California Department of Education / County Office of Education
External Services Subcommittee (ESSCO)
February 2, 2015 FINAL Notes

California Department of Education **February 2, 2015**
1430 N Street Room 1101 **10:00 a.m.**

Co-Chair: **Priscilla Quinn, Region VIII – Kern COE**

Co-Chair: **Peggy O'Guin, California Department of Education**

Vice Chair: **Jamie Perry, Region VII – Fresno COE**

Judy Thomson	I	Sonoma		Karen Deller Hennessy	V	Monterey
Adrian Barron	II	Butte		Diane Baumhover	VI	Tuolumne
Jessica Tegerstrand	II	Shasta		Jeri Blote	VI	San Joaquin
Lori Carroll	III	Yuba		Shirley Buell	VI	Stanislaus
Laura Flores	III	Nevada		Sandra Madera	VI	Stanislaus
Sandra Fowles	III	Yolo		Cecilia Belmontes	VII	Madera
Kathy Garrison	III	Placer		Jamie Dial	VII	Kings
Diane Lacombe	III	El Dorado		Jamie Perry	VII	Fresno
Rhonda Marquette	III	Yuba		Ann Walsh	VII	Merced
Teresa Stelzer	III	Placer		Melissa Abbey	VIII	San Luis Obispo
Debbie Wilkins	III	Sacramento		Paula Driscoll	VIII	Ventura
Sherry Beatty	IV	Solano		Priscilla Quinn	VIII	Kern
Sarah Blackstone	IV	Napa		Cynna Hinkle	X	San Bernardino
Christine Rea	IV	Contra Costa		Elizabeth Dearstyne		CDE
Elizabeth Goff	IX	Imperial		Peter Foggiato		CDE
Brent Watson	IX	San Diego		Caryn Moore		CDE
Kolvira Chheng	V	Santa Clara		Peggy O'Guin		CDE

1. Announcements

- Standardized Account Code Structure (SACS) Workshops dates posted – information and registration at: www.casbo.org.
  - Palm Springs: SACS Basics Concepts, March 10, 2015; SACS Advanced Concepts, March 11, 2015.
  - Sacramento: SACS Basics Concepts, April 27, 2015; SACS Advanced Concepts, April 28, 2015.
- California Society of CPAs 2015 School Districts Conference is May 8, 2015 in Sacramento and by webcast; the brochure will be available soon. Additional information will be provided at the March ESSCO meeting.

2. LCAP and Budget Hearings:

- Reminder to LEAs that, in order to comply with the public hearing requirements of EC 52062(b)(2) and 52068(b)(2), it may be necessary to schedule more board meetings in June than historically have been necessary.
- The SACS budget software will again be released in early May (around May 1st).
  - The change last year to the SPI-prescribed format for 2014-15 proposed budgets was one-time only.
  - The 2014-15 proposed budget must be available in the SACS forms for this year.

3. **Unrestricted Resource 0000 in Fund 67, Self-Insurance Fund [Preliminary discussion]:**

- Since amounts contributed to a self-insurance fund are lawfully restricted for that purpose (Education Code Section 17566 and Government Code Section 53205), is this combination needed?
    - Fund 67 is a proprietary fund used to record revenues and expenses for self-insurance (workers compensation, health and welfare, and deductible property loss) separate from other operating activities of an LEA. LEAs charge premiums to their other funds and programs, book the revenues in the self-insurance fund, and pay claims from the self-insurance fund. Existing law provides that the amounts contributed to a self-insurance fund are restricted for purposes of that fund.

      Additional background: Back when the standardized account code structure (SACS) was being implemented, it was generally agreed that it was not critical for LEAs to use the Resource code in funds other than the general fund to distinguish restricted monies from unrestricted moneys in those funds, because the use of the other fund effectively communicated the restricted nature of the monies in that fund. Although this practice resulted in some inconsistency in how the Resource code was used, that inconsistency did not create pressing problems until GASB 34 introduced the need for CDE to extract revenues, expenditures, and balances from all governmental funds for inclusion in the automated government-wide financial statements, and to distinguish those revenues, expenditures, and balances as restricted or unrestricted. At that time, CDE provided guidance that restricted resource codes should be used in all governmental funds (e.g., special revenue funds and capital projects funds). Fund 67, which is a proprietary fund rather than a governmental fund, was not directly addressed in that guidance, probably because proprietary fund data are presented in the government-wide statements differently from governmental funds. It came to the CDE's attention recently that the combination of the Unrestricted Resource 0000 is still valid in Fund 67, and in fact is still used in the illustrations of accounting entries in CSAM Procedure 755, Internal Service Funds.

      Question posed to the group: Is there any situation wherein amounts in Fund 67 would be unrestricted? Preliminary response from the group: No, not that anyone could think of at this time; the item will be brought back for further consideration at the next meeting.
- Question from the group: If an LEA has a surplus in Fund 67, can the excess be transferred to another fund? Answer: No. Per CSAM and GAAP, any surplus must be reduced by reducing the rates charged to contributing funds and programs.
- Question from the group: Suppose an LEA operates a Self-Insurance program for workers' compensation, then decides to stop operating it and join a JPA or purchase workers compensation insurance another way. What can be done with any surplus funds that remain in Fund 67 after the incurred but not reported (IBNR) claims have been paid? Answer: Those funds could be used to pay workers' compensation premiums to a JPA or other insurer. They may not be used for other purposes.
- Question from the group: What resource should be used in Fund 67? Answer: Probably a locally-restricted 9XXX, but will revisit this discussion before issuing guidance.
- The CDE emphasized that this discussion is preliminary.

4. **Can Transfers from Resource 8150, Object 7619 to Fund 14, Object 8919 Count Toward the Routine Restricted Maintenance Account?** School Services of California's Article: "Ask SSC…What are the Current Requirements for using the Deferred Maintenance and Adult Education Funds," Volume 35 No.2, indicates that interfund transfers into Fund 14 will not count toward the RMA:

    "…As a special revenue fund, Generally Accepted Accounting Principles requires that the fund's inflows are restricted or committed revenue sources and must be recognized as revenue in the fund, not as an interfund transfer. The CDE is advising that if Fund 14 is used, also use Revenue Object 8091 for committed revenues to that fund and that the LEAs commit a portion of their LCFF revenues for the purpose of Deferred Maintenance. To have funds designated as committed, the board must take action. In doing so, however, the funds transferred for Deferred Maintenance will no longer count toward the Routine Restricted

Maintenance Account requirement…"

- CDE notes that the actual context of its guidance regarding LEAs committing a portion of their LCFF revenues for the purpose of Deferred Maintenance was that "LEAs that wish to continue to use Fund 14 should therefore commit a portion of their LCFF revenues to the purposes of deferred maintenance and should account for the committed revenues in Fund 14 using Object 8091." CDE recognizes the importance of LEAs dedicating the funds necessary to maintain their facilities, but CDE has not advised that every LEA should make a formal commitment of a portion of its LCFF funds for that purpose. For many LEAs, other accounting mechanisms will suffice.

- SSC is otherwise largely correct in its recap of CDE's guidance. When LCFF subsumed the Deferred Maintenance Program, the statute (EC 17070.75) allowing for a district's contribution to its RMA above 2 ½ percent to count toward its Deferred Maintenance contribution as required by Education Code Section 17584 became meaningless, because EC 17584 was repealed.
  - CDE was asked to re-verify that Criterion 7, Facilities Maintenance, in the SACS software is not including Fund 14 in the RMA calculation. As described in the software user guide and as illustrated in Criterion 7 within the software, the only transactions extracted to measure a district's RMA contribution are those in Fund 01, Resource 8150, Objects 8900-8999.
  - CDE redistributed its talking points document that was originally distributed at the April 2014 ESSCO meeting, entitled "Deferred Maintenance Fund and Contributions to the Restricted Maintenance Account (RMA)". This document contains a detailed discussion of the GAAP, statutory, and practical issues surrounding how LEAs that wish to continue to use the Deferred Maintenance Fund should account for the revenues that they commit to the purposes of that fund, and the practical implications of their decision to continue to use that fund.

- Is the 3% RMA contribution still tied to and required by the School Facility Program? Yes. See text, below from the "School Facility Program Handbook" (*http://www.documents.dgs.ca.gov/opsc/Publications/Handbooks/SFP_Hdbk.pdf*, p. 90)

  "Each fiscal year and for a period of 20 years after receiving funds through the SFP, the district must deposit in the maintenance account no less than three percent of the district's total general fund budget. Unified school districts with an average daily attendance (ADA) of 1200 or less, elementary school districts with an ADA of 900 or less, and high school districts with an ADA of 300 or less may deposit less than the three percent minimum by certifying that the district can reasonably maintain its facilities with a lesser dollar level maintenance account."

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5. Other Fund 14 and Fund 40 Questions and Considerations

- Fund 14: What is the process to establish a commitment of revenue to Fund 14? Districts are seeing General Fund ending balances grow faster than they can facilitate deferred maintenance projects. Are these counted towards fund balance when calculating reserves?
  - Fund 14, Deferred Maintenance Fund, is a special revenue fund. Per GAAP, a substantial portion of the fund's inflows must be restricted or committed revenue sources. Although there is no longer restricted revenue to record in this fund, a district's Board may take formal action to "commit" LCFF funding for DMP purposes and thereby justify using Fund 14 in accordance with GAAP.
  - If a District has committed dollars to this fund, can they change that commitment if necessary? Yes, the commitment can be changed with another Board action.

- A district wants to commit Redevelopment Funds for facilities/maintenance purposes. Can Object 8625, "Community Redevelopment Funds Not Subject to Revenue Limit Deduction," be opened in Fund 14? CDE agreed to look into that.

- Fund 40, Special Reserve for Capital Outlay Projects: In contrast to the requirement that the use of a special revenue fund must be justified by a restricted or committed revenue source that is expected to continue, a capital projects fund can be used for amounts that are "assigned," rather than "committed", which may provide more flexibility than using Fund 14 to account for some facilities projects.
  - If a district really wants to be able to set aside funds for facilities projects, is it better to commit the funds or assign them? The group discussed that Committing may send a stronger message, but ideally the district needs to have a plan, make necessary decisions, and then stand behind the decisions.

6. **How many districts had CEA deficiencies & did they file waivers?**

- This question was asked before and it went to BASC for consideration; we have not received an update regarding whether BASC is interested in pursuing a change in the law relating to the Current Expense Formula/Minimum Classroom Compensation – Form CEA.
- Cynna Hinkle indicated that Jesus Holguin, CSBA President and a Board member in a San Bernardino district, has expressed an interest in following-up on this issue and would like additional information. Accordingly, please send Cynna the following information regarding CEA waivers ("Application for Exemption from the Required Expenditures for Classroom Teachers' Salaries") in your county.

County Name	
Total number of districts in County	
Number of districts who failed to meet the minimum percentage	
Number of districts who have filed CEA waivers and the reason specified	___________ Serious Financial Hardship ___________ Salary Comparison ___________ Less than $1,000

- San Bernardino COE has submitted a request for SACS to include the CEA calculation in the interim reports, so that districts can monitor progress and have time to make adjustments if necessary. It is only in the Budget and Unaudited Actuals modules at this time. In the meantime, San Bernardino has developed a tool that districts can use to check their calculation mid-year.
- How many COEs let districts make changes in column 4b?
  - SACS already pulls most things that could be excluded, but some COEs do allow additional adjustments in 4b.
  - EC 41372 clearly delineates eligible exclusions and should be referenced when assisting districts with the CEAs.
  - The COE Fiscal Procedure Manual includes Procedure 29 related to CEAs, which may also be helpful in determining appropriate adjustments. The manual may be accessed here: http://fcmat.org/wp-content/uploads/sites/4/2014/03/COE-Manual-2014-FINAL-interactive.pdf.
  - The CDE reminded the group that any amount entered in Column 4b, even zero, entirely overwrites all amounts that were extracted in Column 4a.

7. **Districts that have out of state tuition: Are they paying more than what they are receiving in LCFF funding?**

- A district in one county is experiencing this situation, but no other COE present had a similar experience. There was a concern raised that districts are no longer receiving adequate funding for these students because the students are not generating supplemental and concentration funds under the target calculation. CDE reiterated that while these students are not enrolled in a California school and thus their counts do not affect the unduplicated pupil percentage (UPP), the ADA are included in the district's total ADA count, and thus these students do generate supplemental and concentration dollars. One way to see the dollars these students may be generating is to look at the district's funding in the LCFF calculator and back out the out-of-state tuition ADA to see the net change.

8. **Do we have updated GAP & COLA projections? Does ASES get the 1.58% COLA?**

Year	Gap	COLA
2014-15	29.15*	0.85
2015-16	32.19	1.58
2016-17	23.71	2.17
2017-18	26.43	2.43
2018-19	11.31	2.80

*The gap funding for the current year is still an estimate. The actual gap funding will not be reflected at P-1; P-1 is likely to be low compared to P-2.

- Does ASES get the COLA? No. The rates are fixed in statute.

9. What happens to a dependent charter school's fund balance if it is converted back as school of the district?

- Charter school closure procedures, including the disposition of liabilities and assets, are on CDE's website at http://www.cde.ca.gov/sp/cs/lr/csclosurerules.asp. The text relating to the disposition of liabilities and assets is copied, below:

(a) Disposition of Liabilities and Assets

The closeout audit must determine the disposition of all liabilities of the charter school. Charter school closure procedures must also ensure disposal of any net assets remaining after all liabilities of the charter school have been paid or otherwise addressed. Such disposal includes, but is not limited to:

1. *The return of any donated materials and property according to any conditions set when the donations were accepted.*
2. *The return of any grant and restricted categorical funds to their source according to the terms of the grant or state and federal law.*
3. *The submission of final expenditure reports for any entitlement grants and the filing of Final Expenditure Reports and Final Performance Reports, as appropriate.*

Net assets of the charter school may be transferred to the authorizing entity. However, net assets may be transferred to another public agency such as another public charter school if stated in the corporation's bylaws or through an agreement between the authorizing entity and the charter school.

If the charter school is a nonprofit corporation and the corporation does not have any other functions than operation of the charter school, the corporation should be dissolved according to its bylaws. The corporation's bylaws should address how assets are to be distributed at the closure of the corporation.

10. Adult Education Funding for 2015/16. The DOF (in their 2015-16 Budget Summary) is stating on page 25 "In the initial year, to ease the transition, funding will be provided directly to K-12 school districts in the amount of the K-12 districts' maintenance of effort for adult education—as jointly determined by the Chancellor and the Superintendent."

- Will this be different than the amount shown in the 2012-13 tab of the LCFF Calculator, under the column of 2012-13 Award for each LEA? Can CDE assist?
  - The distribution methodology is unknown at this time and will be included in a trailer bill. A data collection is likely to be necessary. The Governor's Budget includes $500M for the Adult Education Block Grant. At this

point, it is not certain whether CDE or the Community Colleges will be responsible for the allocation of funds.

- How will the CDE determine the Adult Education MOE from 2012-13 for proposed 2015-16 Adult Education funding?
  - See response above.

11. Follow up on agreements COEs may have in place with districts relative to payroll and tax reporting.

- No COEs appear to have these. BASC is aware of this discussion and concern.

12. Is there an update on 2015-16 Lottery? (This is a follow up to the Adult Education and ROC/P ADA issue that was brought up in December)

- CDE has not seen any legislative language that would put Adult Education and ROC/P ADA back into the Lottery calculation. Without the ADA in the denominator, the per ADA amount will go up. This is likely to help districts that did not have adult or ROC/P programs before flex (primarily elementary districts), but districts that had adult or ROC/P programs before flex are likely to experience a loss in that the increased per-ADA lottery amount will not offset the lost ADA from Adult and ROC/P. For now, barring a legislative change, the ADA is going away and districts should not budget for it.

13. Is there an update on LCFF class size penalties calculations?

- The 2013-14 penalties will be done at P-1; the 2014-15 will be done at P-2. See the Class Size Penalties Exhibit (attached).

14. P-1 Apportionment Updates

- There are several changes for 2014-15 P-1 apportionment; many exhibits have been affected. CDE is preparing reference guides that will provide detailed explanations to assist users. Some of the changes include:
  - New and/or revised exhibits relating to: prior year gap, COE transfers, Unduplicated pupils and more.
  - COE Transfers: Remember that CDE will do that transfer if the district and COE agree on the amounts and enter the information into the principal apportionment software. (CDE is putting together a handout for COFS about which districts/COEs authorized CDE to do the transfer and will provide that to ESSCO when available.)
  - The P-1 Principal Apportionment calculation letter will also explain a small adjustment for ROC/P, which should have been done a 2011-12 R3. A very small decrease in funds will be distributed due to additional excess taxes reported by a COE.
  - ESSCO group noted that the reference guides to the Exhibits are very helpful.
- CALPADS: LEAs that certified in December will get a “private preview” of their December 19th certified data soon. COEs and districts should review the data, focusing especially on the counts back and forth between COEs and districts. Review for reasonableness and check against your student information systems.
  - A problem has been noted with CALPADS on the COE side. CDE identified it because the system shows 17k-18k transfers, which is about 5k too few. The problem involved the transfer code and district of geographic residence. The CALPADS system’s validation was not working correctly early in the reporting period and did not force data entry for these fields. It has since been corrected, but those COEs who entered the information early may have errors. The COE and district transfer information should be matched-up. To do this, review the COE ADA by district of residence and transfers. Be sure to match that to data in your student information system. It was noted that you need to look at the 1.20 to see student level data for matching. Districts should also be looking at their data.
  - A few minor technical errors have been noted on the CALPADs 1.19 report; check your LEA’s report for reasonableness and monitor the CALPADS Flash reports and other communication for updates regarding known

issues.

- If your data has errors, make corrections prior to February 27, 2015. These changes, however, will not be reflected in the P-1 apportionment. The P-1 apportionment will be based on the Fall 1 certification, which may have not have captured all of your transfer students.
- Four files will be posted for the preview: School Level, LEA (1.17), Transfers COE to District, and Transfers Charter to COE.
- If you do not make corrections and certify those corrections by February 27, 2015 adjustments will not be reflected at P-2, and they will need to be made through the audit process or with an auditor's letter of concurrence. Keep in mind that if you are funded on 2014-15 as the "greater of" 2013-14 or 2014-15, that could change after corrections have been made.

- Some reorganizations became effective in 2014-15. The funding calculations have become much more complicated under the LCFF than they were when calculating the blended revenue limit. CDE has worked through the various decisions (ADA, categoricals, unduplicated pupil percentages, partial merges, prior year gap, ERT, etc.), has a plan, and will provide worksheets and details to affected districts. Some language/legislation will need to be added to reflect the procedure that has been developed.

15. Parental Liability: Does anyone actually collect money from parents under this statute?

- Yes, for things like lost textbooks, vandalism, etc., and the limit does become a factor.

Our Next Meeting is March 2, 2015

2015 ESSCO agendas, handouts and meeting notes are at: http://kern.org/finance/essco/