

**California Department of Education / County Office of Education  
External Services Subcommittee (ESSCO)  
AUGUST 3, 2015 FINAL NOTES**

**California Department of Education  
1430 N Street Room 1101**

**August 3, 2015  
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**

Meg Kailikole	I	Mendocino	Julie Parr	VI	Amador
Judy Thomson	I	Sonoma	Jamie Perry	VII	Fresno
Adrian Barron	II	Butte	Ann Walsh	VII	Merced
Jessica Tegerstrand	II	Shasta	John Wilborn	VII	Tulare
Debbie Towne	II	Tehama	Melissa Abbey	VIII	San Luis Obispo
Lori Carroll	III	Yuba	Paula Driscoll	VIII	Ventura
Laura Flores	III	Nevada	Priscilla Quinn	VIII	Kern
Kathy Garrison	III	Placer	Elizabeth Goff	IX	Imperial
Diane Lacombe	III	El Dorado	Chris Lombardo	IX	Orange
Roslynn Manansala-Smith	III	El Dorado	Cynna Hinkle	X	San Bernardino
Rhonda Marquette	III	Yuba	Reyna Philp	X	Riverside
Jennifer Stahlheber	III	Sutter	Charles Faulkner	XI	Los Angeles
Teresa Stelzer	III	Placer	Adina Caza		CDE
Debbie Wilkins	III	Sacramento	Agnes Chan		CDE
Sherry Beatty	IV	Solano	Christine Davis		CDE
Sarah Blackstone	IV	Napa	Elizabeth Dearstynne		CDE
Jenny Goodspeed	IV	Contra Costa	Peter Foggiato		CDE
Kate Lane	IV	Marin	Blanche Katayama		CDE
Christine Rea	IV	Contra Costa	Arlene Matsuura		CDE
Kolvira Chheng	V	Santa Clara	Veronica Monteverde		CDE
Karen Deller Hennessy	V	Monterey	Caryn Moore		CDE
Jeri Blote	VI	San Joaquin	Peggy O’Guin		CDE
Shirley Buell	VI	Stanislaus	Jodi Padilla		CDE
Nancy Kohlman	VI	Amador	Joel Ryan		CDE
Sandra Madera	VI	Stanislaus			

## 1. Announcements:

- ESSCO 2016 Vice Chair: Chris Lombardo, Orange County Department of Education

## 2. Principal Apportionment Updates

- The 2015-16 Advance Principal Apportionment was certified on July 20, 2015. While the apportionment letter includes detailed information regarding the calculations (see <http://www.cde.ca.gov/fg/aa/pa/advappt1516ltr.asp>), the following reminders were specifically noted:
  - o The Advance is an estimate to start for the flow of funds to LEAs for 2015-16 and should not be used for budgeting purposes.
  - o The gap percentage used in the Advance, approximately 50%, was slightly lower than the Department of Finance estimate for the 2015-16 Budget Act (51.52%), *“because at the Advance and First Principal Apportionment (P-1) CDE’s calculations do not reflect additional Gap funding that will be available for LEAs that fund Gap through local revenue.”*
- A new “Principal Apportionment Funding Rates and Information” page (<http://www.cde.ca.gov/fg/aa/pa/pa1516rates.asp>) has been added to CDE’s website, which provides earlier access to much of the information that has historically been included in the February apportionment letter.

## 3. GASB 68

- Are we leaving this to the Auditors [whether LEAs book the STRS On-Behalf payment in their funds for 2014-15]?  
*Answer:* This is a local decision.
- Review the impact on reserve balances, MOE’s and SpED. *Discussion:* Yes, the STRS On-Behalf expenditure does factor into MOE, but it cannot be left out of the calculation. It should be noted, however, that it raises the expenditures that count toward the MOE in the first year only; changes after that should be minimal. Furthermore, it only amounts to approximately 5% of the STRS-subject salaries and may not have a big impact.
- CDE Conversion Entries relative to GASB 68.

GASB 68 requires full accrual basis recognition by employers of pension obligations and expense. This is conceptually similar to recognizing Postemployment Benefits Other Than Pensions (OPEB) per GASB 45, but uses a different approach. Unlike GASB 68, GASB 45 does not require an employer to report its share of the past unfunded OPEB liability, as is required by GASB 68 in relation to STRS and PERS defined benefit pension obligations.

CDE has programmed the necessary GASB 68 conversion entries from modified accrual-basis financial statements (governmental fund statements) to the full accrual government-wide statements into SACS2015ALL for reporting 2014-15 Unaudited Actuals.

Governmental fund accounting for pensions has not changed; the government-wide statements have changed. As noted previously, reporting the pension liability is different than reporting the OPEB liability, because with OPEB, an LEA has an actuarial prepared and an Annual Required Contribution (ARC) is calculated for use in the reporting. GASB 68 is different, because an LEA must recognize not only its own contractual obligations, but its share of the plan’s unfunded liabilities, which have been determined by STRS and PERS on a statewide basis.

SACS2015ALL does not calculate the pension liability, but it does provide the conversion entries in CE023, CE024, and CE025.

- o CE023, Employer’s Net Pension Liability and Pension Expense: You bring your LEA’s share of the pension plan’s change in net pension liability at the plan level and recognize your share of the expense. The debit is to expense by function, in proportion to your employer pension contribution expense by function.
- o CE024, Employer Pension Contributions Made Subsequent to Measurement Date: This entry automatically extracts current year pension contributions and creates the default conversion entry to book them as deferred

outflows, somewhat like prepaid expenses.

Note that the measurement period is as of June 30. Because it takes time for the plan to process and develop data, the pension expense data that should be used will be a year old (June 2014). This is a consistent practice and how most governments will handle it. But since contributions have been made in the current year, those have to be unrecognized. Those are automatically reclassified as deferred outflows in CE024. If you do not use the year-old plan measurement date, manual entries will be required to reverse the default conversion entry. (See attached selected sections from the SACS Software User Guide.)

- o CE025, State's Share of Pension Expense – Special Funding Situation: Take your proportionate share of the state's proportionate share of pension expense on the accrual basis, and that's what gets booked. Employers must recognize the state share in this non-employer contributing entity "special funding situation."
- STRS On Behalf Contributions – Should districts budget for this?
  - o CSAM Procedure 210 describes the requirements for Budgetary Accounting. Most LEAs did not initially budget for the 2014-15 STRS On-Behalf contribution, but probably most can do final budget revisions as part of the closing process.
  - o The STRS On-Behalf payment must be addressed for 2014-15, preferably in the district's general ledger and as part of the closing process, in order for the conversion entries to work properly. But the auditors may do it if necessary. See attached CDE letter regarding new pension reporting requirements, starting on page 3.
  - o The STRSONBEHALF.xlsm spreadsheet provided with the above-referenced letter requires multiplying the LEA's 2012-13 creditable STRS compensation by the state's on-behalf contribution percentage for 2014-15. To derive their STRS creditable compensation for 2012-13, which is always a moving target due to subsequent corrections, some COEs are recommending that Districts divide the STRS contribution amount as reported in the "Employee Retirement Systems" (GASB 27) footnote of a district's 2012-13 audit by the STRS contribution rate that year (8.25%) to derive the 2012-13 STRS creditable compensation amount.
  - o We do not have to recognize a PERS on-behalf contribution because the state has not been required to make one for several years.
- Other Resources: Following are links to the reports of creditable STRS compensation that CalSTRS provides to the Joint Legislative Budget Committee each year. CalSTRS initially reports creditable compensation in October, and then reports revised creditable compensation in April. CDE uses the revised creditable compensation reported in April to calculate the STRS on-behalf percentage each year. Note that these give creditable compensation at the state level with some detail at the county-wide level, but do not give detail at the LEA level.
  - o Creditable Compensation report for 2012-13: [http://www.calstrs.com/sites/main/files/file-attachments/oct\\_25\\_cc\\_report\\_for\\_fy\\_12-13\\_mark\\_leno.pdf](http://www.calstrs.com/sites/main/files/file-attachments/oct_25_cc_report_for_fy_12-13_mark_leno.pdf)
  - o Revised Creditable Compensation report for 2012-13: [http://www.calstrs.com/sites/main/files/file-attachments/revision\\_of\\_cc\\_fy2011-12\\_joint\\_leg\\_budget\\_leno.pdf](http://www.calstrs.com/sites/main/files/file-attachments/revision_of_cc_fy2011-12_joint_leg_budget_leno.pdf) (Don't be misled by the "fy2011-12" in this second link. The link leads correctly to the 2012-13 letter.)

#### **4. Educator Effectiveness Program Apportionment**

- What is CDE's preferred accounting of the program – will there be a resource code? *Answer:* Yes, there will be a resource code, but it is not available yet.
- One-Time Funds? *Answer:* Yes.
- Question from Group: How will the funds be allocated? *Answer:* On a per "certificated staff" basis (not just teachers) using 2014-15 data.

#### **5. FCMAT COE Fiscal Procedure Manual – AB 139 sample letters and current budget/interim approval and/or disapproval letters.**

- The 2015 update is going well. Thank you to all who have contributed! There are a few areas for discussion/support:

- o Sample AB 139 and budget/interim approval or disapproval letters are needed. A couple COEs offered to send recent samples.
- o Budget Review Scenarios Committee (See Attachment): Priscilla Quinn, Kate Lane, Jeri Blote and Charles Faulkner volunteered to help update the Budget Review Scenarios for the 2016 update.
- o Has anything changed with Interim Report Reviews? *Answer:* No one was aware that anything has changed.

**6. Charter School ADA – Apples to Apples because ADA may or may not pull in for the prior years. COE enrollment is not included in the district’s enrollment, and districts are used to removing charter ADA from their enrollment. What are other County Offices seeing?**

- A few COEs have noted that Criteria 1, 2, 3, and 4 are not providing meaningful data, partially because it appears that County ADA is pulling in, but County enrollment is not.
  - o CDE noted that ADA/Enrollment reporting should be at the district level for district-funded county-operated programs. Enrollment and ADA are credited to the district of residence; districts get the money and they choose how to use it, budgeting accordingly. It is “apples to apples,” because ADA and enrollment that drive funding are together.
  - o CDE will recheck the software to verify if/how the County enrollment is being pulled into the calculation.
- Criterion 4, LCFF Revenue: Charter ADA, whose corresponding financials are included in Fund 09, are not pulling into Criterion 4. CDE noted that this is probably working as it should, because Criterion 4 should only include Fund 1 revenues, whether regular or charter ADA (if reported in Fund 1).
- CDE reminded the group:
  - o Send technical SACS questions to SACSINFO; staff is available to address them; and
  - o Allowing overriding of the ADA extracted in Criteria 1, 2, and 3 in response to LEA concerns has resulted in some loss of integrity of the data, so COEs need to be alert to the accuracy of the figures reported.
  - o A more in-depth discussion of this will be on the September ESSCO agenda.

**7. Advocacy Group Letter on LCAP Requirements (Base & S/C) (See Attachment)**

- Do we need to include the LCFF Base in the LCAP? *Discussion:* The base educational program must be discussed. This should include whatever it takes to support the planned goals and actions. The LCAP is supposed to tell your LEA’s story; it is not a second budget document.
- Do LEAs need to provide a justification for every action? *Discussion:* Some are providing justification at the goal level, but not necessarily at action level. The regulations do not specify, and responses from the group varied.

**8. What is question A2 (Criteria & Standards Additional Fiscal Indicators) asking? What is CDE expecting? (The question is: *Is the system of personnel position control independent from the payroll system?*)**

- The two systems (personnel position control and payroll) should be connected. It should be impossible for payroll to issue a check to someone who does not have an assigned position. Sometimes independence is good, but in this case, the position control and payroll functions need to be dependent and linked.

**9. How are LCAP approvals going? If there are changes that need to be made are you requiring them to be board approved? Issuing combined or separate letters? Approving LCAP with no commentary? Approving LCAP and identifying areas of concern? Approving LCAP, identifying areas of concern and making recommendations for improvement? Other?**

- COEs are handling the reviews differently. Some are issuing one combined letter that includes comments, concerns, and recommendations regarding the Budget and the LCAP. Others are issuing separate Budget and LCAP letters. At least one COE is issuing three letters: one for the Budget and LCAP combined, one for Budget technical corrections and another one for LCAP technical corrections.
- *Questions from the group:*

- o Under what conditions are COEs requiring districts to take LCAPs back for Board approval? *Answer:* COE responses varied due to the inevitable subjectivity of the reviews and unique district circumstances. Following is a sampling of the responses and varied approaches:
  - ❖ Some COEs indicated that minor technical corrections probably do not need to go back to the district's Board, but if substantive corrections or amendments were made, such as using the wrong dollar amounts or percentages, then the LCAPs might need to go back to the Board for approval. Others said that any time the COE requires a district to make changes, the LCAP should go back to the Board.
  - ❖ Some COEs suggested putting responsibility back on the districts by "recommending" that corrected LCAPs go back to the Board, at least as an information item, but not requiring it as a condition of COE approval.
- o How much of the LCFF Base funds must be included in the LCAP? *Answer:* COE responses varied. Some COEs want to see most of the LCFF Base dollars in order to effectively demonstrate how the district is using its LCFF funds to address the 8 state priorities. Other COEs are just concerned with making sure that the S/C dollars are included to support actions and services for unduplicated pupils.
- o If an LCAP must go back to the Board, are additional stakeholder engagement and a public hearing required? *Answer:* There were varied responses to this question, due to the unique circumstances in each district situation.

One COE has a legal opinion saying "yes." While it is not practical to have multiple stakeholder meetings for an LCAP correction/revision, or to hold the LCAP public hearing and action with the Budget public hearing and action, it may be possible to have at least one combined stakeholder meeting and to have an LCAP hearing at a meeting prior to the meeting wherein the revised LCAP will be adopted.

It was noted that additional guidance may be provided in 2015-16.

#### 10. Adult Education Block Grant Program Accounting: Seeking ESSCO feedback...

- Resource Code: CDE considering assigning a new resource code for the Adult Education Block Grant, instead of using the old one. This will help show that this is a new program. *Feedback:* Positive.
- Fund 11: Prior to categorical flexibility, statute required that Adult Education dollars had to be accounted for in Fund 11. With flexibility, in accordance with GAAP Fund 11 should not have been used unless funds therein were restricted or committed to Adult Ed. Now, we once again have restricted funding for Adult Ed. Should CDE require LEAs to put the Adult Education Block Grant in Fund 11? While Adult Education expenditures could be tracked by goal, CDE would prefer for the accounting to be outside of the General Fund for data reporting purposes. Districts could transfer additional committed dollars into Fund 11 to support the program. *Feedback:* Positive.

##### *Questions from the Group*

- For 2015-16, those funds will come to districts straight from state; in the future, the funds will flow through consortium. How will it look when going through consortium? Will it be like SELPA or will Procedure 750 be sufficient? *Answer:* CDE is hoping that Procedure 750 will be sufficient, but does not know yet.
- When will the funding be distributed? *Answer:* The \$350 million will go out by August 31<sup>st</sup>; the rest in October.

#### 11. E-Rate Accounting Revisited

- Should E-Rate discounts be treated as a grant or subsidy or as a discount? For many years, both schools of thought were acknowledged. Initially, neither GASB nor the Government Finance Officers Association (GFOA) took a stand. The National Center for Education Statistics (NCES) did say to report it as a discount on the product or service, so in 2005 (approximately) CDE put out guidance through the SACS forum to require LEAs to report it as a discount.

Since then, GASB and GFOA have determined that it is a grant or subsidy (GASB 24 and 33). So CDE is changing the guidance. When you get \$100 service or asset and are paying \$0.40, book the whole thing, then report the

revenue for the amount of discount you received.

CDE will not assign a resource code for E-Rate transactions. It is still usually a reimbursement – often by the time you get it, it is making you whole for money you already put out (similar to mandated cost reimbursements). You'll recognize revenue as local revenue, not federal. (E-rate is a federally-required program, but not federal money.) CDE will be sending out guidance regarding the new procedure, which is effective for 2015-16.

**12. CSAM 2015 Procedures 760 and 805**

- CDE decided to remove this item from the agenda and address it by e-mail.

**ROUND TABLE DISCUSSIONS:**

- **Topics Fall Conference – Friday October 16 –North – Yolo; Monday October 19 – South - San Bernardino**

**Our Next Meeting is September 14th, 2015**

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