



Annual Financial Report
June 30, 2019

Orange County
Special Education Alliance
(A Joint Powers Entity)

**ORANGE COUNTY SPECIAL EDUCATION ALLIANCE
(A Joint Powers Entity)**

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INDEPENDENT AUDITOR'S REPORT

Executive Committee and Review Committee
Orange County Special Education Alliance
Costa Mesa, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Orange County Special Education Alliance (the Alliance), which comprise the statement of net position as of June 30, 2019, and the related statement of revenues, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the State Controller's *Minimum Audit Requirements for California Special Districts*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Alliance's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Alliance's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Orange County Special Education Alliance as of June 30, 2019, and the results of its operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America requires to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not modified with respect to this missing information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2019 on our consideration of the Alliance's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Alliance'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 the Alliance's internal control over financial reporting and compliance.

This report is intended solely for the information and use of the executive committee and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Eric Sully LLP".

Rancho Cucamonga, California
December 15, 2019



FINANCIAL SECTION

**ORANGE COUNTY SPECIAL EDUCATION ALLIANCE
(A Joint Powers Entity)**

**STATEMENT OF NET POSITION
JUNE 30, 2019**

ASSETS

Current assets

Investments	\$ 473,559
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NET POSITION

Unassigned	\$ 473,559
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The accompanying notes are an integral part of these financial statements.

**ORANGE COUNTY SPECIAL EDUCATION ALLIANCE
(A Joint Powers Entity)**

**STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2019**

Operating Revenues

Member contributions \$ 45,442

Expenses

Travel and conferences 711

Professional consulting services and other operating expenditures 38,433

Indirect costs 3,837

Miscellaneous 1,942

Total Expenses **44,923**

Change in Net Position

519

Net Position, Beginning of Year

473,040

Net Position, End of Year

\$ 473,559

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

**ORANGE COUNTY SPECIAL EDUCATION ALLIANCE
(A Joint Powers Entity)**

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2019**

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from membership dues and other income	\$ 45,442
Cash paid for operating expenses	<u>(44,923)</u>
Net Cash Provided by Operating Activities	<u>519</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	519
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>473,040</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 473,559</u>
RECONCILIATION OF CHANGE IN NET POSITION TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Change in net position	<u>\$ 519</u>

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

**ORANGE COUNTY SPECIAL EDUCATION ALLIANCE
(A Joint Powers Entity)**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The Orange County Special Education Alliance (the Alliance) was formed under a Joint Powers Agreement with Orange County public school districts and the Orange County Superintendent of Schools within the state of California on July 1, 2005 for the purpose of supporting systemic legal change in special education by providing professional staff development training and legislative advocacy, and jointly supporting selected special education cases of countywide significance through judicial and administrative processes.

The Alliance accounts for its financial transactions in accordance with the Policies and Procedures of the State Controller’s Office Division of Local Government Fiscal Affairs Minimum Audit Requirements and Reporting Guidelines for California Special Districts. The accounting policies of the Alliance conform to accounting principles generally accepted in the United States of America (U.S. GAAP).

Reporting Entity

The Alliance is governed by an Executive Committee, which is comprised of each of the superintendents of participating school districts. The Executive Committee controls the operations of the Alliance, including approval of operating budgets, independent of any influence by members beyond their representation on the committee. The Executive Committee may delegate any of its functions to the Review Committee, which is comprised of twelve members that include five superintendents, three special education administrators from Special Educational Local Plan Areas (SELPA) or school districts in Orange County, two attorneys in private practice representing school districts in special education matters, one attorney from the Orange County Department of Education (OCDE), and one business official from a school district in Orange County.

Accounting Policies

The accounting policies of the Alliance conform to U.S. GAAP as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants.

Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of measurement made, regardless of the measurement focus applied. The Alliance records financial transactions on the accrual basis of accounting wherein expenditures are recorded at the time liabilities are incurred and income is recorded when earned.

Fund Accounting

The Alliance’s financial statements include only the proprietary fund type. This fund type includes one enterprise fund. Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs of providing goods or services to its members on a continuing basis be financed or recovered primarily through user charges.

**ORANGE COUNTY SPECIAL EDUCATION ALLIANCE
(A Joint Powers Entity)**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

The accounts of the Alliance are maintained in the County School Service Fund of the County Superintendent, also referred to as the Orange County Department of Education (OCDE). The operations of the Alliance are accounted for in a separate cost center in which separate accounts are maintained for recording the Alliance's transactions for assets, liabilities, net position, revenues, and expenses.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from these estimates.

Budgeting

The Alliance's Executive Committee approves and adopts a final budget no later than April 15 of each fiscal year. Formal budgetary integration was employed as a management control device during the year for the funds budgeted.

Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, Alliance considers investments in the County Treasurer to be cash equivalents.

NOTE 2 - INVESTMENTS

Policies and Practices

The Orange County Department of Education, as part of its contractual services provided for the Alliance, maintains all investments for the Alliance in the County Treasury. The Orange County Department of Education 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.

Deposits with County Treasurer

Deposits with the County Treasurer is an external investment pool sponsored by the County of Orange. In accordance with its agreement, the Alliance maintains all of its cash in the Orange County Treasury. Therefore, the Alliance is considered to be a voluntary participant in an external investment pool. County deposits are not required to be categorized. The pool sponsor provided the fair value for these deposits.

**ORANGE COUNTY SPECIAL EDUCATION ALLIANCE
(A Joint Powers Entity)**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

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 the change in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Consortium does not have a form investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. Alliance manages its exposure to interest rate risk by primarily investing in the Orange County Treasury Investment Pool. The Alliance maintains an investment of \$473,559 with the Orange County Treasury Investment Pool with an average maturity of 310 days.

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The investment with the Orange County Treasury Investment Pool has been rated Aaa by Moody's Investor Service.

**ORANGE COUNTY SPECIAL EDUCATION ALLIANCE
(A Joint Powers Entity)**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 3 - FAIR VALUE MEASUREMENTS

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

Level 1 - Quoted prices in active markets for identical assets that the Alliance has the ability to access at the measurement date. Level 1 assets may include debt and equity securities that are traded in an active exchange market and that are highly liquid and are actively traded in over-the-counter markets.

Level 2 - Observable inputs other than Level 1 prices such as quoted prices for similar assets in active markets, quoted prices for identical or similar assets in markets that are not active, or other inputs that are observable, such as interest rates and curves observable at commonly quoted intervals, implied volatilities, and credit spreads. For financial reporting purposes, if an asset has a specified term, a Level 2 input is required to be observable for substantially the full term of the asset.

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

Uncategorized - Investments in the Orange County Treasury Investment Pool are not measured using the input levels above because the Alliance's transactions are based on a stable net asset value per share. All contributions and redemptions are transacted at \$1.00 net asset value per share.

The Alliance's fair value measurements are as follows at June 30, 2019:

<u>Investment Type</u>	<u>Reported Amount</u>	<u>Uncategorized</u>
Orange County Treasury Investment Pool	<u>\$ 473,559</u>	<u>\$ 473,559</u>

NOTE 4 - MEMBERSHIP

Membership fees, including administrative dues are collected from every member of Alliance. Fees are collected based on the ADA of the member district.



COMMITTEE MEMBERS AND ADMINISTRATION

**ORANGE COUNTY SPECIAL EDUCATION ALLIANCE
(A Joint Powers Entity)**

**COMMITTEE MEMBERS AND ADMINISTRATION
JUNE 30, 2019**

EXECUTIVE COMMITTEE

<u>Representative</u>	<u>Member Agency</u>
Christopher Downing	Anaheim Elementary School District
Michael Matsuda	Anaheim Union High School District
Brad Mason, Ed.D	Brea-Olinda Unified School District
Ramon Miramontes	Buena Park School District
Kirsten Vital	Capistrano Unified School District
Norma Martinez	Centralia School District
Anne Silavs	Cypress School District
Mark Johnson, Ed.D	Fountain Valley Unified School District
Scott Scambray Ed.D	Fullerton Joint Union High School District
Robert Pletka, Ed.D	Fullerton School District
Gabriela Mafi, Ed.D	Garden Grove Unified School District
Gregory Haulk	Huntington Beach City School District
Clint Harwick, Ed.D	Huntington Beach Union High School District
Terry Walker	Irvine Unified School District
Joanne Culverhouse, Ed.D	La Habra City School District
Jason Vilorio	Laguna Beach Unified School District
Sherry Kropp, Ed.D	Los Alamitos Unified School District
Jim Coombs	Lowell Joint Unified School District
Frank Donovan, Ed.D	Magnolia School District
Frederick Navarro, Ed.D	Newport-Mesa Unified School District
Carol Hansen, Ed.D	Ocean View School District
Gunn Marie Hansen, Ph.D	Orange Unified School District
Gregory Plutko, Ed.D	Placentia-Yorba Linda Unified School District
Crystel Turner	Saddleback Valley Unified School District
Stefanie P. Phillips, Ed.D	Santa Ana Unified School District
Sue Johnson, Ed.D	Savanna School District
Gregory Franklin, Ed.D	Tustin Unified School District
Gary Rutherford	Westminster School District
Al Mijares, Ph.D	Orange County Department of Education

**ORANGE COUNTY SPECIAL EDUCATION ALLIANCE
(A Joint Powers Entity)**

**COMMITTEE MEMBERS AND ADMINISTRATION
JUNE 30, 2019**

REVIEW COMMITTEE

<u>Representative</u>	<u>Member Agency</u>
Frank Donovan, Chair	Superintendent, Magnolia School District
Gregory Haulk, Vice Chair	Superintendent, Huntington Beach City School District
Brad Mason	Superintendent, Brea-Olinda Unified School District
Terry Walker	Superintendent, Irvine Unified School District
Gabriela Mati	Superintendent, Garden Grove Unified School District
Jean Martin	Director, North Orange County Consortium, SELPA
Amy Lambert	Director, Tustin Unified School District SELPA
Paul Lavigne	Director, Greater Anaheim SELPA
Jennifer Fant	Attorney, Harbottle Law Group
Justin Shinnefield	Attorney, Atkinson Andelson, Loya, Ruud, & Romo
Lysa Saltzman	Orange County Department of Education
David Giodano	Business Official

TREASURER/AUDITOR

Renee Hendrick
Associate Superintendent, Administrative Services, Orange County
Department of Education

ADMINISTRATION

Michele Kaifman
Executive Assistant, Orange County Special Education Alliance



OTHER INDEPENDENT AUDITOR'S REPORTS



CPAs & BUSINESS ADVISORS

**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***

Executive Committee and Review Committee
Orange County Special Education Alliance
Costa Mesa, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Orange County Special Education Alliance (the Alliance) as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Alliance's basic financial statements, and have issued our report thereon dated December 15, 2019.

Internal Control over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Alliance'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 may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Alliance'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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Rancho Cucamonga, California
December 15, 2019