applicable
Instructional Materials	Yes
Ratios of Administrative Employees to Teachers	Not Applicable
Classroom Teacher Salaries	Not Applicable
Early Retirement Incentive	Not Applicable
GANN Limit Calculation	Yes

2023-2024 K-12 Audit Guide Procedures	Procedures Performed
Local Education Agencies Other Than Charter Schools	
School Accountability Report Card	Yes
Juvenile Court Schools	Yes
Middle or Early College High Schools	Not Applicable
K-3 Grade Span Adjustment	Not Applicable
Apprenticeship: Related and Supplemental Instruction	Not Applicable
Comprehensive School Safety Plan	Yes
District of Choice	Not Applicable
Home to School Transportation Reimbursement	Yes
School Districts, County Offices of Education, and Charter Schools	
Proposition 28 Arts and Music in Schools	Yes
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	Not Applicable
Immunizations	Yes
Educator Effectiveness	Yes
Expanded Learning Opportunities Grant (ELO-G)	Yes
Career Technical Education Incentive Grant	Yes
Expanded Learning Opportunities Program	Yes
Transitional Kindergarten	Not Applicable
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	Not Applicable

The term “Not Applicable” is used above to mean either MCOE did not offer the program during the current fiscal year, the MCOE did not participate in the program during the current fiscal year, or the program applies to a different type of local education agency.

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.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are described in the accompanying Schedule of Findings and Questioned Costs as item 2024-002.

Government Auditing Standards requires the auditor to perform limited procedures on MCOE’s response to the noncompliance findings identified in our audit and described in the accompanying

Schedule of Findings and Questioned Costs. MCOE's response was not subjected to the 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 certain deficiencies in internal control over compliance that we consider to be a significant deficiency.

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 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 by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 2024-002 to be a significant deficiency.

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 MCOE's response to the internal control over compliance findings identified in our compliance audit described in the accompanying Schedule of Findings and Questioned Costs. MCOE'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 *2023-2024 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. Accordingly, this report is not suitable for any other purpose.

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

Fresno, California
December 16, 2024



Schedule of Findings and Questioned Costs
June 30, 2024

Merced County Office of Education

Financial Statements

Type of auditor's report issued	Unmodified
Internal control over financial reporting	
Material weaknesses identified	Yes
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	No
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)	No

Identification of major programs

<u>Name of Federal Program or Cluster</u>	<u>Federal Financial Assistance Listing</u>
COVID-19: Education Stabilization Fund Head Start Cluster Title I, Part C, Migrant Ed	84.425C, 84.425D, 84.425U, 84.425W 93.600 84.011
Dollar threshold used to distinguish between type A and type B programs	\$ 2,171,519
Auditee qualified as low-risk auditee?	No

State Compliance

Internal control over state compliance programs	
Material weaknesses identified	No
Significant deficiencies identified not considered to be material weaknesses	Yes
Other matters to be reported	Yes
Type of auditor's report issued on compliance for programs	Unmodified

The following finding represents a material weakness related to the financial statements that are required to be reported in accordance with *Government Auditing Standards*. The finding has been coded as follows:

Five Digit Code	AB 3627 Finding Type
30000	Internal Control

2024-001 30000 – Prior Period Restatement

Criteria or Specific Requirements

Management is responsible for the design, implementation, and maintenance of internal controls to ensure the financial statements are free from material misstatement, whether due to error or fraud. Such internal controls should include a review of all adjusting entries, reclassifying entries, and conversion entries used in the preparation of the County’s financial statements. The County should ensure that all applicable accounting principles are adhered to when preparing the financial statements.

Condition

An internal control system design must include elements to accurately prepare financial statements without adjustments by the auditor. During the course of our engagement, we identified material misstatements of the beginning balances presented within the County’s Statement of Net Position, as reported on the 2022-2023 audited financial statements. This prior period restatement due to error resulted in an understatement of \$3,346,792 in the County’s government-wide net position as reported on the 2022-2023 audited financial statements.

Context

The conditions were identified as result of our review of available County records and audit procedures performed.

Cause

The cause of the condition identified appears to be due to inadequate review processes related to the preparation of the County’s year-end financial statements, which includes the related conversion entries in preparation of the government-wide financial statements.

Effect

Due to the net effect of the conditions identified, the County’s prior period ending net position was understated by \$3,346,792 in governmental activities.

Repeat Finding

No.

Recommendation

A thorough review of the County's financial statements, including all adjusting entries, reclassifying entries, and conversion entries should take place before the financial statements are finalized by the County's business department.

Corrective Action Plan and Views of Responsible Officials

The County agrees that having an internal control system over monitoring financial reporting is an important part of the County's overall internal control process. The County has created processes to monitor and implement these controls.

None reported.

The following findings represent significant deficiencies and instances of noncompliance including questioned costs that are required to be reported by the *2023-2024 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. The findings have been coded as follows:

Five Digit Code	AB 3627 Finding Type
40000	State Compliance

2024-002 40000 - Expanded Learning Opportunities Program

Criteria or Specific Requirements

Education Code Section 46120(b)(1)(A) requires that in-person before and after school expanded learning opportunities were offered on every school day and, when added to the school day, were no less than nine hours.

Condition

The Charter Expanded Learning Opportunity Program operated 143 days of the required 205 operational days.

Questioned Costs

The penalty was calculated to be \$15,248.

Context

The condition was identified through inquiry with Charter and County Office personnel and review of available Charter records related to expanded learning opportunities program.

Cause

The Expanded Learning Opportunity Program began November 27, 2023 and did not allow the Charter to offer the total required operational days. The Charter offered 143 operational days of the required 210 required operational days, leaving 62 days not offered.

Effect

The penalty amount was determined to be \$15,248; therefore, MCOE is out of compliance with *Education Code* Section 46120(b)(1)(A).

Repeat Finding

No.

Recommendation

We recommend the Charter offer the total required operational days in the 2024-2025 fiscal year.

Corrective Action Plan and Views of Responsible Officials

The Charter agrees with the finding as is working continuously to determine if it can find staffing for all 210 days of Expanded Learning.

Except as specified in previous sections of this report, summarized below is the current status of all audit findings reported in the prior year's Schedule of Findings and Questioned Costs.

2023-001 50000

Federal Program Affected

Program Name: Education Stabilization Funds
Assistance Listing Number: 84.425
Pass-Through Entity Number: 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 not 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.

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.

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.

Recommendation

MCOE 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.

Current Status

Implemented.