Financial Statements
June 30, 2025

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, 2025, 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, 2025, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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

Adoption of New Accounting Standard

As discussed in Note 15 to the financial statements, MCOE has adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 101, *Compensated Absences* for the year ended June 30, 2025. Accordingly, a restatement has been made to the governmental activities net position as of July 1, 2024, to restate beginning net position. Our opinions are not modified with respect to this matter.

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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 – CalSTRS, schedule of the County Office of Education's proportionate share of the net pension liability – CalPERS, schedule of the County Office of Education's contributions – CalSTRS, and schedule of the County Office of Education's contributions – CalPERS 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 January 27, 2026 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.



Fresno, California
January 27, 2026

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, 2025. 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, 2024 and June 30, 2025.

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 $260.5 million annual operating expenditure budget. This includes a General Fund budget of $146.7 million, a Child Development Fund budget of $66.9 million, a Charter School Fund budget of $8.9 million, and an Adult Education Fund budget of $1.2 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 net position. 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 financial 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 Fiduciary Fund Financial Statements. 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 $88.4 million for the fiscal year ended June 30, 2025, and $86.2 million for the fiscal year ended June 30, 2024 prior to the impact of the GASB 101 Compensated Absences adjustment. This is an increase of $2.2 million. Of this amount, $37.7 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	
	2025	2024*
Assets		
Current and other assets	$ 119,782,894	$ 111,690,089
Capital assets	106,905,817	98,787,404
Total assets	226,688,711	210,477,493
Deferred Outflows of Resources	40,544,369	45,624,077
Liabilities		
Current liabilities	38,501,219	29,305,777
Long-term liabilities	127,996,332	130,446,903
Total liabilities	166,497,551	159,752,680
Deferred Inflows of Resources	12,368,234	10,106,710
Net Position		
Net investment in capital assets	100,420,265	91,893,197
Restricted	37,691,412	42,699,540
Unrestricted (deficit)	(49,744,382)	(48,350,557)
Total net position	$ 88,367,295	$ 86,242,180

* Amounts have not been restated for the effects of the implementation of GASB Statement No. 101 for comparative purposes. See Note 15 for further information.

The $88.4 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 – decreased by $1.4 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	
	2025	2024*
Revenues		
Program revenues		
Charges for services	$ 19,611,376	$ 18,891,942
Operating grants and contributions	166,175,548	174,984,355
General revenues		
Federal and State aid not restricted	26,468,962	24,347,869
Property taxes	19,966,404	18,516,041
Other general revenues	19,940,759	16,557,735
Total revenues	252,163,049	253,297,942
Expenses		
Instruction-related	100,394,201	95,245,655
Pupil services	34,712,007	30,262,741
Administration	17,602,228	16,143,975
Plant services	10,960,771	9,572,024
All other services	80,251,249	74,950,654
Total expenses	243,920,456	226,175,049
Change in net position	$ 8,242,593	$ 27,122,893

* The expenses for the year ended June 30, 2024, were not restated for the effects of the implementation of GASB Statement No. 101 for comparative purposes. See Note 15 for further information.

Governmental Activities

As reported in the Statement of Activities, the cost of all of our governmental activities this year was approximately $243.9 million as compared to $226.2 million in the prior year. However, the amount that our taxpayers ultimately financed for these activities through local taxes was only $20 million because the cost was paid by those who benefited from the programs totaling $19.6 million or by government and other organizations who subsidized certain programs with grants and contributions of $166.2 million. We paid for the remaining "public benefit" portion of our governmental activities with $26.5 million in State and Federal unrestricted funds, and with other revenues like interest and general entitlements of $19.9 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	
	2025	2024*	2025	2024*
Instruction-related	$ 100,394,201	$ 95,245,655	$ (26,704,251)	$ (21,998,459)
Pupil services	34,712,007	30,262,741	(14,397,705)	(10,676,676)
Administration	17,602,228	16,143,975	(7,368,761)	(5,895,828)
Plant services	10,960,771	9,572,024	(2,954,756)	6,013,976
All other services	80,251,249	74,950,654	(6,708,059)	258,235
Total	$ 243,920,456	$ 226,175,049	$ (58,133,532)	$ (32,298,752)

* The expenses for the year ended June 30, 2024, were not restated for the effects of the implementation of GASB Statement No. 101 for comparative purposes. See Note 15 for further information.

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 $81.3 million while the prior year reported a balance of $82.4 million. This was a decrease of $1.1 million over the fiscal year 2023-2024 ending fund balances.

Our General Fund is our principal operating fund. The fund balance in the General Fund increased by $3.1 million to approximately $70.1 million in 2024-2025.

Our special revenue fund balances decreased by approximately $4.1 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 a decrease in the current year of $67 thousand.

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 2024-2025 budget over the course of the year. MCOE had budgeted a decrease in the General Fund of approximately $8.4 million. However, revenues and other sources were $4.8 million more than expected, while expenditures ended the year $6.7 million less than what was budgeted, resulting in an actual increase to the fund of $3.1 million.

CAPITAL ASSETS AND LONG-TERM LIABILITIES

Capital Assets

At June 30, 2025, MCOE had $106.9 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, 2024, net capital assets totaled $98.8 million. This amount represents a net increase (including additions, deductions, depreciation, and amortization) of $8.1 million from the prior year. Table 4 displays our capital assets.

Table 4

	Governmental Activities	
	2025	2024
Land and construction in progress	$ 10,453,037	$ 12,190,224
Buildings and improvements	90,675,223	82,948,568
Equipment	5,705,809	3,462,224
Right-to-use leased assets	-	22,310
Right-to-use subscription IT assets	71,748	164,078
Total	$ 106,905,817	$ 98,787,404

This year's major additions include continuing costs related to the Los Banos Westside Head Start, Wardrobe Early Education Building and Shade Structure and Merced Scholars Wardrobe DLI Playground. The additions also include HVAC systems for Merced VCS Gym and Los Banos VCS Gym. MCOE completed the Cooper Kitchen, Hopeton, and MCOE D Building projects. MCOE completed the Danielson Roof, Yosemite Roof, Wardrobe & Miano Roof, Camp Green Meadows cabin replacement, MCOE Complex New Fencing, and VST land purchase. MCOE purchased 32 school buses and 11 vehicles.

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 2024-2025, MCOE had $128 million in long-term liabilities. Table 5 displays our long-term liabilities.

Table 5

	Governmental Activities	
	2025	2024*
Long-Term Liabilities		
Certificates of participation	$ 6,205,000	$ 6,530,000
Unamortized premiums	231,346	247,870
Leases	-	26,938
Subscription-based IT arrangements	49,206	89,399
Compensated absences	7,783,125	887,473
Net OPEB liability	5,990,033	6,884,054
Aggregate net pension liability	107,737,622	115,781,169
Total	$ 127,996,332	$ 130,446,903

* Amounts have not been restated for the effects of the implementation of GASB Statement No. 101 for comparative purposes. See Note 15 for further information.

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

At year-end, MCOE has a net pension liability of $107.7 million versus $115.8 million last year, an increase of $8.1 million, or 6%. MCOE also reported deferred outflows of resources from pension activities of $38.1 million, and deferred inflows of resources from pension activities of $6.8 million. We present more detailed information regarding our long-term liabilities in the Notes to Financial Statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

For the 2025-26 budget, Governor Gavin Newsom signed key education bills, notably Assembly Bill 121 (AB 121), the K-12 Education Omnibus Trailer Bill, which detailed funding for TK-12, including significant one-time funds, support for universal TK expansion, literacy screenings, math training, and mental health resources. The overall spending plan, enacted via the Budget Act (SB 101) and related bills, also provided funding for early education (SB 120) and higher education (AB 123) while navigating revenue shortfalls through strategic investments.

The Legislative Analyst Office (LAO) 2026-2027 Fiscal Outlook report was published in November 2025. The major takeaways of the report include: The State would have $3.2B available for new commitments in 2026-2027. The growth-combined with a required reserve withdrawal- would be just enough to fund a 2.51% statutory cost-of-living adjustment (COLA). The state could use the one-time funds to build budget resiliency, which seems especially important given the risks of a stock market downturn. Some promising options include eliminating payment deferrals, providing districts with an advance payment toward their future funding allocations, and accelerating the restoration of a grant the state previously reduced.

The LAO projects the Proposition 98 (Prop98) guarantee (minimum funding requirement for schools) across 2024-2025, 2025-2026, and 2026-2027 will be higher than the estimates from June 2025. The total increase in the minimum funding requirement is $2.2 billion in 2024-2025, $3.8 billion in 2025-2026. The minimum state guarantee is projected at $117.8 billion in 2026-2027.

The LAO projects an estimated statutory COLA of 2.51% for 2026-2027.

LCFF COLA is 2.30 percent for 2025-2026 and the 2026-2027 COLA is estimated at 2.51 percent. The LAO projected in their December 2026-2027 Fiscal Outlook report the 2026-2027 COLA estimate to be reduced to 2.51%.

Local Control Funding Formula (LCFF) - The Merced County Office of Education (MCOE) LCFF funding is under 20% 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 2.30 percent.

Deferrals - The Enacted Budget imposes a partial deferral of $1.9 billion from the June 2026 payment to July 2026.

Despite the budget shortfall, education funding remains strong. The total overall funding (federal, state, and local) for TK-12 education programs is $137.8 billion, or $25,155 per pupil. The budget provides cost-of-living adjustments (COLAS) for most programs and includes funding to continue planned expansion of preschool, TK, expanded learning opportunities, and free school meals.

Federal Revenue - The budget does not include any major changes from previous levels of federal funding.

The 2026-2027 State Budget proposal will be due on January 10, 2026. The LAO reports Prop98 Guarantee to be approximately 2.8% higher than reported at Enacted Budget. Their estimate of the minimum guarantee in 2026-2027 is $117.8 billion. Our second interim report will include details of the Governor's 2026-2027 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, 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 Martin Fregoso, Deputy Superintendent, Business Services, at Merced County Office of Education, 632 W. 13th Street, Merced, California 95341, or e-mail at: mfregoso@mcoe.org.

	Governmental Activities
Assets	
Deposits and investments	$ 65,609,924
Receivables	54,087,293
Stores inventories	85,677
Capital assets not depreciated or amortized	10,453,037
Capital assets, net of accumulated depreciation and amortization	96,452,780
Total assets	226,688,711
Deferred Outflows of Resources	
Deferred outflows of resources related to OPEB	2,417,288
Deferred outflows of resources related to pensions	38,127,081
Total deferred outflows of resources	40,544,369
Liabilities	
Accounts payable	34,469,113
Unearned revenue	4,032,106
Long-term liabilities	
Long-term liabilities other than OPEB and pensions due within one year	3,738,778
Long-term liabilities other than OPEB and pensions due in more than one year	10,529,899
Net other postemployment benefits (OPEB) liability due in more than one year	5,990,033
Aggregate net pension liabilities	107,737,622
Total liabilities	166,497,551
Deferred Inflows of Resources	
Deferred inflows of resources related to OPEB	5,616,744
Deferred inflows of resources related to pensions	6,751,490
Total deferred inflows of resources	12,368,234
Net Position	
Net investment in capital assets	100,420,265
Restricted for	
Capital projects	4,130,246
Educational programs	33,529,618
Student activities	31,548
Unrestricted (deficit)	(49,744,382)
Total net position	$ 88,367,295

Functions/Programs	Expenses	Program Revenues: Charges for Services and Sales	Program Revenues: Operating Grants and Contributions	Net (Expenses) Revenues and Changes in Net Position: Governmental Activities
Governmental Activities				
Instruction	$ 65,214,592	$ 6,228,058	$ 45,056,751	$ (13,929,783)
Instruction-related activities				
Supervision of instruction	22,195,923	1,420,672	12,291,205	(8,484,046)
Instructional library, media, and technology	1,064,379	110,432	330,428	(623,519)
School site administration	11,919,307	642,822	7,609,582	(3,666,903)
Pupil services				
Home-to-school transportation	11,124,187	798	3,429	(11,119,960)
Food services	1,671,226	26,078	1,564,346	(80,802)
All other pupil services	21,916,594	3,613,613	15,106,038	(3,196,943)
Administration				
Data processing	4,806,352	-	-	(4,806,352)
All other administration	12,795,876	924,598	9,308,869	(2,562,409)
Plant services	10,960,771	735,924	7,270,091	(2,954,756)
Ancillary services	5,275	-	7,741	2,466
Community services	44,524,479	1,189,463	40,426,686	(2,908,330)
Enterprise services	527,411	58,886	177,509	(291,016)
Interest on long-term liabilities	323,500	-	-	(323,500)
Other outgo	34,870,584	4,660,032	27,022,873	(3,187,679)
Total governmental activities	$ 243,920,456	$ 19,611,376	$ 166,175,548	(58,133,532)
General Revenues and Subventions				
Property taxes, levied for general purposes				19,748,131
Taxes levied for other specific purposes				218,273
Federal and State aid not restricted to specific purposes				26,468,962
Interest and investment earnings				4,077,358
Interagency revenues				3,911,583
Miscellaneous				11,951,818
Subtotal, general revenues and subventions				66,376,125
Change in Net Position				8,242,593
Net Position - Beginning as previously reported				86,242,180
Adjustments (Note 15)				(6,117,478)
Net Position - Beginning				80,124,702
Net Position - Ending				$ 88,367,295

Merced County Office of Education

Balance Sheet – Governmental Funds

June 30, 2025

	General Fund	Special Education Pass-Through Fund	Child Development Fund	Non-Major Governmental Funds	Total Governmental Funds
Assets					
Deposits and investments	$ 50,609,947	$ 64,870	$ 7,709,196	$ 7,225,911	$ 65,609,924
Receivables	25,948,635	17,113,941	10,546,890	477,827	54,087,293
Due from other funds	10,026,547	-	10,207	1,316,094	11,352,848
Stores inventories	85,677	-	-	-	85,677
Total assets	$ 86,670,806	$ 17,178,811	$ 18,266,293	$ 9,019,832	$ 131,135,742
Liabilities and Fund Balances					
Liabilities					
Accounts payable	$ 13,890,568	$ 17,178,811	$ 3,219,741	$ 179,993	$ 34,469,113
Due to other funds	1,279,549	-	7,803,508	2,269,791	11,352,848
Unearned revenue	1,415,617	-	2,584,729	31,760	4,032,106
Total liabilities	16,585,734	17,178,811	13,607,978	2,481,544	49,854,067
Fund Balances					
Nonspendable	111,192	-	-	-	111,192
Restricted	26,494,809	-	4,658,315	6,538,288	37,691,412
Assigned	22,067,778	-	-	-	22,067,778
Unassigned	21,411,293	-	-	-	21,411,293
Total fund balances	70,085,072	-	4,658,315	6,538,288	81,281,675
Total liabilities and fund balances	$ 86,670,806	$ 17,178,811	$ 18,266,293	$ 9,019,832	$ 131,135,742

See Notes to Financial Statements

Total Fund Balance - Governmental Funds		$ 81,281,675
Amounts Reported for Governmental Activities in the Statement of Net Position are Different Because		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.		
The cost of capital assets is	$ 170,899,918	
Accumulated depreciation and amortization is	(63,994,101)	
Net capital assets		106,905,817
Deferred outflows of resources represent a consumption of net position in a future period and is not reported in the governmental funds. Deferred outflows of resources amounted to and related to		
Other postemployment benefits (OPEB)	2,417,288	
Net pension liability	38,127,081	
Total deferred outflows of resources		40,544,369
Deferred inflows of resources represent an acquisition of net position that applies to a future period and is not reported in the governmental funds. Deferred inflows of resources amount to and related to		
Other postemployment benefits (OPEB)	(5,616,744)	
Net pension liability	(6,751,490)	
Total deferred inflows of resources		(12,368,234)
Net pension liability is not due and payable in the current period, and is not reported as a liability in the funds.		(107,737,622)
MCOE's OPEB liability is not due and payable in the current period, and is not reported as a liability in the funds.		(5,990,033)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.		
Long-term liabilities at year-end consist of		
Certificates of participation including unamortized premium	(6,436,346)	
Subscription-based IT arrangements	(49,206)	
Compensated absences	(7,783,125)	
Total long-term liabilities		(14,268,677)
Total net position - governmental activities		$ 88,367,295

	General Fund	Special Education Pass-Through Fund	Child Development Fund	Non-Major Governmental Funds	Total Governmental Funds
Revenues					
Local Control Funding Formula (LCFF)	$ 32,187,118	$ -	$ -	$ 6,678,795	$ 38,865,913
Federal sources	15,488,794	10,704,501	30,925,715	178,271	57,297,281
Other State sources	48,888,418	23,326,542	27,299,620	2,370,549	101,885,129
Other local sources	45,372,628	-	9,374,187	812,409	55,559,224
Total revenues	141,936,958	34,031,043	67,599,522	10,040,024	253,607,547
Expenditures					
Current					
Instruction	50,898,372	-	7,902,362	5,254,434	64,055,168
Instruction-related activities					
Supervision of instruction	20,643,114	-	1,318,820	659,857	22,621,791
Instructional library, media, and technology	957,963	-	-	-	957,963
School site administration	7,398,032	-	3,598,006	947,120	11,943,158
Pupil services					
Home-to-school transportation	10,057,538	-	-	266,969	10,324,507
Food services	276,798	-	1,377,128	-	1,653,926
All other pupil services	16,602,216	-	4,729,536	768,209	22,099,961
Administration					
Data processing	4,821,630	-	-	-	4,821,630
All other administration	7,080,552	-	5,074,083	646,437	12,801,072
Plant services	8,181,734	-	1,919,598	764,559	10,865,891
Ancillary services	-	-	-	5,275	5,275
Community services	896,090	-	43,683,242	-	44,579,332
Other outgo	824,481	34,031,043	-	-	34,855,524
Enterprise services	534,227	-	-	-	534,227
Facility acquisition and construction	9,332,498	-	2,388,880	205,821	11,927,199

	General Fund	Special Education Pass-Through Fund	Child Development Fund	Non-Major Governmental Funds	Total Governmental Funds
Expenditures					
Debt service					
Principal	392,131	-	-	-	392,131
Interest and other	256,369	-	-	-	256,369
Total expenditures	139,153,745	34,031,043	71,991,655	9,518,681	254,695,124
Excess (Deficiency) of Revenues Over Expenditures	2,783,213	-	(4,392,133)	521,343	(1,087,577)
Other Financing Sources (Uses)					
Transfers in	1,100,000	-	-	816,275	1,916,275
Transfers out	(816,275)	-	-	(1,100,000)	(1,916,275)
Other uses	-	-	-	(15,060)	(15,060)
Net Financing Sources (Uses)	283,725	-	-	(298,785)	(15,060)
Net Change in Fund Balances	3,066,938	-	(4,392,133)	222,558	(1,102,637)
Fund Balance - Beginning	67,018,134	-	9,050,448	6,315,730	82,384,312
Fund Balance - Ending	$ 70,085,072	$ -	$ 4,658,315	$ 6,538,288	$ 81,281,675

Total Net Change in Fund Balances - Governmental Funds		$ (1,102,637)
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	$ 13,259,135	
Depreciation and amortization expense	(5,140,722)	
Net expense adjustment		8,118,413
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 comprensated absences earned and used.		(778,174)
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/inflows of resources and net pension liability during the year.		1,292,197
In the governmental funds, OPEB costs are based on benefit payments made for OPEB plans during the year. However, in the Statement of Activities, OPEB expense is the net effect of all changes in the deferred outflows/inflows of resources and net OPEB liability during the year.		304,139
Governmental funds report the effect of premiums, discounts, and the deferred charge on refunding when the debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities.		
Premium amortization		16,524

Payments of principal on long-term liabilities is an expenditure in the governmental funds, but reduce long-term liabilities in the Statement of Net Position and does not affect the Statement of Activities.	
Certificates of participation	325,000
Leases	26,938
Subscription-based IT arrangements	40,193
Change in net position of governmental activities	$ 8,242,593

	Custodial Funds
Assets	
Deposits and investments	$ 17,669,213
Liabilities	
Payroll revolving	$ 17,669,213

	Custodial Funds
Additions	
Employer contributions	$ 831,722,388
Deductions	
Payroll related payments	831,722,388
Net Change 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 $21,566,747.

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 and amortization of capital 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 and regulations of other governments, or imposed by law through constitutional provisions or enabling legislation. Net position restricted for other activities results 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 financial statements 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 financial 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

Stores 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

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. Federally funded assets maintain a capitalization threshold of $5,000. 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.

The accounting and reporting treatment applied to the capital assets associated with a fund are determined by its measurement focus. 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. Land is not depreciated.

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, 2025.

Right-to-use leased assets are recognized at the lease commencement date and represent MCOE's right-to-use an underlying asset for the lease term. Right-to-use leased assets are measured at the initial value of the lease liability plus any payments made to the lessor before commencement of the lease term, less any lease incentives received from the lessor at or before the commencement of the lease term, plus any initial direct costs necessary to place the leased asset into service. Right-to-use leased assets are amortized over the shorter of the lease term or useful life of the underlying asset using the straight-line method. The amortization period varies from 1 to 2 years.

Right-to-use subscription IT assets are recognized at the subscription commencement date and represent MCOE's right-to-use the underlying IT asset for the subscription term. Right-to-use subscription IT assets are measured at the initial value of the subscription liability plus any payments made to the vendor at the commencement of the subscription term, less any subscription incentives from the vendor at or before the commencement of the subscription term, plus any capitalizable initial implementation costs necessary to place the subscription asset into service. Right-to-use subscription IT assets are amortized over the shorter of the subscription term or useful life of the underlying asset using the straight-line method. The amortization period varies from 1 to 2 years.

Interfund Balances

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

Compensated Absences

Compensated absences are accrued as a liability as the benefits are earned for leave balances that are more likely than not to be used for compensated leave or settled through cash or noncash means. The entire compensated absence liability is reported on the government-wide Statement of Net Position. For governmental funds, a liability for compensated absences is recognized upon the occurrence of relevant events such as employee resignations and retirements that occur prior to year-end that have not yet been paid with expendable available financial resources. These amounts are reported in the fund from which the employees who have accumulated leave are paid.

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, only the portion of accumulated sick leave that is more likely than not to be used by the employee for paid leave is recognized as a liability in MCOE's financial statements. Credit for unused sick leave is applicable to all classified school members who retire after January 1, 1999. At retirement, each member will receive 0.004 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. The portion of sick leave that is more likely than not to be settled through conversion to service credit for employee retirement plans is not included in MCOE's liability for compensated absences.

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

Debt premiums, discounts, and debt issuance costs related to prepaid insurance 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/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 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, 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.

Lease Liabilities

Lease liabilities represent MCOE's obligation to make lease payments arising from the lease. MCOE recognizes a lease liability in the government-wide financial statements. Lease liabilities are recognized at the lease commencement date based on the present value of future lease payments expected to be made during the lease term. The present value of lease payments is discounted based on a borrowing rate determined by MCOE.

Subscription Liabilities

Subscription liabilities represent MCOE's obligation to make subscription payments arising from the subscription contract. Subscription liabilities are recognized at the subscription commencement date based on the present value of future subscription payments expected to be made during the subscription term. The present value of the subscription payments is discounted based on a borrowing rate determined by MCOE.

Fund Balances - Governmental Funds

As of June 30, 2025, 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 Deputy Superintendent of Business Services 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 related to net of investment in capital assets consists of capital assets, net of accumulated depreciation and amortization, 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 $37,691,412 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.

Adoption of New Accounting Standard

Implementation of GASB Statement No. 101

As of June 30, 2025, MCOE adopted GASB Statement No. 101, *Compensated Absences*. The provisions of this standard modernize the types of leave that are considered a compensated absence and provides guidance for a consistent recognition and measurement of the compensated absence liability. The effect of the implementation of this standard on beginning net position is disclosed in Note 15.

Note 2 - Deposits and Investments

Summary of Deposits and Investments

Deposits and investments as of June 30, 2025, are classified in the accompanying financial statements as follows:

Governmental activities	$ 65,609,924
Fiduciary activities	17,669,213
Total deposits and investments	$ 83,279,137

Deposits and investments as of June 30, 2025, consist of the following:

Cash on hand and in banks	$ 31,768
Cash in revolving	25,515
Investments	83,221,854
Total deposits and investments	$ 83,279,137

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 $82,639,266 in the Merced County Treasury Investment Pool that has an average weighted maturity of 663 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, 2025, 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 - Receivables

Receivables at June 30, 2025, 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	$ 8,455,871	$ 15,281,346	$ 8,778,608	$ 27,973	$ 32,543,798
State Government					
LCFF apportionment	584,428	-	-	-	584,428
Other State	7,424,573	1,832,595	380,891	128,963	9,767,022
Local Sources	9,483,763	-	1,387,391	320,891	11,192,045
Total	$ 25,948,635	$ 17,113,941	$ 10,546,890	$ 477,827	$ 54,087,293

Note 4 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2025, was as follows:

	Balance July 1, 2024	Additions	Deductions	Balance June 30, 2025
Governmental Activities				
Capital assets not being depreciated or amortized				
Land	$ 6,170,257	$ 2,219,880	$ -	$ 8,390,137
Construction in progress	6,019,967	2,183,983	(6,141,050)	2,062,900
Total capital assets not being depreciated or amortized	12,190,224	4,403,863	(6,141,050)	10,453,037
Capital assets being depreciated and amortized				
Land improvements	8,075,448	-	-	8,075,448
Buildings and improvements	122,615,294	11,958,901	-	134,574,195
Furniture and equipment	15,708,111	3,037,421	(1,236,075)	17,509,457
Right-to-use leased buildings and improvements	222,758	-	(222,758)	-
Right-to-use subscription IT assets	337,326	-	(49,545)	287,781
Total capital assets being depreciated and amortized	146,958,937	14,996,322	(1,508,378)	160,446,881
Total capital assets	159,149,161	19,400,185	(7,649,428)	170,899,918
Accumulated depreciation and amortization				
Land improvements	(4,360,402)	(334,305)	-	(4,694,707)
Buildings and improvements	(43,381,772)	(3,897,941)	-	(47,279,713)
Furniture and equipment	(12,245,887)	(793,836)	1,236,075	(11,803,648)
Right-to-use leased buildings and improvements	(200,448)	(22,310)	222,758	-
Right-to-use subscription IT assets	(173,248)	(92,330)	49,545	(216,033)
Total accumulated depreciation and amortization	(60,361,757)	(5,140,722)	1,508,378	(63,994,101)
Net depreciable and amortizable capital assets	86,597,180	9,855,600	-	96,452,780
Governmental activities capital assets, net	$ 98,787,404	$ 14,259,463	$ (6,141,050)	$ 106,905,817

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

Governmental Activities	
Instruction	$ 2,497,063
Supervision of instruction	27,651
Instructional library, media, and technology	113,418
School site administration	349,158
Home-to-school transportation	807,983
Food services	22,496
All other pupil services	82,954
Community services	14,060
Data processing	299,949
All other administration	117,167
Plant services	808,823
Total depreciation and amortization expense - governmental activities	$ 5,140,722

Note 5 - Interfund Transactions

Interfund Receivables/Payables (Due To/Due From)

Interfund receivable and payable balances arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed. Interfund receivable and payable balances at June 30, 2025, between major and non-major governmental funds are as follows:

Funds	Due from Other Funds	Due to Other Funds
Major Governmental Funds		
General	$ 10,026,547	$ 1,279,549
Child Development	10,207	7,803,508
Non-Major Governmental Funds		
Charter Schools	499,819	1,134,234
Adult Education	-	21,557
County School Facilities	816,275	1,114,000
Total	$ 11,352,848	$ 11,352,848

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

Note 6 - Accounts Payable

Accounts payable at June 30, 2025, consist of the following:

	General Fund	Special Education Pass-Through Fund	Child Development Fund	Non-Major Governmental Funds	Total
Vendor payables	$ 7,171,931	$ 17,178,811	$ 3,219,741	$ 31,263	$ 27,601,746
Salaries and benefits	6,718,637	-	-	148,730	6,867,367
Total	$ 13,890,568	$ 17,178,811	$ 3,219,741	$ 179,993	$ 34,469,113

Note 7 - Unearned Revenue

Unearned revenue at June 30, 2025, consists of the following:

	General Fund	Child Development Fund	Non-Major Governmental Funds	Total
Federal financial assistance	$ 463,188	$ 1,042,827	$ 31,760	$ 1,537,775
State categorical aid	952,429	1,541,902	-	2,494,331
Total	$ 1,415,617	$ 2,584,729	$ 31,760	$ 4,032,106

Note 8 - 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, 2024, as Restated	Additions	Deductions	Balance June 30, 2025	Due in One Year
Long-Term Liabilities					
Certificates of participation	$ 6,530,000	$ -	$ (325,000)	$ 6,205,000	$ 335,000
Unamortized premium	247,870	-	(16,524)	231,346	-
Leases	26,938	-	(26,938)	-	-
Subscription-based IT arrangements	89,399	-	(40,193)	49,206	24,051
Compensated absences	7,004,951	778,174	-	7,783,125	3,379,727
Total	$ 13,899,158	$ 778,174	$ (408,655)	$ 14,268,677	$ 3,738,778

The change in compensated absences is presented as a net change.

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.

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 are being amortized over the life of the certificates at $16,524 per year. As of June 30, 2025, the principal balance outstanding was $6,205,000.

The certificates mature through 2039 as follows:

Year Ending June 30,	Principal	Interest	Total
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	395,000	173,844	568,844
2031-2035	2,275,000	582,981	2,857,981
2036-2039	2,125,000	155,810	2,280,810
Total	$ 6,205,000	$ 1,787,195	$ 7,992,195

Leases

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

Lease	Leases Outstanding July 1, 2024	Payments	Leases Outstanding June 30, 2025
George Washington Carver	$ 26,938	$ (26,938)	$ -

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, 2025, the lease agreement had ended and it was not renewed. During the fiscal year, MCOE recorded $22,310 in amortization expense and $661 in interest expense for the right-to-use the facility.

Subscriptions-Based Information Technology Arrangements (SBITAs)

MCOE entered into SBITAs for the general operations of MCOE. At June 30, 2025, MCOE recognized right-to-use subscriptions IT assets of $287,781 and a SBITA liability of $49,206 related to these agreements. During the fiscal year, MCOE recorded $92,330 in amortization expense and $2,320 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, 2025, are as follows:

Year Ending June 30,	Principal	Interest	Total
2026	$ 24,051	$ 185	$ 24,236
2027	25,155	94	25,249
Total	$ 49,206	$ 279	$ 49,485

Note 9 - Net Other Postemployment Benefit (OPEB) Liability

For the fiscal year ended June 30, 2025, 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	$ 5,823,766	$ 2,417,288	$ 5,616,744	$ 1,062,407
Medicare Premium Payment (MPP) Program	166,267	-	-	(36,532)
Total	$ 5,990,033	$ 2,417,288	$ 5,616,744	$ 1,025,875

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	296
Total	341

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, 2024, MCOE contributed $1,330,014 to the Plan, including an implicit rate subsidy of $21,822, of which $602,162 was used for retiree premiums and $727,852 was used to fund the OPEB Trust.

Net OPEB Liability of MCOE

MCOE's net OPEB liability of $5,823,766 as measured as of June 30, 2024, by applying certain roll-forward procedures to an actuarial valuation dated June 30, 2023. The components of the net OPEB liability of MCOE were as follows:

Total OPEB liability	$ 7,294,981
Plan fiduciary net position	(1,471,215)
Net OPEB liability	$ 5,823,766
Plan fiduciary net position as a percentage of the total OPEB liability	20.17%

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 2025

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. The assumed asset allocations are US Large Cap 40% (assumed 7.545% return), US Small Cap 20% (assumed 7.545% return), Long-Term Corporate Bonds 25% (assumed 5.045% return), Long-Term Government Bonds 10% (assumed 4.25% return) and Short-Term Government Fixed 5% (assumed 3% return).

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, 2023 (measurement date)	$ 7,320,648	$ 639,393	$ 6,681,255
Service cost	133,597	-	133,597
Interest	442,898	104,834	338,064
Benefit payments	(602,162)	(602,162)	-
Employer contributions	-	1,330,014	(1,330,014)
Administrative expense	-	(864)	864
Net change in total OPEB liability	(25,667)	831,822	(857,489)
Balance, June 30, 2024 (measurement date)	$ 7,294,981	$ 1,471,215	$ 5,823,766

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

Changes of Assumptions – There were no changes of assumptions 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%)	$ 6,323,163
Current expected rate of return (6.25%)	5,823,766
1% increase (7.25%)	5,373,892

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:

Healthcare Cost Trend Rate	Net OPEB Liability
1% decrease (3.0%)	$ 5,429,639
Current healthcare cost trend rate (4.0%)	5,823,766
1% increase (5.0%)	6,265,971

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

For the year ended June 30, 2025, MCOE recognized OPEB expense of $227,407. At June 30, 2025, MCOE reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 2,223,258
Changes of assumptions	2,417,288	3,357,999
Net difference between projected and actual earnings on OPEB plan investments	-	35,487
Total	$ 2,417,288	$ 5,616,744

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

Year Ended June 30,	Deferred Outflows of Resources
2025	$ 274,693
2026	274,693
2027	274,693
2028	274,693
2029	274,693
Thereafter	1,043,823
Total	$ 2,417,288

The deferred inflows of resources related to the differences between expected and actual experience 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 and will be recognized as OPEB expense as follows:

Year Ended June 30,	Deferred Inflows of Resources
2025	$ (547,061)
2026	(547,061)
2027	(547,061)
2028	(547,061)
2029	(547,061)
Thereafter	(2,845,952)
Total	$ (5,581,257)

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

Year Ended June 30,	Deferred Inflows of Resources
2025	$ (16,723)
2026	242
2027	(10,576)
2028	(8,430)
Total	$ (35,487)

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, 2023, 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: https://www.calstrs.com/forms-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, 2025, MCOE reported a liability of $166,267 for its proportionate share of the net OPEB liability for the MPP Program. The net OPEB liability was measured as of June 30, 2024, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2023. 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, 2024 and June 30, 2023, respectively, was 0.0624% and 0.0668%, resulting in a net decrease in the proportionate share of 0.0044%.

For the year ended June 30, 2025, MCOE recognized OPEB expense of $(36,532).

Actuarial Methods and Assumptions

The June 30, 2024 total OPEB liability was determined by applying update procedures to the financial reporting actuarial valuation as of June 30, 2023, and rolling forward the total OPEB liability to June 30, 2024, using the assumptions listed in the following table:

Measurement Date	June 30, 2024	June 30, 2023
Valuation Date	June 30, 2023	June 30, 2022
Experience Study	July 1, 2007 through June 30, 2022	July 1, 2015 through June 30, 2018
Actuarial Cost Method	Entry age normal	Entry age normal
Investment Rate of Return	3.93%	3.65%
Medicare Part A Premium Cost Trend Rate	5.00%	4.50%
Medicare Part B Premium Cost Trend Rate	6.50%	5.40%

For the valuation as of June 30, 2023, CalSTRS uses a generational mortality assumption, which is based off generational mortality tables that reflect expected future improvements in mortality and includes a base table and a projection table. The base mortality tables are CalSTRS custom tables derived to best fit the patterns of mortality among members. The projection table reflects the expected annual reduction in mortality rates at each age. The current mortality assumption uses a base year of 2023, and projected improvement is based on the MP–2021 Ultimate Projection Scale.

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 154 or an average of 0.12% of the potentially eligible population (132,333).

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, 2024, 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, 2024, 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, 2024, was 3.93%, which is an increase of 0.28% from 3.65% as of June 30, 2023.

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

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

Investment Rate of Return	Net OPEB Liability
1% decrease (2.93%)	$ 179,398
Discount rate (3.93%)	166,267
1% increase (4.93%)	154,721

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 (4.00% Part A and 5.50% Part B)	$ 154,029
Current discount rates (5.00% Part A and 6.50% Part B)	166,267
1% increase (6.00% Part A and 7.50% Part B)	179,931

Note 10 - Fund Balances

Fund balances are composed of the following elements:

	General Fund	Child Development Fund	Non-Major Governmental Funds	Total
Nonspendable				
Revolving cash	$ 25,515	$ -	$ -	$ 25,515
Stores inventories	85,677	-	-	85,677
Total nonspendable	111,192	-	-	111,192
Restricted				
Legally restricted programs	26,494,809	4,658,315	2,408,042	33,561,166
Capital projects	-	-	4,130,246	4,130,246
Total restricted	26,494,809	4,658,315	6,538,288	37,691,412
Assigned				
Chater oversight	66,788	-	-	66,788
Safety	43,505	-	-	43,505
LCFF ADA fluctuation	350,000	-	-	350,000
Differentiated assistance	1,533,016	-	-	1,533,016
District support services	3,166,176	-	-	3,166,176
Special educational services	496,506	-	-	496,506
ROP/Career tech	955,942	-	-	955,942
Community school and juvenile hall	6,848,032	-	-	6,848,032
Transportation	1,326,493	-	-	1,326,493
Other postemployment benefits	1,612,780	-	-	1,612,780
Special Education expenses	1,409	-	-	1,409
ITS capital expenditures	600,000	-	-	600,000
Alternative Education expenses	450,000	-	-	450,000
Educational Services expenses	431,098	-	-	431,098
Construction projects	2,082,879	-	-	2,082,879
Facility repairs	2,103,154	-	-	2,103,154
Total assigned	22,067,778	-	-	22,067,778
Unassigned				
Reserve for economic uncertainties	2,760,480	-	-	2,760,480
Remaining unassigned	18,650,813	-	-	18,650,813
Total unassigned	21,411,293	-	-	21,411,293
Total	$ 70,085,072	$ 4,658,315	$ 6,538,288	$ 81,281,675

Note 11 - 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 14 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 though AIG, CHUBB, and the National Union Fire Insurance Company.

Note 12 - 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, 2025, MCOE reported its proportionate share of net pension liabilities, deferred outflows of resources, deferred inflows of resources, and pension expense for each of the above plans as follows:

Pension Plan	Net Pension Liability	Deferred Outflows of Resources	Deferred Inflows of Resources	Pension Expense
CalSTRS	$ 28,718,653	$ 12,135,187	$ 5,440,688	$ 3,396,702
CalPERS	79,018,969	25,991,894	1,310,802	14,489,464
Total	$ 107,737,622	$ 38,127,081	$ 6,751,490	$ 17,886,166

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, 2023, 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: https://www.calstrs.com/forms-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, 2025, are summarized as follows:

	STRP Defined Benefit Program	
Hire date	On or before December 31, 2012	On or after January 1, 2013
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, 2025, are presented above and MCOE's total contributions were $5,897,932.

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

At June 30, 2025, 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	$ 28,718,653
State's proportionate share of the net pension liability	13,176,217
Total	$ 41,894,870

The net pension liability was measured as of June 30, 2024. 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 member districts and the State, actuarially determined. MCOE's proportionate share for the measurement period June 30, 2024 and June 30, 2023, respectively, was 0.0428% and 0.0452%, resulting in a net decrease in the proportionate share of 0.0024%.

For the year ended June 30, 2025, MCOE recognized pension expense of $3,396,702. In addition, MCOE recognized pension expense and revenue of $1,199,540 for support provided by the State. At June 30, 2025, 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	$ 5,897,932	$ -
Change in proportion and differences between contributions made and MCOE's proportionate share of contributions	2,863,093	2,107,574
Differences between projected and actual earnings on pension plan investments	-	115,879
Differences between expected and actual experience in the measurement of the total pension liability	3,248,449	1,255,850
Changes of assumptions	125,713	1,961,385
Total	$ 12,135,187	$ 5,440,688

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/(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
2026	$ (1,925,217)
2027	2,318,676
2028	(189,176)
2029	(320,162)
Total	$ (115,879)

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

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2026	$ 442,094
2027	297,613
2028	2,691
2029	133,474
2030	411,505
Thereafter	(374,931)
Total	$ 912,446

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, 2023, and rolling forward the total pension liability to June 30, 2024. The financial reporting actuarial valuation as of June 30, 2023, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2023
Measurement date	June 30, 2024
Experience study	July 1, 2007 through June 30, 2022
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 is based off generational mortality tables that reflect expected future improvements in mortality and includes a base table and a projection table. The base mortality tables are CalSTRS custom tables derived to best fit the patterns of mortality among our members. The projection table reflects the expected annual reduction in mortality rates at each age. The current mortality assumption uses a base year of 2023, and projected improvement is based on the MP–2021 Ultimate Projection Scale.

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 2024 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. The assumed asset allocation and best estimates of the expected rates of return for each major asset class for the year ended June 30, 2024, 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:

Discount Rate	Net Pension Liability
1% decrease (6.10%)	$ 51,081,087
Current discount rate (7.10%)	28,718,653
1% increase (8.10%)	10,045,093

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, 2023, 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, 2025, are summarized as follows:

	School Employer Pool (CalPERS)	
Hire date	On or before December 31, 2012	On or after January 1, 2013
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	27.050%	27.050%

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, 2025, are presented above and the total County contributions were $13,280,431.

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

As of June 30, 2025, MCOE reported net pension liabilities for its proportionate share of the CalPERS net pension liability totaling $79,018,969. The net pension liability was measured as of June 30, 2024. 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, 2024 and June 30, 2023, respectively, was 0.2211% and 0.2248%, resulting in a net decrease in the proportionate share of 0.0037%.

For the year ended June 30, 2025, MCOE recognized pension expense of $14,489,464. At June 30, 2025, 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	$ 13,280,431	$ -
Change in proportion and differences between contributions made and MCOE's proportionate share of contributions	1,270,861	745,266
Differences between projected and actual earnings on pension plan investments	3,069,431	-
Differences between expected and actual experience in the measurement of the total pension liability	6,624,585	565,536
Changes of assumptions	1,746,586	-
Total	$ 25,991,894	$ 1,310,802

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/(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
2026	$ (26,460)
2027	4,772,266
2028	(705,161)
2029	(971,214)
Total	$ 3,069,431

The deferred outflows/(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
2026	$ 4,501,472
2027	2,582,983
2028	1,246,775
Total	$ 8,331,230

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, 2023, and rolling forward the total pension liability to June 30, 2024. The financial reporting actuarial valuation as of June 30, 2023, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2023
Measurement date	June 30, 2024
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, SEP's 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 SEP 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%)	$ 117,383,338
Current discount rate (6.90%)	79,018,969
1% increase (7.90%)	47,326,946

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 $2,660,562 (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. Accordingly, these amounts have been recorded in these financial statements. On behalf payments have been included in the calculation of available reserves but have not been included in the budgeted amounts reported in the General Fund - Budgetary Comparison Schedule.

Note 13 - 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, 2025.

Litigation

MCOE is not currently a party to any legal proceedings.

Construction Commitments

As of June 30, 2025, the MCOE had the following commitments with respect to the unfinished capital projects:

Capital Project	Remaining Construction Commitment	Expected Date of Completion
Westside Headstart - Los Banos	$ 830,871	7/31/2025
Valley Community School Kitchen - Atwater	85,045	6/30/2026
Valley Community School Gym HVAC - Merced	35,000	1/31/2026
Valley Community School Gym HVAC - Los Banos	35,000	1/31/2026
Wardrobe Early Education playground - Merced	106,674	7/31/2025
Wardrobe DLI playgournd - Merced	126,440	7/31/2025
Pioneer Preschool modular - Merced	124,800	9/30/2026
Lee Andersen Education Center modular - Atwater	128,800	11/30/2026
Total	$ 1,472,630	

Note 14 - 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, 2025, MCOE made payment of $13,094,090 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, 2025, MCOE made payment of $326,961 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, 2025, MCOE made payment of $3,087,567 to MCSIG for workers' compensation.

Note 15 - Restatement

Change in Accounting Principle

As of June 30, 2025, MCOE adopted GASB Statement No. 101, *Compensated Absences*. The provisions of this standard modernize the types of leave that are considered a compensated absence and provides guidance for a consistent recognition and measurement of the compensated absence liability. Therefore, compensated absences increased by $6,117,478 as of July 1, 2024. The effect of this change in accounting principle is described in the table below.

	Government-Wide Governmental Activities
Net Position - Beginning, as previously reported on July 1, 2024	$ 86,242,180
Change in accounting principle	(6,117,478)
Net Position - Beginning as Restated on July 1, 2024	$ 80,124,702

Required Supplementary Information
June 30, 2025

Merced County Office of Education

	Budgeted Amounts			Variances - Positive (Negative)
	Original	Final	Actual	Final to Actual
Revenues				
Local Control Funding Formula	$ 30,876,244	$ 31,684,742	$ 32,187,118	$ 502,376
Federal sources	17,273,730	17,613,873	15,488,794	(2,125,079)
Other State sources	42,118,178	46,565,607	48,888,418	2,322,811
Other local sources	33,978,920	39,114,273	45,372,628	6,258,355
Total revenues [1]	124,247,072	134,978,495	141,936,958	6,958,463
Expenditures				
Current				
Certificated salaries	28,618,230	27,478,435	27,526,171	(47,736)
Classified salaries	39,005,563	38,598,742	38,204,901	393,841
Employee benefits	34,232,430	34,027,687	33,935,276	92,411
Books and supplies	5,898,826	6,614,372	5,399,332	1,215,040
Services and operating expenditures	22,626,201	31,897,262	28,093,013	3,804,249
Other outgo	(4,388,429)	(4,821,531)	(5,020,918)	199,387
Capital outlay	4,568,513	12,329,724	10,367,470	1,962,254
Debt service				
Debt service - principal	310,000	325,000	392,131	(67,131)
Debt service - interest and other	263,788	246,488	256,369	(9,881)
Total expenditures [1]	131,135,122	146,696,179	139,153,745	7,542,434
Excess (Deficiency) of Revenues Over Expenditures	(6,888,050)	(11,717,684)	2,783,213	14,500,897
Other Financing Sources (Uses)				
Transfers in	-	3,300,000	1,100,000	(2,200,000)
Transfers out	-	-	(816,275)	(816,275)
Net financing sources (uses)	-	3,300,000	283,725	(3,016,275)
Net Change in Fund Balances	(6,888,050)	(8,417,684)	3,066,938	11,484,622
Fund Balance - Beginning	67,018,134	67,018,134	67,018,134	-
Fund Balance - Ending	$ 60,130,084	$ 58,600,450	$ 70,085,072	$ 11,484,622

[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.

	Budgeted Amounts			Variances - Positive (Negative)
	Original	Final	Actual	Final to Actual
Revenues				
Federal sources	$ 10,461,953	$ 13,298,463	$ 10,704,501	$ (2,593,962)
Other State sources	23,516,376	23,516,376	23,326,542	(189,834)
Total revenues	33,978,329	36,814,839	34,031,043	(2,783,796)
Expenditures				
Current				
Other outgo	33,978,329	36,814,839	34,031,043	2,783,796
Net Change in Fund Balances	-	-	-	-
Fund Balance - Beginning	-	-	-	-
Fund Balance - Ending	$ -	$ -	$ -	$ -

	Budgeted Amounts			Variances - Positive (Negative)
	Original	Final	Actual	Final to Actual
Revenues				
Federal sources	$ 34,896,253	$ 34,910,729	$ 30,925,715	$ (3,985,014)
Other State sources	11,699,731	20,556,667	27,299,620	6,742,953
Other local sources	11,215,729	11,235,802	9,374,187	(1,861,615)
Total revenues	57,811,713	66,703,198	67,599,522	896,324
Expenditures				
Current				
Certificated salaries	6,075,421	6,436,206	5,318,289	1,117,917
Classified salaries	9,634,127	9,939,601	9,011,587	928,014
Employee benefits	7,949,071	8,240,395	7,269,522	970,873
Books and supplies	2,088,617	3,228,539	1,948,040	1,280,499
Services and operating expenditures	24,317,162	30,759,091	40,684,824	(9,925,733)
Other outgo	3,969,590	4,610,916	5,074,085	(463,169)
Capital outlay	3,845,484	3,697,261	2,685,308	1,011,953
Total expenditures	57,879,472	66,912,009	71,991,655	(5,079,646)
Net Change in Fund Balances	(67,759)	(208,811)	(4,392,133)	(4,183,322)
Fund Balance - Beginning	9,050,448	9,050,448	9,050,448	-
Fund Balance - Ending	$ 8,982,689	$ 8,841,637	$ 4,658,315	$ (4,183,322)

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, 2025

	2025	2024	2023	2022
Total OPEB Liability				
Service cost	$ 133,597	$ 387,770	$ 459,670	$ 196,810
Interest	442,898	462,332	353,850	634,618
Changes of benefit terms	-	-	-	-
Experience gains	-	(2,167,942)	(81,471)	(127,151)
Expected minus actual beneft payments	-	(200,862)	-	(57,430)
Changes of assumptions	-	(2,777,554)	(1,343,271)	3,516,060
Benefit payments	(602,162)	(596,545)	(678,097)	(707,599)
Net change in total OPEB liability	(25,667)	(4,892,801)	(1,289,319)	3,455,308
Total OPEB Liability - Beginning	7,320,648	12,213,449	13,502,768	10,047,460
Total OPEB Liability - Ending (a)	$ 7,294,981	$ 7,320,648	$ 12,213,449	$ 13,502,768
Plan Fiduciary Net Position				
Contributions - employer	$ 1,330,014	$ 725,000	$ 924,981	$ 456,983
Net investment income	104,834	33,213	(30,690)	17,834
Investment gains	-	10,741	-	84,834
Benefit payments	(602,162)	(596,545)	(678,097)	(707,599)
Administrative expense	(864)	(387)	(343)	(406)
Net change in plan fiduciary net position	831,822	172,022	215,851	(148,354)
Plan Fiduciary Net Position - Beginning	639,393	467,371	251,520	399,874
Plan Fiduciary Net Position - Ending (b)	$ 1,471,215	$ 639,393	$ 467,371	$ 251,520
Net OPEB Liability - Ending (a) - (b)	$ 5,823,766	$ 6,681,255	$ 11,746,078	$ 13,251,248
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	20.17%	8.73%	3.83%	1.86%
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, 2024	June 30, 2023	June 30, 2022	June 30, 2021

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

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

See Notes to Required Supplementary Information

Merced County Office of Education

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

Year Ended June 30, 2025

	2021	2020	2019	2018
Total OPEB Liability				
Service cost	$ 191,543	$ 20,469	$ 19,921	$ 19,388
Interest	629,425	457,113	476,369	497,485
Changes of benefit terms	-	2,769,719	-	-
Experience gains	(78,752)	(316,720)	-	-
Expected minus actual beneft payments	-	(52,610)	-	-
Changes of assumptions	-	375,364	-	-
Benefit payments	(643,648)	(706,046)	(826,964)	(857,553)
Net change in total OPEB liability	98,568	2,547,289	(330,674)	(340,680)
Total OPEB Liability - Beginning	9,948,892	7,401,603	7,732,277	8,072,957
Total OPEB Liability - Ending (a)	$ 10,047,460	$ 9,948,892	$ 7,401,603	$ 7,732,277
Plan Fiduciary Net Position				
Contributions - employer	$ 792,407	$ 930,000	$ 678,106	$ 189,106
Net investment income	11,318	7,686	34,786	51,436
Investment gains	-	2,138	-	-
Benefit payments	(643,648)	(706,046)	(826,964)	(857,553)
Administrative expense	(144)	(223)	(313)	(575)
Net change in plan fiduciary net position	159,933	233,555	(114,385)	(617,586)
Plan Fiduciary Net Position - Beginning	239,941	6,386	120,771	738,357
Plan Fiduciary Net Position - Ending (b)	$ 399,874	$ 239,941	$ 6,386	$ 120,771
Net OPEB Liability - Ending (a) - (b)	$ 9,647,586	$ 9,708,951	$ 7,395,217	$ 7,611,506
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	3.98%	2.41%	0.09%	1.56%
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, 2020	June 30, 2019	June 30, 2018	June 30, 2017

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

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

See Notes to Required Supplementary Information

Year ended June 30,	2025	2024	2023	2022
Proportion of the net OPEB liability	0.0624%	0.0668%	0.0628%	0.0642%
Proportionate share of the net OPEB liability	$ 166,267	$ 202,799	$ 206,979	$ 256,262
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	(1.02%)	(0.96%)	(0.94%)	(0.80%)
Measurement Date	June 30, 2024	June 30, 2023	June 30, 2022	June 30, 2021

[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.

Year ended June 30,	2021	2020	2019	2018
Proportion of the net OPEB liability	0.0722%	0.0689%	0.0661%	0.0634%
Proportionate share of the net OPEB liability	$ 306,115	$ 256,411	$ 252,968	$ 266,754
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	(0.71%)	(0.81%)	(0.40%)	0.01%
Measurement Date	June 30, 2020	June 30, 2019	June 30, 2018	June 30, 2017

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

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

CalSTRS	2025	2024	2023	2022	2021
Proportion of the net pension liability	0.0428%	0.0452%	0.0419%	0.0427%	0.0415%
Proportionate share of the net pension liability	$ 28,718,653	$ 34,413,192	$ 29,091,266	$ 19,450,998	$ 40,173,657
State's proportionate share of the net pension liability	13,176,217	16,488,328	14,568,792	9,786,988	20,709,525
Total	$ 41,894,870	$ 50,901,520	$ 43,660,058	$ 29,237,986	$ 60,883,182
Covered payroll	$ 28,841,346	$ 27,399,524	$ 24,263,162	$ 23,418,533	$ 23,078,082
Proportionate share of the net pension liability as a percentage of its covered payroll	99.57%	125.60%	119.90%	83.06%	174.08%
Plan fiduciary net position as a percentage of the total pension liability	84%	81%	81%	87%	72%
Measurement Date	June 30, 2024	June 30, 2023	June 30, 2022	June 30, 2021	June 30, 2020

	2020	2019	2018	2017	2016
Proportion of the net pension liability	0.0389%	0.0368%	0.0350%	0.0373%	0.0396%
Proportionate share of the net pension liability	$ 35,153,218	$ 33,840,589	$ 32,388,952	$ 30,180,918	$ 26,684,856
State's proportionate share of the net pension liability	19,178,427	19,375,320	19,161,030	17,181,458	14,113,347
Total	$ 54,331,645	$ 53,215,909	$ 51,549,982	$ 47,362,376	$ 40,798,203
Covered payroll	$ 21,353,213	$ 19,378,559	$ 18,668,967	$ 18,507,241	$ 18,462,973
Proportionate share of the net pension liability as a percentage of its covered payroll	164.63%	174.63%	173.49%	163.08%	144.53%
Plan fiduciary net position as a percentage of the total pension liability	73%	71%	69%	70%	74%
Measurement Date	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015

CalPERS	2025	2024	2023	2022	2021
Proportion of the net pension liability	0.2211%	0.2248%	0.2189%	0.2125%	0.2115%
Proportionate share of the net pension liability	$ 79,018,969	$ 81,367,977	$ 75,332,447	$ 43,214,030	$ 64,908,966
Covered payroll	$ 43,975,873	$ 39,272,326	$ 33,823,985	$ 30,820,237	$ 30,702,317
Proportionate share of the net pension liability as a percentage of its covered payroll	179.69%	207.19%	222.72%	140.21%	211.41%
Plan fiduciary net position as a percentage of the total pension liability	72%	70%	70%	81%	70%
Measurement Date	June 30, 2024	June 30, 2023	June 30, 2022	June 30, 2021	June 30, 2020

	2020	2019	2018	2017	2016
Proportion of the net pension liability	0.1961%	0.1899%	0.1850%	0.1898%	0.2054%
Proportionate share of the net pension liability	$ 57,154,203	$ 50,630,196	$ 44,154,452	$ 37,492,124	$ 30,269,214
Covered payroll	$ 27,175,363	$ 25,148,458	$ 23,602,520	$ 22,775,985	$ 22,729,131
Proportionate share of the net pension liability as a percentage of its covered payroll	210.32%	201.33%	187.08%	164.61%	133.17%
Plan fiduciary net position as a percentage of the total pension liability	70%	71%	72%	74%	79%
Measurement Date	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015

CalSTRS	2025	2024	2023	2022	2021
Contractually required contribution	$ 5,897,932	$ 5,508,697	$ 5,233,309	$ 4,105,327	$ 3,782,093
Less contributions in relation to the contractually required contribution	5,897,932	5,508,697	5,233,309	4,105,327	3,782,093
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
Covered payroll	$ 30,879,225	$ 28,841,346	$ 27,399,524	$ 24,263,162	$ 23,418,533
Contributions as a percentage of covered payroll	19.10%	19.10%	19.10%	16.92%	16.15%

	2020	2019	2018	2017	2016
Contractually required contribution	$ 3,946,352	$ 3,476,303	$ 2,796,326	$ 2,348,556	$ 1,985,827
Less contributions in relation to the contractually required contribution	3,946,352	3,476,303	2,796,326	2,348,556	1,985,827
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
Covered payroll	$ 23,078,082	$ 21,353,213	$ 19,378,559	$ 18,668,967	$ 18,507,241
Contributions as a percentage of covered payroll	17.10%	16.28%	14.43%	12.58%	10.73%

CalPERS	2025	2024	2023	2022	2021
Contractually required contribution	$ 13,280,431	$ 11,732,763	$ 9,963,389	$ 7,749,075	$ 6,379,789
Less contributions in relation to the contractually required contribution	13,280,431	11,732,763	9,963,389	7,749,075	6,379,789
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
Covered payroll	$ 49,095,863	$ 43,975,873	$ 39,272,326	$ 33,823,985	$ 30,820,237
Contributions as a percentage of covered payroll	27.050%	26.680%	25.370%	22.910%	20.700%

	2020	2019	2018	2017	2016
Contractually required contribution	$ 6,054,804	$ 4,908,414	$ 3,905,807	$ 3,277,918	$ 2,698,271
Less contributions in relation to the contractually required contribution	6,054,804	4,908,414	3,905,807	3,277,918	2,698,271
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
Covered payroll	$ 30,702,317	$ 27,175,363	$ 25,148,458	$ 23,602,520	$ 22,775,985
Contributions as a percentage of covered payroll	19.721%	18.062%	15.531%	13.888%	11.847%

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, 2025, MCOE's Child Development Fund exceeded the budgeted amount in total as follows:

	Expenditures and Other Uses		
Fund	Budget	Actual	Excess
Child Development Fund	$ 66,912,009	$ 71,991,653	$ 5,079,644

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* – There were no changes of assumptions 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 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 3.65% to 3.93% since the previous valuation. The Medicare Part A premium cost trend rate assumption was changed from 4.50% to 5.00%, while the Medicare Part B premium cost trend rate assumption was changed from 5.40% to 6.50% 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 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 3.65% to 3.93% since the previous valuation. The Medicare Part A premium cost trend rate assumption was changed from 4.50% to 5.00%, while the Medicare Part B premium cost trend rate assumption was changed from 5.40% to 6.50% 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.

- *Changes in Benefit Terms* – There were no changes in benefit terms for the CalSTRS or CalPERS plans since the previous valuations.
- *Changes of Assumptions* – There were no changes in economic assumptions for the CalSTRS or CalPERS plans since 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.

Supplementary Information
June 30, 2025

Merced County Office of Education

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 Merced County SELPA				
Special Education Cluster				
Special Education Grants to States - Basic Local Assistance	84.027	13379	$ 13,356,839	$ 10,585,380
Special Ed: IDEA Mental Health Average Daily Attendance (ADA) Allocation, Part B, Section 611	84.027A	15197	56,070	35,062
Special Ed: Alternate Dispute Resolution, Part B, Section 611	84.027A	13007	15,157	-
Subtotal (84.027)			13,428,066	10,620,442
Special Education Preschool Grants	84.173	13430	248,978	84,060
Special Ed: IDEA Preschool Staff Development, Part B, Section 619	84.173A	13007	2,535	-
Subtotal (84.173)			251,513	84,060
Total Special Education Cluster			13,679,579	10,704,502
Special Education-Grants for Infants and Families: Early Intervention	84.181	23761	89,865	-
Passed Through California Department of Education (CDE)				
ESEA (ESSA): Title I, Part A, Basic Grants Low-Income and Neglected	84.010	14329	336,060	-
ESEA (ESSA): Title I, Part D, Subpart 2, Local Delinquent Programs	84.010	14357	186,315	-
ESEA (ESSA) School Improvement (CSI) Funding for LEAs	84.010	15438	332,627	-
ESEA (ESSA) School Improvement (CSI) Funding for COEs	84.010	15439	64,937	-
Subtotal (84.010)			919,939	-

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 (CDE)				
COVID-19: Elementary and Secondary School Emergency Relief III (ESSER III) Fund Learning Loss	84.425U	10155	30,701	-
COVID-19: Elementary and Secondary School Emergency Relief III (ESSER III) State Reserve Summer Learning programs	84.425U	15651	604,530	-
COVID-19: American Rescue Plan - Homeless Children and Youth II (ARP HYC II)	84.425W	15566	2,148	-
COVID-19: American Rescue Plan-Homeless Children and Youth (ARP-HCY) Program	84.425W	15564	40,642	-
COVID-19: American Rescue Plan-Homeless Children and Youth (ARP-HCY) Program Statewide Activities	84.425W	15636	53,796	-
Subtotal (84.425)			731,817	-
Twenty-First Century Community Learning Centers	84.287	14350	144,563	-
ESEA (ESSA): Title I, Part C, Migrant Ed (Regular and Summer Program)	84.011	14326	8,507,302	-
Supporting Effective Instruction State Grants - Teacher Quality	84.367	14341	83,197	-
ESEA (ESSA): Title III, English Learner Student Program	84.365	14346	146,443	-
Student Support and Academic Enrichment Program	84.424	15396	44,138	-
Strengthening Career and Technical Education for the 21st Century	84.048	15294	37,385	-
Education for Homeless Children and Youth	84.196	14332	104,060	-
Passed Through the California Department of Developmental Services				
We-Can-Work	84.216	[1]	140,000	-
Total U.S. Department of Education			24,628,288	10,704,502

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

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 Care Services				
Head Start Cluster				
Head Start	93.600	10016	13,177,560	-
Head Start - Training and Technical Assistance	93.600	10016	78,663	-
Head Start Expansion	93.600	10016	110,986	-
Migrant and Seasonal Head Start Expansion	93.600	10016	6,315,281	-
Subtotal (93.600)			19,682,490	-
Total Head Start Cluster			19,682,490	-
Passed Through the California Department of Developmental Services				
Child Care and Development Fund Cluster (CCDF)				
Child Development: Federal General Child Care and Dev (CCTR)	93.575	15136	2,847,317	-
Child Development: California Child Care Iniative Project	93.575	14092	61,590	-
Child Development: Quality Improvement Activities	93.575	14130	837,757	-
California Prevented Health and Safety Practice	93.575	[1]	45,649	-
CCTR-CCDF Discretionary	93.575	[1]	(109,943)	-
Child Care and Development Grant (CPIN)	93.575	[1]	212,178	-
Childcare Resource and Referral	93.575	[1]	31,241	-
California Health and Safety (CHST)	93.575	[1]	9,670	-
Child Development: Federal Alternative Payment, Stage 3 (Contract Prefix C2AP)	93.575	14178	302,505	-
Child Care and Development Programs Administered by CA Department of Social Services (Federal Funds)	93.575	10163	346,611	-
Child Development: Federal Local Planning Councils (Contract Prefix CLPC)	93.575	13946	99,429	-
Subtotal (93.575)			4,684,004	-

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

See Notes to Supplementary Information

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 the California Department of Developmental Services				
Child Development: Federal Alternative Payment, Stage 3 (Contract Prefix C3AP)	93.596	14153	1,710,290	
COVID-19: ARPA Alternative Payment Programs	93.596	14985	117,306	-
Child Development: Federal Alternative Payment	93.596	14985	4,100,384	-
Child Development: Child Care and Development Other Services (CPIN)	93.596	[1]	23,500	-
Subtotal (93.596)			5,951,480	-
Total Child Care and Development Fund Cluster			10,635,484	-
Workforce Development Grant	93.UNK	[1]	324,704	-
Passed Through the Merced County Human Services Agency				
Family Resource Center Network (FRCN)	93.UNK	[1]	96,587	-
Total U.S. Department of Health and Human Services			30,739,265	-
U.S. Department of Labor				
Passed Through California Department of Education				
WIOA Cluster, Workforce Investment Act-Youth Activities	17.259	10055	1,250,000	-
Total Workforce Innovation and Opportunity Act (WIOA) Cluster			1,250,000	-
U.S. Department of Agriculture				
Passed Through California Department of Education				
Child Nutrition Cluster				
School Breakfast Program - Especially Needy Breakfast	10.553	13526	23,153	-

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

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 Agriculture				
Passed Through California Department of Education				
Child Nutrition Cluster				
National School Lunch Program - Section 4	10.555	13523	6,528	-
National School Lunch Program - Section 11	10.555	13524	42,305	-
Supply Chain Assistance (SCA) Funds	10.555	15655	9,111	-
Subtotal (10.555)			57,944	-
Total Child Nutrition Cluster			81,097	-
Passed Through California Department of Social Services				
Child and Adult Care Food Program - Centers and Family Day Care Homes	10.558	13529	584,729	-
Cash in Lieu of Commodities	10.558	13534	23,013	-
Subtotal (10.558)			607,742	-
Total U.S. Department of Agriculture			688,839	-
Total Federal Financial Assistance			$ 57,306,392	$ 10,704,502

	Second Period Report	Annual Report
Elementary School ADA		
Juvenile halls, homes, and camp	1.40	1.13
Probation referred, on probation or parole, expelled	24.42	29.04
Total Elementary School ADA	25.82	30.17
High School ADA		
Juvenile halls, homes, and camp	29.79	29.36
Probation referred, on probation or parole, expelled	221.94	213.21
Total High School ADA	251.73	242.57
Total ADA	277.55	272.74
Merced Scholars Charter School		
Regular ADA - Classroom-based		
Transitional kindergarten through third	64.02	63.39
Regular ADA - Nonclassroom-based		
Transitional kindergarten through third	26.43	26.14
Fourth through sixth	34.08	34.26
Seventh and eighth	51.48	51.82
Ninth through twelfth	137.34	137.85
Total Regular ADA - Nonclassroom-based	249.33	250.07
Total Charter School ADA	313.35	313.46
Come Back Charter		
Regular ADA (All non-classroom based)		
Ninth through twelfth	104.74	104.63

Merced Scholars Charter School - Classroom-based

Grade Level	1986-1987 Minutes Requirement	2024-2025 Actual Minutes	Number of Actual Days	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 Scholars Charter School - Non-classroom based

Grade Level	Number of Actual Days	Status
Kindergarten	180	Complied
Grades 1 - 3		
Grade 1	180	Complied
Grade 2	180	Complied
Grade 3	180	Complied
Grades 4 - 8		
Grade 4	180	Complied
Grade 5	180	Complied
Grade 6	180	Complied
Grade 7	180	Complied
Grade 8	180	Complied

Come Back Charter School - Non-classroom based

Grade Level	Number of Actual Days	Status
Grades 9 - 12		
Grade 9	180	Complied
Grade 10	180	Complied
Grade 11	180	Complied
Grade 12	180	Complied

There were no adjustments to the Unaudited Actual Financial Report, which required reconciliation to the audited financial statements at June 30, 2025.

	(Budget) 2026 [1]	2025	2024 [1]	2023 [1]
General Fund [4]				
Revenues	$ 132,721,128	$ 140,438,352	$ 133,678,403	$ 116,602,879
Other sources and transfers in	-	3,319,880	-	302,126
Total Revenues and Other Sources	132,721,128	143,758,232	133,678,403	116,905,005
Expenditures	139,667,234	139,153,745	120,139,792	113,562,647
Other uses and transfers out	-	3,036,275	2,000,000	750,000
Total Expenditures and Other Uses	139,667,234	142,190,020	122,139,792	114,312,647
Increase/(Decrease) in Fund Balance	(6,946,106)	1,568,212	11,538,611	2,592,358
Ending Fund Balance	$ 41,572,219	$ 48,518,325	$ 46,950,113	$ 35,411,502
Available Reserves [2]	$ 22,084,737	$ 21,411,293	$ 18,652,713	$ 16,160,067
Available Reserves as a Percentage of Total Outgo [4]	15.81%	15.06%	15.27%	14.14%
Long-Term Liabilities [5]	Not Available	$ 127,996,332	$ 129,832,879	$ 124,554,282
Average Daily Attendance at P-2 [3]	280	278	281	253

The General Fund balance has increased by $13,106,823 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 2025-2026 budget projects a decrease of $6,946,106.

MCOE has incurred operating surpluses in each of the past three years but anticipates incurring an operating deficit during the 2025-2026 fiscal year. Total long-term liabilities have increased by $3,442,050 over the past two years primarily due to an increase in the net pension liability.

Average daily attendance has increased by 25 over the past two years due primarily to the restructuring of the Community School Independent Study Program and student retention. An increase of two ADA is anticipated during fiscal year 2025-2026.

[1] Financial information for 2026, 2024, and 2023 are 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] Amounts have not been restated for the effects of the implementation of GASB Statement No. 101 for comparative purposes. See Note 15 for further information.

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

	Student Activities Fund	Charter Schools Fund	Adult Education Fund	County School Facilities Fund	Total Non-Major Governmental Funds
Assets					
Deposits and investments	$ 31,548	$ 2,380,210	$ 376,182	$ 4,437,971	$ 7,225,911
Receivables	-	400,482	77,345	-	477,827
Due from other funds	-	499,819	-	816,275	1,316,094
Total assets	$ 31,548	$ 3,280,511	$ 453,527	$ 5,254,246	$ 9,019,832
Liabilities and Fund Balances					
Liabilities					
Accounts payable	$ -	$ 167,882	$ 2,111	$ 10,000	$ 179,993
Due to other funds	-	1,134,234	21,557	1,114,000	2,269,791
Unearned revenue	-	31,760	-	-	31,760
Total liabilities	-	1,333,876	23,668	1,124,000	2,481,544
Fund Balances					
Restricted	31,548	1,946,635	429,859	4,130,246	6,538,288
Total liabilities and fund balances	$ 31,548	$ 3,280,511	$ 453,527	$ 5,254,246	$ 9,019,832

	Student Activities Fund	Charter Schools Fund	Adult Education Fund	County School Facilities Fund	Total Non-Major Governmental Funds
Revenues					
Local Control Funding Formula	$ -	$ 6,678,795	$ -	$ -	$ 6,678,795
Federal sources	-	178,271	-	-	178,271
Other State sources	-	1,685,030	685,519	-	2,370,549
Other local sources	7,741	121,612	442,194	240,862	812,409
Total revenues	7,741	8,663,708	1,127,713	240,862	10,040,024
Expenditures					
Current					
Instruction	-	4,545,300	709,134	-	5,254,434
Instruction-related activities					
Supervision of instruction	-	570,654	89,203	-	659,857
School site administration	-	947,120	-	-	947,120
Pupil services					
Home-to-school transportation	-	266,969	-	-	266,969
All other pupil services	-	768,209	-	-	768,209
Administration					
All other administration	-	600,427	46,010	-	646,437
Plant services	-	622,526	142,033	-	764,559
Ancillary services	5,275	-	-	-	5,275
Facility acquisition and construction	-	181,821	-	24,000	205,821
Total expenditures	5,275	8,503,026	986,380	24,000	9,518,681
Excess (Deficiency) of Revenues Over Expenditures	2,466	160,682	141,333	216,862	521,343

	Student Activities Fund	Charter Schools Fund	Adult Education Fund	County School Facilities Fund	Total Non-Major Governmental Funds
Other Financing Sources (Uses)					
Transfers in	-	-	-	816,275	816,275
Transfers out	-	-	-	(1,100,000)	(1,100,000)
Other uses	-	(15,060)	-	-	(15,060)
Net Financing Sources (Uses)	-	(15,060)	-	(283,725)	(298,785)
Net Change in Fund Balances	2,466	145,622	141,333	(66,863)	222,558
Fund Balance - Beginning	29,082	1,801,013	288,526	4,197,109	6,315,730
Fund Balance - Ending	$ 31,548	$ 1,946,635	$ 429,859	$ 4,130,246	$ 6,538,288

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, 2025. 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.

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. 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, 2025

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 Center, 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

Member	Office	Term Expires
Dennis Hanks	Chairperson	2026
Geneva Brett	Vice Chairperson	2026
Rodrigo Espinoza	Member	2028
Frank Fagundes	Member	2028
Ryan Heller	Member	2026

Administration

Steve M. Tietjen, Ed.D.	County Superintendent of Schools
Janet Riley, MBA	Assistant Superintendent, Business Services

Independent Auditor's Reports
June 30, 2025

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, 2025, and the related notes to the financial statements, which collectively comprise MCOE's basic financial statements and have issued our report thereon dated January 27, 2026.

Adoption of New Accounting Standard

As discussed in Note 15 to the financial statements, MCOE has adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 101, *Compensated Absences* for the year ended June 30, 2025. Accordingly, a restatement has been made to the governmental activities net position as of July 1, 2024, to restate beginning net position. Our opinions are not modified with respect to this matter.

Report on Internal Control over Financial Reporting

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

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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 MCOE's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Report on Compliance and Other Matters

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

Purpose of this Report

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

Eide Bailly LLP

Fresno, California
January 27, 2026

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, 2025. 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, 2025.

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.

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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 t 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.



Fresno, California
January 27, 2026

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 *2024-2025 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, 2025.

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, 2025.

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 *2024-2025 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.

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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 *2024-2025 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 *2024-2025 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 *2024-2025 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:

2024-2025 K-12 Audit Guide Procedures	Procedure Performed
Local Education Agencies Other Than Charter Schools	
Attendance	Yes
Teacher Certification and Misassignments	Yes
Independent Study	Yes
Continuation Education	N/A
Instructional Time	N/A
Instructional Materials	Yes
Ratios of Administrative Employees to Teachers	N/A
Classroom Teacher Salaries	N/A
Early Retirement Incentive	N/A
GANN Limit Calculation	Yes
School Accountability Report Card	Yes
Juvenile Court Schools	Yes
Middle or Early College High Schools	N/A

2024-2025 K-12 Audit Guide Procedures	Procedure Performed
K-3 Grade Span Adjustment	N/A
Apprenticeship: Related and Supplemental Instruction	N/A
Comprehensive School Safety Plan	Yes
District of Choice	N/A
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	N/A
Immunizations	Yes
Educator Effectiveness	Yes
Expanded Learning Opportunities Grant (ELO-G)	N/A
Career Technical Education Incentive Grant	N/A
Expanded Learning Opportunities Program	Yes
Transitional Kindergarten	Yes
Kindergarten Continuance	Yes
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	N/A

The term “Not Applicable” is used above to mean either MCOE did not offer the program during the current fiscal year, 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.

Report on Internal Control over Compliance

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

deficiencies, in internal control over compliance that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention from those charged with governance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the *2024-2025 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. Accordingly, this report is not suitable for any other purpose.

Ede Bailly LLP

Fresno, California
January 27, 2026

Schedule of Findings and Questioned Costs
June 30, 2025

Merced County Office of Education

Financial Statements

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

Federal Awards

Internal control over major program	
Material weaknesses identified	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

Name of Federal Program or Cluster	Federal Financial Assistance Listing
Special Education Cluster (IDEA)	84.027, 84.027A, 84.173, 84.173A
Child Care and Development Fund Cluster (CCDF)	93.575, 93.596

Dollar threshold used to distinguish between type A and type B programs	$ 1,719,192
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	None Reported
Other matters to be reported	No
Type of auditor's report issued on compliance for programs	Unmodified

None reported.

None reported.

None reported.

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.

Financial Statement Findings

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.

Current Status

Implemented.

State Compliance Findings

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 (Merced Scholars Charter ELOP Entitlement, $50,191, 62 days not offered at a penalty factor of .0049 (EC 46120(c)(3)(B)).

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.

Current Status

Implemented.