July 16, 2015

Sent via electronic mail

Dr. Karen Sakata
Superintendent
Contra Costa County Office of Education

Dear Superintendent Sakata:

Our organizations are part of a coalition of community members who have been deeply involved in the Local Control Accountability Plan (LCAP) process in West Contra Costa Unified School District (WCCUSD or the District). Over the past year, our coalition has worked with the District to increase transparency, improve services, and make WCCUSD a healthy environment for effective student learning. Despite our repeated requests, the District has yet to address many of our outstanding concerns with their 2015-2018 LCAP. Now that the WCCUSD Board has approved its LCAP and sent the plan to your office for approval, we write to request a meeting this month with the Contra Costa County Office of Education (CCCOE or the County) so that we can share some of our concerns with the District's plan. We hope that the County will consider our input as it reviews the WCCUSD LCAP.

Over the past two months, our coalition has written three letters to the District, testified at both LCAP hearings, and met individually with the Superintendent and several school board members. While WCCUSD has taken some steps toward increasing transparency, the District failed to address the following issues:

1. Create a process to allocate unallocated supplemental and concentration funding;
2. Account for a significant decrease in supplemental and concentration funding between the District's original budget projections and the second interim budget report;
3. Include all LCFF base funding in the LCAP; and
4. Ensure that district-wide expenditures meet regulatory requirements.

We have asked for a meeting with the District to ensure that the LCAP serves the community's needs. We appreciate CCCOE taking our concerns into account to help the District produce the most comprehensive, transparent LCAP possible.

I. Create a Process to Allocate $4.3 Million in Supplemental and Concentration Funding

At its meeting on June 10, 2015, WCCUSD approved Resolution 80-1415 (the Resolution), which allocated $4.3 million in unspent supplemental and concentration funding to the General Fund. The District received this money as a result of the Governor's May budget revision, which funded LCFF at a higher rate than originally anticipated—53.08% instead of 32.19%. Per LCFF regulations, this funding must be spent *in the fiscal year it was received* to increase or improve services for unduplicated students. (5 C.C.R. § 15496.) This non-expenditure of $4.3 million renders the LCAP incomplete and also results in a technical deficiency in Section 3.B of the plan, which requires the District to demonstrate how services for high need students are increasing *in proportion to* the increase in supplemental and concentration funding provided this year.

At the June 10 and June 24 board meetings and in our June 24 letter we requested the District announce a clear process for allocating these funds, but to date District has not done so. Given the added difficulties of engaging community members over the summer, we expect the District to take additional steps to obtain community input; to notify the parent advisory committee, the English learner parent advisory committee and the public of their opportunity to submit written comments; and to hold a public hearing before the Board approves the District's allocation of these funds, as required by Education Code § 52060(c). The County should provide oversight to ensure that the District allocates these additional supplemental and concentration dollars money according to local priorities and with adequate public process.

II. Explain the Decrease in Supplemental and Concentration Funding for 2014-2015

When reviewing the District's second interim budget report, we found that WCCUSD claims to have received $3.5 million less in supplemental and concentration funding than it originally projected. (Second Interim Budget Report at 3, Jan. 31, 2015.) This discrepancy is also reflected in the Annual Update section of the District's adopted LCAP for 2015-2018. (WCCUSD 2015-2018 LCAP at 23-44, adopted June 24, 2015.) We note that enrollment declined by 324 students, but this does not seem sufficient to explain such a significant reduction. We believe the discrepancy may have to do with the state target gap closure rate the District used in the interim report. The LCFF regulations require all LEAs to use the gap closure percentage set by the state. (5 C.C.R. § 15496(a)(4).) Rather than use the 29.15% gap closure percentage, however, the District apparently calculated the target gap closure at 21.76%. (Interim Budget Report at 3.) This potential error may have led the District to miscalculate how much in supplemental and concentration funds it had to spend on high-needs students. Additional questions related to the District's budget expenditure also arose, including:

- Why did received supplemental and concentration funding decrease by $3.5 million and base funding decrease by $2 million (Interim Budget Report at 3), when supplemental and concentration funding is calculated as a percentage of base funding, and the District's base to supplemental/concentration ratio was approximately 88% to 12%?
- By our calculations using the District's numbers, supplemental and concentration funding decreased by $3.5 million, while base funding decreased by $2 million, a total decrease of $5.5 million. Why, then, did the district report a total LCFF funding decrease of only $800,000? We additionally note a discrepancy between the LCFF total reported to the District in Budget Schedule 1 in the Second Interim Budget Report and Assistant

Superintendent Gamba's presentation to the Board regarding this Report.[1] Both the executive summary and schedule 1 show the District receiving $216,832,664; the Assistant Superintendent's presentation shows the District receiving $212,192,619. We would appreciate any explanation the District could provide.

III. Include All LCFF Base Funding in the 2015-2018 LCAP

The law states that the LCAP must include a "description of the annual goals, *for all pupils*, and each subgroup of pupils identified pursuant to Section 52052, to be achieved for *each* of the state priorities." (Educ. Code § 52060(c)(1) (emphasis added).) The LCAP must include all this information if it is to serve as a "comprehensive planning tool." (LCAP Template at 1.) As clearly stated in the law, regulations, and the LCAP template, the district must set goals for *all* pupils in the LCAP and show how its planned actions/services and expenditures will serve its *entire* student population and align with the eight state priorities. A district that approves an LCAP that omits base funding has failed to include its goals and its actions/services for *all* students. It also excludes the vast majority of its LCFF funding and effectively denies the community a voice in how the district executes its "basic instructional program." (LCAP Template at 1.)

For each of its goals for all students, as well as high-need students, the district must "identify *all annual* actions to be performed and services provided to meet the described goal." (LCAP Template, Section 2, at 13 (emphasis added).) By limiting its LCAP to just a description of the actions funded by supplemental and concentration spending, the district fails to provide information on *all* the actions and services that relate to each of its goals—some of which may be funded by LCFF base or other dollars.

Despite repeated requests from community members to include these funds, however, WCCUSD refused to account for its LCFF base spending. A divided Board voted to approve the LCAP without base funding, with Trustee Valerie Cuevas voting nay because she felt the LCAP should include base funding. While we respect the District's concerns about the document's length, several districts have created readable, accessible LCAPs that serve community priorities.[2] Indeed, the District's own LCAP Dashboard could provide a workable means of maximizing both comprehensiveness and transparency without sacrificing either. We ask the County to hold the District to the requirements of LCFF regulations by insisting the WCCUSD LCAP include its LCFF base funding.

IV. Ensure District-Wide Expenditures Meet Regulatory Requirements

Because WCCUSD has a high concentration of unduplicated students—about 75% of its student population falls into one of the three unduplicated pupil subgroups—the District can more flexibly spend its supplemental and concentration funding on district-wide services. However, per LCFF regulations, it must still justify how district-wide spending is "principally

[1] Both Schedule 1 and Assistant Superintendent Gamba's presentation to the board are attached to this letter and are also available here: http://www.wccusd.net/cms/lib03/CA01001466/Centricity/domain/16/packets/2014-2015/20150318_BOE_Packet.pdf.

[2] Among others, Oakland USD, Sacramento City USD, and Antioch USD all included base funding in their LCAPs.

directed" and "effective" in "increasing or improving" services for unduplicated pupils specifically. (5 C.C.R. § 15496.) We have outstanding concerns, which we raised to the District in prior letters and testimony, about whether several action items in the LCAP meet this standard. Specifically, we would call the County's attention to the following:

- <u>Section 3 Justifications:</u> In Section 3, the District must justify why all its supplemental and concentration expenditures meet the LCFF regulation's "principally directed" and "effective" standard, including actions taken with supplemental and concentration funding for the benefit of "all" students. Currently, Section 3 gives summary explanations of WCCUSD's goals and how much the district plans to spend, often omitting how an action will benefit unduplicated pupils specifically. The District must provide an explanation for each expenditure of supplemental and concentration funding allocated on a schoolwide or districtwide basis, such as:

  - *Professional development days* ($2,570,300, p. 14): It is unclear how this professional development will increase or improve outcomes for high-needs students. Further explanation is required describing how this action is principally directed toward unduplicated pupil goals and how this action will be effective in meeting those same goals.
  - *Decentralize funding for school-sites* ($3,000,000, p. 14): Although school-site spending is an appropriate use of LCFF funding, supplemental and concentration funds must nevertheless be spent on increased or improved services for high-needs students. We would like to know how WCCUSD's individual schools will use this $3 million in supplemental and concentration funding consistent with the aforementioned regulatory requirements. Antioch USD, for example, includes a useful appendix to its Annual Update detailing school-site expenditures so that community stakeholders can ensure that individual schools' supplemental and concentration spending reflects local priorities.

- <u>Preexisting Actions Newly Funded with Supplemental & Concentration Dollars:</u> The District has chosen to allocate supplemental and concentration funding to pay for some actions that were funded using other sources in previous years, and we would like an explanation of the choice to use a different source. The change of funding sources poses transparency problems in light of the District's decision to include only supplemental and concentration funding, as it is unclear whether the District is spending Title I and bond funds in other ways, or whether these revenues have disappeared for 2015-2016. The District is additionally required by the LCFF regulations to explain how supplemental and concentration funds are increasing or improving these services for high need students, and no such explanation is provided. For example:

  - *Whole school intervention model (Stege Elementary)*: The District spent $400,000 in Title I and $49,066 in supplemental and concentration funds in 2014-2015 (pp. 25-26) but allocated $552,255 in supplemental and concentration funds in 2015-2016 (p. 10). (The amount spent in 2015-2016 is likely higher because the District combined two of last year's actions/services into this action service—the

other action/service was "Implement the full-services learning center model" for which the District spent $91,301 in 2014-2015 (pp. 26-28).)
    - *Expand innovative STEM opportunity – FabLab (located at Kennedy High School)*: The Fab Lab was funded in 2014-2015 by $167,000 in bond funds (we assume—the District allocated $750,000 in bond funds and did not explain where the $167,000 came from) (p. 24) but will use $300,000 in supplemental and concentration grants in 2015-2016 (p. 10).

- <u>Disconnect between Outcomes and Actions/Services:</u> Some expected annual measurable outcomes do not seem to bear a close relationship to the planned actions (e.g. Goal 2, p. 14; Goal 5, p. 21). For example, it is not clear how "extending the workday for elementary clerk typists" and "providing an adaptive curriculum for special-needs students" will "increase the percentage of facilities with good/exemplary rating," one of the expected outcomes under Goal 5 (p. 21). Goal 2, meanwhile, includes money for more professional development, but again it is not clear how that relates to the expected outcome of improving teacher retention (p. 14). Without further information about the fit between the District's plans and the expected outcome, there is no way to measure whether the actions taken were effective in improving services for high-needs students.

- <u>Actions/Services Lacking Detail Needed to Ensure Regulatory Compliance and Measure Progress:</u> At present, the LCAP describes these actions in vague or unclear terms, leaving us unsure whether they meet the "principally directed" and "effective" standard or unable to measure the success of such actions as they are implemented. As we stated in our May 11 letter to the District, actions/services should be written with sufficient detail to communicate to stakeholders how the funds will be spent and ensure the District's allocations meet regulatory requirements. We seek clarification of the following actions:

    - *English Language Learner assessments* ($934,585, p. 10): The action item, "Continue to support and improve services for English Language Learner assessment," does not make clear how the District will spend almost 1 million dollars.
    - *Campus safety officers and psychologists* ($3,389,265, p. 18): It is unclear how these funds will be spent, i.e. how many officers and psychologists will be funded. Without further specificity, this large sum for services that benefit all students, raises concerns that the spending is not "principally directed" toward high-needs students. The District should also explain how these actions will help the district meet its overarching goal of improving student engagement and climate, and more specifically decrease chronic absenteeism, increase graduation rates, and reduce out-of-school suspensions. Dr. Harter provided a 2014-2015 breakdown of this expenditure to our coalition in a letter of June 2, and such a breakdown should be added to this year's LCAP.
    - *Restorative justice, BEST, Toolbox & Mindful Life and Selena Jackson practices* ($416,632, p. 16): We request greater detail on this action item to reflect how much the District will spend on each strategy, whether this is for training or salaries, and at which school each strategy will be implemented.

- *Implement the English Language Learner master plan* ($1,601,840, p. 18): The District should provide concrete actions it will take to implement the master plan, such as hiring bilingual aides or supporting English immersion classrooms, so that parents can evaluate the District's annual progress to achieving its goal.
- *Augment special education services* ($3,200,000, p. 18): It is not clear which special education services will be improved or increased specifically for high need students with special needs.

We appreciate the County's attention to our concerns as it reviews the WCCUSD LCAP and we look forward to meeting with you at your earliest convenience.

Sincerely,

André Akins
Operations Manager
Alive & Free – Omega Boys Club

Lilly Chen
Staff Attorney
Public Counsel

Rigel S. Massaro
Staff Attorney
Public Advocates Inc.

Healthy Richmond Steering Committee

CC: Superintendent Harter
WCCUSD Board Members

Enclosures:
May 11 Letter to Superintendent Harter
May 20 Letter to Superintendent Harter
June 2 Letter from Superintendent Harter
June 24 Letter to WCCUSD Board
Second WCCUSD Interim Budget Report Executive Summary
WCCUSD Board Resolution 80-1415

Budget Review Scenarios

The following scenarios and discussions illustrate how some counties have handled the review of budgets and interim reports in various situations.

Scenario	Discussion
Budget Review:	
• The district meets the required designation for economic uncertainty in the budget year, but does not have any additional unappropriated fund balance. The district hasn't settled negotiations or included any funds for salary increases in the adopted budget. • What if the district settles in September for an amount that reduces the designation for economic uncertainty to 50% of the required amount?	• Budget is approved with comment that the district will need to make budget cuts for the amount of any salary settlement. District must include step and column, but isn't required to budget for salary increases until they settle. • Inform the district that they need to make cuts by first interim.
• The district meets the required designation for economic uncertainty in the budget year, but does not have any additional unappropriated fund balance. The district hasn't settled negotiations, but has included a small amount for salary increases. You don't consider the amount included for salary increases reasonable, e.g., state COLA is 3.5% and the district has included 0.5% for salary increases.	• Budget is approved with comment that if the district settles for more than the amount included in the budget, the district will need to make cuts. As long as district meets designation and hasn't settled, the budget is approved.
• The district meets standards for approving the budget, but has a significant operating deficit in the unrestricted general fund. The district has a small amount of unappropriated fund balance that will cover a reasonable salary increase in the budget year, e.g., state COLA is 3.5% and 3% is available to cover salary increases. • In the MYP, the district has included projected COLAs in the revenues, but no funds for step and column or salary increases.	• Approved with comment about deficit spending. The county needs to evaluate the operating deficit to determine if it appears that it will continue in the future. If the district is able to meet the required reserve for the budget and two subsequent years, county would approve with "cautionary" language in the letter about deficit spending. • Budget is disapproved if the district does not include step and column in the multi-year projection and adding these amounts reduced the designation below the required amount. One county said they would approve the budget if there were a reasonable explanation of how the district would fund the COLA, e.g., trhough retirement savings or planned vacancies.

Budget Review Scenarios

Scenario	Discussion
• The district meets the required designation for economic uncertainty in the budget and subsequent years. In the budget assumptions and power point presentation given to the district board at the time of budget adoption, the district states that they have set aside a reserve amount to fund a 2% salary COLA. The district has a designated component of fund balance in the budget year to cover the first year cost of the COLA, however, the COLA is not included in the MYP future years as either salary or as a designated fund balance and the district has no unappropriated fund balance in the subsequent years	• Budget is approved. County office would include language in the approval letter stating that there were not adequate funds set aside to fund the COLA in future years or the county would require the district to readopt the MYP and include the COLA. • Once the district gives a raise, they are notified they will need to make cuts.
• The district meets the required designation for economic uncertainty in the budget and subsequent years. The district revenues are increasing due to projected 10% ADA growth, however, the salaries and mandatory benefits in the budget year and MYP include only step and column increases but no increases for growth positions.	• District was required to go back to board and readopt an amended budget. If the district hadn't done this, the county would have disapproved the budget.
• The district meets the required designation for economic uncertainty in the budget and subsequent years. In reviewing the MYP it is noted that the 4XXX object codes drop significantly from the budget year to the subsequent years. When asked for an explanation for the significant change the district responds that it has "stashed" a significant dollar amount in the 4XXX object of the budget for future salary COLA increases. When excluding the amount disclosed as "stashed" COLA, the remaining 4XXX amount appears reasonable based upon historical expenditures and known changes. What if anything do you do?	• Budget was approved. County documented the problem in their files.
• The district meets the required designation for economic uncertainty in the budget and subsequent years. In reviewing the reasonableness of the budget year salaries, it is determined that the salaries are understated by 10% ($8 million). How would you deal with this situation, would it make a difference if the district had adequate unappropriated fund balance in the budget and future years to cover the error in the salary budget?	• District was required to go back to the board and readopt an amended budget. If the district hadn't done this, the county would have disapproved the budget.

Budget Review Scenarios

Scenario	Discussion
• The district meets the required designation for economic uncertainty in the budget and subsequent years. The district had step and column and projected COLA (unnegotiated) increases in salaries, however, they did not include increases in mandatory benefits related to the COLA increase. How would you deal with this situation, would it make a difference if the district had adequate unappropriated fund balance in the budget and future years to cover the error in the mandatory benefit budget?	• Yes, county would approve budget but put language in the approval letter that the benefits were under budgeted
• The district meets the required designation for economic uncertainty in the budget and subsequent years; however, in reviewing the expenditures and related assumptions you note that they have included a 3% reduction in salaries due to essential elimination of extra time and overtime. In discussion with the district, they state that the sites have gotten out of control in these areas because there is not an adequate system to prevent it and they are telling the sites to stop, however, there has been no change in the system to prevent it. Without the 3% cut, the district would not meet the required reserve for economic uncertainty.	• County only accepted one-third of the reduction in overtime. District was required to go back to the board and readopt an amended budget. If the district hadn't done this, the county would have disapproved the budget.
First and Second Interim Reports:	
• Are there any circumstances under which you would allow the district a positive certification if the fund balance is below the required designation for economic uncertainty?	• Several counties said no. • Several counties said yes, if the district made the cuts by the next reporting period and had a detailed recovery plan. District must convince the county that they will follow through.
• Would you approve a positive certification if the MYP has included projected COLAs in the revenues, but no step and column or salary increases?	• Districts must include step and column in the MYP, but they are not required to budget anything for salaries unless they have settled. Approval letter should point out that COLA was included in the revenues, but not in salaries.
• Would you approve a positive certification if the projected salary increases in the MYP are 50% or less of the projected COLA and there is no additional unappropriated fund balance for a larger raise?	• Yes

Entry CE023: Employer's Net Pension Liability and Pension Expense

The purpose of this entry is to adjust for the LEA's share of the change in net pension liabilities, not accrued in governmental funds because they are not normally expected to be liquidated with current financial resources, and to recognize the LEA's share of pension expense, deferred outflows of resources relating to pensions, and deferred inflows of resources relating to pensions, as reported by the pension plan(s).

No data are extracted for this entry.

The appropriate conversion entry is to debit expenses by function for the LEA's share of pension expense for the period; and to debit or credit deferred outflows of resources, deferred inflows of resources, and net pension liability to adjust for the LEA's share of the changes in the balances of these pension plan accounts since the prior period. Expenses by function should be reported in proportion to the LEA's employer contributions to pensions by function. The proportion of the LEA's contributions can be derived from the data extracted in conversion entry CE024.

Entry CE024: Employer Pension Contribution Made Subsequent to Measurement Date

The purpose of this entry is to adjust for employer pension contributions made by the LEA subsequent to the pension plan measurement date.

In the governmental funds, employer pension contributions were debits to assorted functions. To eliminate the expenditures, the functions in which they were reported must be credited, and Deferred Outflows of Resources must be debited.

Data relating to employer pension contributions are extracted from governmental funds 01 through 57, objects 3101-3102, all functions. Data relating to the on-behalf contributions made by the state to the state teachers retirement system are not extracted.

Users may adjust the proposed default conversion entry in the User Adjustments column.

An example of a user adjustment to the default conversion entry would be if any amount of the LEA's contributions subsequent to the pension plan measurement date were to satisfy a contribution receivable recognized by the pension plan prior to the end of the current measurement period. For California LEAs, it is unlikely that this adjustment will be needed.

Entry CE025: State's Share of Pension Expense – Special Funding Situation

The purpose of this entry is to record pension expense for State support of pensions in a “special funding situation” as defined in Governmental Accounting Standards Board (GASB) Statement 68. Pension expense is recognized for the portion of the State's proportionate share of collective pension expense that is associated with the LEA, net of the state's on-behalf contribution already recognized in the LEA's governmental funds pursuant to GASB Statement 24.

Revenue is recognized in an amount equal to the net pension expense stated above.

No data are extracted for this entry.

The appropriate conversion entry is to debit expenses by function and credit program revenue. Expenses by function should be reported in proportion to the LEA's employer contributions to pensions by function. The proportion of the LEA's contributions can be derived from the data extracted in conversion entry CE024. Users may input the necessary amounts in the User Adjustments column.

CALIFORNIA
DEPARTMENT OF
EDUCATION

TOM TORLAKSON
STATE SUPERINTENDENT OF PUBLIC INSTRUCTION

July 2, 2015
Sent by electronic mail

Dear County and District Chief Business Officials and Charter School Administrators:

NEW FINANCIAL REPORTING REQUIREMENTS FOR PENSIONS

The two recent pension accounting standards issued by the Governmental Accounting Standards Board (GASB) make fundamental changes to how state and local governments account for their costs and obligations relating to employee pensions. This letter augments the considerable body of information about the new standards that is available from other sources, and discusses certain implications for California local educational agencies (LEAs).

The guidance in this letter supersedes the guidance in the 1996 Management Advisory 96-03 from the California Department of Education (CDE) relating to accounting for on-behalf pension payments made by the state.

SYNOPSIS OF NEW REQUIREMENTS

GASB Statement 68 (GASB 68*), Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27,* introduces new requirements for accrual-basis recognition by state and local governments of employer costs and obligations for pensions. Although GASB 68 relates to accrual-basis financial statements, for California LEAs there are implications for governmental fund statements as well.

GASB Statement 71 (GASB 71), *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68,* amends the transition provisions of GASB 68 to eliminate a potential misstatement in the year of implementation.

Under previous accounting standards, employers participating in a cost-sharing defined benefit pension plan—such as the CalSTRS and CalPERS plans in which California LEAs participate—recognized annual pension expense only to the extent of their contractually required contributions to the plan. In their fund statements and their government-wide statements, LEAs recognized a pension liability only for the difference, if any, between contributions required and contributions made.

Under the new accounting standards, if the present value of benefits earned by all employees participating in the CalSTRS or CalPERS pension plan (the plan's *total* *pension liability*) exceeds the resources accumulated by the pension plan to pay benefits (producing a *net pension liability*), LEAs must now report in their government-wide financial statements their proportionate share of the plan's net pension liability. At present, both CalSTRS and CalPERS have a net pension liability.

LEAs must also report their proportionate share of accrual-basis *pension expense,* and their proportionate share of deferred items for unamortized changes in the plan's total pension liability due to factors such as changes in actuarial assumptions or differences between actuarial assumptions and actual experience.

An LEA's proportionate share of the plan's net pension liability, pension expense, and deferred items is based on the LEA's proportionate share of total employer contributions to the plan. The information LEAs need to determine their proportionate share of total employer contributions, and to determine the plan's net pension liability, pension expense, and deferred items, are provided by CalSTRS and CalPERS.

LEAs can access the information provided by CalSTRS and CalPERS at the following links:

CalSTRS: http://www.calstrs.com/gasb-accounting-changes

CalPERS: https://www.calpers.ca.gov/page/employers/actuarial-services/gasb

IMPLICATIONS OF NEW REQUIREMENTS FOR CALIFORNIA LEAS

Government-wide conversion entries and reports in the Standardized Account Code Structure (SACS) Software. The new GASB 68 reporting requirements necessitate changes to the automated government-wide conversion entries and reports contained in the SACS Software. The CDE has programmed the changes in the SACS2015ALL release of the software, used by LEAs to report their 2014–15 year-end financial data, to include the new conversion entries and to modify the government-wide statements to recognize net pension liability, pension expense, and deferred items relating to pensions.

In the new pension conversion entries, to the extent possible, general ledger (GL) data are extracted and a proposed default conversion entry is provided. Where it is not possible to extract GL data and provide a default entry, user input is required to populate the entry. The information LEAs need to populate the entries is derived from the information provided by CalSTRS and CalPERS.

As with all government-wide conversion entries, an LEA's governmental fund accounting must be in accordance with generally accepted accounting principles (GAAP) in order for the conversion entries to work properly.

Recognition of state's on-behalf STRS contributions in governmental funds. The new conversion entries rely on LEAs having recognized in their governmental funds the state's contribution to CalSTRS on behalf of LEA employees. Historically, most California LEAs have not recognized the state's contribution for the reasons described below. For most LEAs, this will necessitate a change of accounting practice.

GASB Statement 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance* (GASB 24), has long required employers to recognize in their governmental funds any on-behalf contributions to pension plans made by a non-employer contributing entity, such as a state. The on-behalf contribution is recognized by debiting pension contribution expenditures and crediting revenue, similarly to how any grant or financial assistance is recognized.

Longstanding practice in California is that most LEAs have not recognized the state's on-behalf contributions to CalSTRS or, in the past, the state's on-behalf contributions to CalPERS. In 1996, when GASB 24 took effect, the CDE issued Management Advisory 96-03, *Accounting for Pass-Through Grants and On-Behalf Payments*. Management Advisory 96-03 advised LEAs that while CDE understood the intent of GASB 24, the CDE believed it was not necessary for LEAs to recognize the on-behalf revenue and expenditures in their financial statements because the CDE was able to identify the contributions to the pension plans and to fully disclose K–12 education resources statewide without LEAs doing so.

Aside from the departure from GAAP, this practice hasn't had serious implications before now. However, the new government-wide conversion entries relating to the pension reporting requirements of GASB 68 rely on LEAs having recognized the state's on-behalf pension contribution in their funds. Effectively, GASB 68 is now forcing LEAs to follow the GAAP requirement. The guidance in this letter therefore supersedes the guidance in Management Advisory 96-03 relating to accounting for on-behalf payments.

Accounting for on-behalf pension contributions in SACS. In SACS, the journal entry to recognize the state's on-behalf pension contribution to CalSTRS is to debit pension contribution expenditures by fund, goal, and function in proportion to the LEA's own pension contributions to CalSTRS by fund, goal, and function, with a corresponding credit to state revenue.

The CDE has established restricted Resource 7690, STRS On-Behalf Pension Contributions, to account for the receipt and expenditure of the financial assistance represented by the state's contribution. Within Resource 7690, revenue should equal expenditures.

For LEAs that do not recognize the on-behalf contribution in their funds as they close their books for 2014–15, auditors may propose the adjusting entry to the fund statements necessary for both the fund statements and the government-wide statements to be correct in accordance with GAAP and for the conversion entries to work as intended.

On-behalf spreadsheet application to calculate the entry. The CDE has developed the attached spreadsheet application to assist LEAs in recognizing the state's on-behalf contribution to CalSTRS in their funds by calculating and creating the necessary journal entry by fund, goal, and function. For many LEAs, the journal entry created by this application can then be posted automatically to the LEA financial system. Use of this application by LEAs is optional.

EFFECTIVE DATE

The new reporting requirements take effect for LEA financial statements for 2014–15.

If you have questions or need assistance with the guidance in this letter, please contact the Office of Financial Accountability and Information Services at 916-322-1770 or by e-mail at sacsinfo@cde.ca.gov.

Sincerely,

Peter Foggiato, Director
School Fiscal Services Division

PF:pwo