

Fiscal Procedural Manual

FOR BUSINESS OFFICIALS IN CALIFORNIA COUNTY OFFICES OF EDUCATION

FCMAT

FISCAL CRISIS & MANAGEMENT
ASSISTANCE TEAM



In Partnership with

CCS
California County
Superintendents

BASC
Business and Administration
Services Committee

ESSCO
External Services
Subcommittee

Fiscal Procedural Manual

*For Business Officials in
California County Offices of Education*

Presented by

The Fiscal Crisis and Management Assistance Team

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Acknowledgments

This manual is prepared in conjunction with the California County Superintendents (CCS), Business and Administration Services Committee (BASC), External Services Subcommittee (ESSCO), and the California Department of Education (CDE), and I wish to thank the many people who provide their time, insight and valuable expertise in the development and revision of the *Fiscal Procedural Manual for Business Officials in California County Offices of Education (COE Fiscal Procedural Manual)*.

Thank you to county superintendents and their external business staff for their support and vision in recognizing the need for consistent procedures and standards for COE business officials to use in reviewing the fiscal operations of school districts throughout California. This manual will help all school business officials working in county offices maintain legal and ethical standards of operation.

We hope all county offices find this manual to be an effective and useful resource in their fiscal oversight operations.

Sincerely,

A handwritten signature in black ink that reads "Michael H. Fine". The signature is written in a cursive, flowing style.

Michael H. Fine
Chief Executive Officer, FCMAT

Introduction

March 2024

The Fiscal Crisis and Management Assistance Team (FCMAT), in conjunction with the California County Superintendents (CCS), Business Administration Steering Committee (BASC), External Services Subcommittee (ESSCO) and the California Department of Education (CDE), is pleased to present the latest updates and additions to the Fiscal Procedural Manual for Business Officials in California County Offices of Education. We hope that county superintendents of schools' business staff will continue to find the manual useful and beneficial when performing their required duties related to assisting with and evaluating school district financial operations.

Originally published in January 2005 and updated annually so that it remains current and applicable, the Fiscal Procedural Manual is designed to be user-friendly as it outlines 29 procedures and adopted standards required by California education and government codes. The manual helps county superintendents practice consistent and common best practices when reviewing and responding to school district, community college and charter school fiscal requirements.

This manual is a guide, not a mandate, and is intended to be an external document for all California county superintendents and their external business services staff as they perform their required fiscal responsibilities. Although the Fiscal Procedural Manual is produced by FCMAT, many people assisted in the creation of this manual and continue to add value through regular updates to it. Detailed updates are initiated and provided by ESSCO to ensure they are up to date and relevant, and BASC performs a final review after ESSCO provides the updates.

Updated items for this 2024 release include the following:

- Procedure 11, *Internal Controls for AB 1200*
- Procedure 22, *Services to Districts*
- Procedure 25, *District Reorganization*
- Procedure 27, *Cash Flow Procedures*

These updates are meant to replace existing sections or pages in the manual. The entire manual, which includes examples of and links to various sample forms and letters as well as other resources, is available for download free of charge from the FCMAT website at www.fcmat.org.

The table of contents consists of clickable links that take users directly to each listed procedure, and the first page of each procedure contains a clickable link to return to the table of contents.

This manual is a living document, with new procedures developed and existing procedures updated annually as laws change and best practices are refined.

If you have any questions or would like more information, please contact the FCMAT office at 661-636-4611 or contact@fcmat.org.

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Calendar

Procedure 1

Revised 2/2023

Procedure Number	Activity
JULY	
3	<i>Facility Maintenance Accounts</i> <ul style="list-style-type: none">Confirm as disclosed in the district budget's criteria and standards that adequate contributions have been budgeted for the ongoing and major maintenance account.
5	<i>Budget Review</i> <ul style="list-style-type: none">Districts must file the adopted budget and the approved local control accountability plan (LCAP) with the county superintendent no later than five days after the first adoption of the budget or July 1, whichever comes first.
9	<i>Charter Schools</i> <ul style="list-style-type: none">On or before July 1, the charter school must submit a preliminary budget and the approved local control accountability plan (LCAP) to its chartering authority and the county superintendent of schools, or only the county superintendent of schools if the county board of education is the chartering authority.
19	<i>Attendance Accounting, Local Control Funding Formula</i> <ul style="list-style-type: none">On or before July 15, the county office of education (COE) exports annual attendance, necessary small school certifications, and other LCFF-related data to the California Department of Education (CDE) using the CDE's Principal Apportionment Data Collection software.School districts and charter schools must certify end of year data through the California Longitudinal Pupil Achievement Data System (CALPADS).

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Calendar

Procedure 1

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Procedure Number	Activity
AUGUST	
5	<i>Budget Review</i> <ul style="list-style-type: none">On or before August 15, the county superintendent of schools may seek clarification, in writing, from the governing board of a school district regarding the contents of the LCAP.
9	<i>Charter Schools</i> <ul style="list-style-type: none">No later than August 15, Pupil Estimates for New or Significantly Expanding Charters (PENSEC) forms are due for charter schools that are new or significantly expanding (such as adding a grade level or other qualifying event).
17	<i>Property Taxes</i> <ul style="list-style-type: none">No later than August 15, the COE submits tax information and prior year annual miscellaneous funds data using the CDE's Principal Apportionment Data Collection software.
21	<i>Special Education</i> <ul style="list-style-type: none">By August 15, applicable counties submit prior year annual special education tax allocation data using the CDE's Principal Apportionment Data Collection software.

**Procedure
Number**

Activity

SEPTEMBER

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| 5 | <p><i>Budget Review</i></p> <ul style="list-style-type: none">• The county superintendent must examine the district's budget and determine whether it complies with the standards and criteria adopted by the State Board of Education.• The county superintendent must determine whether the budget allows the district to meet its financial obligations in the current and two subsequent fiscal years.• On or before September 15, the county superintendent must approve, conditionally approve, or disapprove the district's budget.• To approve a district's budget, the COE must ensure compliance with the three criteria for LCAP approval listed in Education Code Section 52070(d) and the CCS LCAP Approval Manual.• The superintendent must provide in writing either a conditional approval or a disapproval.• For districts with a conditionally approved budget or a disapproved budget, the county superintendent may appoint a committee to examine and comment on the superintendent's review and recommendations. The committee must report its findings to the superintendent no later than September 20.• If a school district does not submit a budget, the county superintendent will, at district expense, develop a budget for that district by September 15 and transmit the budget to the governing board of the school district. |
| <hr/> | |
| 9 | <p><i>Charter Schools</i></p> <ul style="list-style-type: none">• On or before September 15, the charter school must approve, in a format prescribed by the State Superintendent of Public Instruction (SPI), an annual statement of all receipts and expenditures of the charter school for the preceding fiscal year. The charter school must file the statement with the entity that approved the charter.• Certification of the Special Advance Apportionment due based on PENSEC data for newly operational charter schools and continuing charter schools adding one or more grade levels. |
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Calendar

Procedure 1

Revised 2/2023

Procedure Number	Activity
OCTOBER	
5	<p data-bbox="350 506 509 531"><i>Budget Review</i></p> <ul data-bbox="350 562 1425 1140" style="list-style-type: none"><li data-bbox="350 562 1425 659">• On or before October 8, the county superintendent of schools shall approve a district's LCAP if it complies with the three criteria for LCAP approval, which are listed in Education Code Section 52070(d) and the CCS LCAP Approval Manual.<li data-bbox="350 678 1425 810">• On or before October 8, if the adopted budget of a school district is conditionally approved or disapproved, the governing board of the school district, in conjunction with the county superintendent, shall review and respond to the recommendations of the county superintendent at a regular meeting of the governing board of the school district.<li data-bbox="350 829 1425 888">• On or before October 22, the county superintendent must provide a list to the SPI of the districts for which they may disapprove budgets.<li data-bbox="350 907 1425 1140">• For districts with a conditionally approved or disapproved budget, the county superintendent must review the revised district budget to determine that it: 1) complies with the standards and criteria adopted by the State Board of Education pursuant to Education Code 33127; 2) allows the district to meet its financial obligations during the fiscal year; 3) satisfies all conditions established by the county superintendent in the case of a conditionally approved budget; and 4) is consistent with a plan that will enable the district to satisfy its multiyear commitments.
6	<p data-bbox="350 1182 542 1207"><i>Unaudited Actuals</i></p> <ul data-bbox="350 1236 1425 1299" style="list-style-type: none"><li data-bbox="350 1236 1425 1299">• On or before October 15, the county superintendent must verify the mathematical accuracy of the unaudited actuals" and transmit a copy of the reports to the SPI.
17 19 20	<p data-bbox="350 1341 1110 1367"><i>Property Taxes, Attendance Accounting, Local Control Funding Formula</i></p> <ul data-bbox="350 1396 1425 1459" style="list-style-type: none"><li data-bbox="350 1396 1425 1459">• By October 1, submit local educational agency (LEA) corrections for prior fiscal years using the CDE's Principal Apportionment Data Collection software.
9	<p data-bbox="350 1501 521 1526"><i>Charter Schools</i></p> <ul data-bbox="350 1556 1425 1619" style="list-style-type: none"><li data-bbox="350 1556 1425 1619">• Twenty-day forms due by October 31 for newly operational charter schools and continuing charter schools adding one or more grade levels.

Calendar

Procedure 1

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Procedure Number	Activity
21	<p data-bbox="350 426 540 447"><i>Special Education</i></p> <ul data-bbox="350 478 1422 726" style="list-style-type: none"><li data-bbox="350 478 1312 541">• By October 31, submit prior year annual LEA infant data using the CDE's Principal Apportionment Data Collection software.<li data-bbox="350 558 1422 726">• School districts provide special education maintenance of effort (MOE) current year actuals vs. prior year actuals (SEMA), and special education MOE prior year actuals vs. current year budget (SEMB) reports from the state's Standardized Account Code Structure (SACS) software to the special education local plan area administrative unit (SELPA AU) by October 15.

Procedure Number	Activity
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NOVEMBER

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| 5 | <p><i>Budget Review</i></p> <ul style="list-style-type: none">No later than November 8, the county superintendent must:<ul style="list-style-type: none">Approve or disapprove the budget for districts whose budgets were conditionally approved or disapproved as of September 15.If the county superintendent disapproves the revised budget, they will call for a budget review committee under Education Code 42127.1 unless the governing board of the district and the county superintendent agree to waive the requirement for a committee and the CDE approves the waiver.Based on the waiver, the county superintendent immediately has the authority and responsibility provided by Education Code 42127.3.Submit a report to the SPI identifying all districts with disapproved budgets including a copy of the written response to each district. |
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| 17 | <p><i>Property Taxes</i></p> <ul style="list-style-type: none">The COE submits tax information no later than November 15 using the CDE's Principal Apportionment Data Collection software. |
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| 21 | <p><i>Special Education</i></p> <ul style="list-style-type: none">By November 15, applicable counties submit prior year annual special education local plan area (SELPA) ADA allocation data using the CDE's Principal Apportionment Data Collection software.By November 15, the SELPA AU reports special education MOE current year actuals vs. prior year actuals (SEMA) and special education MOE prior year actuals vs. current year budget (SEMB) to the CDE.By November 30, submit prior year annual Nonpublic School (NPS) Extraordinary Cost Pool (ECP) and Necessary Small SELPA ECP for Mental Health claim data using the CDE's Principal Apportionment Data Collection software. Hard copies of supporting documentation (copies of paid invoices) must also be postmarked by this date. |
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Calendar

Procedure 1

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Procedure Number	Activity
DECEMBER	
5	<i>Budget Review</i> <ul style="list-style-type: none">No later than December 31, the county superintendent, in consultation with the SPI and the governing board of the district, must develop and adopt a fiscal plan and budget for districts with disapproved budgets.
7	<i>Interim Report Review (first interim report)</i> <ul style="list-style-type: none">Districts provide first interim reports to the county superintendent after approval by the district's governing board (45 days after the close of the period being reported, which is October 31).
8	<i>Audits</i> <ul style="list-style-type: none">If the county superintendent does not receive the annual audit report by December 15, the superintendent may investigate the cause of the delay and initiate action to obtain the audit in the most effective manner.The county superintendent must file requests for extensions for filing the annual audit report with the California State Controller's Office (SCO) and CDE by December 1.Pursuant to Education Code 41020(i), the county superintendent is responsible for reviewing audit exceptions in the report related to the following:<ul style="list-style-type: none">AttendanceEquipment inventoryInternal controlMiscellaneous itemsInstructional material program fundsTeacher misassignments pursuant to Education Code 44258.9Information reported on the school accountability report card (SARC) pursuant to Education Code 33126The county superintendent is responsible for determining that the exceptions have been corrected or an acceptable plan of correction has been developed.

Calendar

Procedure 1

Revised 2/2023

Procedure Number	Activity
9	<i>Charter Schools</i> <ul style="list-style-type: none">• On or before December 15, the charter school must submit an interim financial report to its chartering authority and the county superintendent, or only to the county superintendent if the county board of education is the chartering authority.• By December 15, charter schools must submit a copy of their annual audit report to the chartering authority, the SCO, the CDE, and the superintendent of schools of the county in which the charter school is located.• Certification of the advanced apportionment based on 20-day data for newly operational charter schools and continuing charter schools adding one or more grade levels.
20	<i>Local Control Funding Formula</i> <ul style="list-style-type: none">• School districts and charter schools must certify fall 1 data through CALPADS.

Calendar

Procedure 1

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Procedure Number	Activity
JANUARY	
7	<p><i>Interim Report Review (first interim report)</i></p> <ul style="list-style-type: none">• No later than 75 days after October 31, the COE will provide notice of any change in the certification to the district governing board and the SPI.• No later than 75 days after October 31, the county superintendent must report to the SCO and the SPI whether each district under their jurisdiction provided the required certification and the type of certification for each district.
8	<p><i>Audits</i></p> <ul style="list-style-type: none">• Update district auditor selection letter and send to LEAs requesting information on the selection of their auditors.• Complete review of all district audit exceptions (see <i>December – Audits</i>), and provide communication to districts that have deficiencies in their plans to correct audit exceptions.
19	<p><i>Attendance Accounting, Local Control Funding Formula</i></p> <ul style="list-style-type: none">• The COE exports P-1 attendance data, necessary small school certifications, and other LCFF-related data to the CDE no later than mid-January using the CDE's Principal Apportionment Data Collection software.• School districts and charter schools must certify amendments to fall 1 data through CALPADS.
21	<p><i>Special Education</i></p> <ul style="list-style-type: none">• By January 15, submit P-1 LEA infant data using the CDE's Principal Apportionment Data Collection software.• By January 15, applicable counties submit P-1 SELPA ADA allocation and special education tax allocation data using the CDE's Principal Apportionment Data Collection software.

Calendar

Procedure 1

Revised 2/2023

Procedure Number	Activity
MARCH	
7	<i>Interim Report Review (second interim report)</i> <ul style="list-style-type: none">Districts provide second interim reports to the county superintendent after approval by the district's governing board (45 days after the close of the period being reported, which is January 31).
8	<i>Audits</i> <ul style="list-style-type: none">If the description of the correction or the plan of correction for audit exceptions are not in the audit report, the county superintendent will notify the school district and request the governing board to provide this information by March 15.
9	<i>Charter Schools</i> <ul style="list-style-type: none">On or before March 15, the charter school must submit a second interim financial report to its chartering authority and the county superintendent, or only to the county superintendent if the county board of education is the chartering authority.
17 19 20	<i>Property Taxes, Attendance Accounting, Local Control Funding Formula</i> <ul style="list-style-type: none">By March 1, submit LEA corrections for prior fiscal years using the CDE's Principal Apportionment Data Collection software.Districts and charter schools must certify fall 2 data through CALPADS.

Calendar

Procedure 1

Revised 2/2023

Procedure Number	Activity
APRIL	
7	<p><i>Interim Report Review (second interim report)</i></p> <ul style="list-style-type: none">• No later than 75 days after January 31, the COE will provide notice of any change in the interim certification to the district's governing board and the SPI.• No later than 75 days after January 31, the county superintendent must report to the SCO and the SPI whether each district under their jurisdiction has provided the required certification and the type of certification for each district.
8	<p><i>Audits</i></p> <ul style="list-style-type: none">• By April 1, if a district has not made arrangements for its annual audit for the following fiscal year, the county superintendent shall make arrangements for the audit by May 1.• Instruct LEAs to submit revised reports for any attendance-related audit exceptions that have a fiscal impact.
17	<p><i>Property Taxes</i></p> <ul style="list-style-type: none">• The COE submits tax information no later than April 15 using the CDE's Principal Apportionment Data Collection software.
20	<p><i>Local Control Funding Formula</i></p> <ul style="list-style-type: none">• By April 15, the COE submits P-2 certification selection for necessary small schools and COE LCFF adjustments using the CDE's Principal Apportionment Data Collection software.

Calendar

Procedure 1

Revised 2/2023

Procedure Number	Activity
MAY	
5	<i>Budget Review</i> <ul style="list-style-type: none">For LEAs that have adopted the merit system, under Education Code 45253 and 88073, each personnel commission must prepare an annual budget. The personnel commission must also hold a public hearing for that budget on or before May 30 of each year. The personnel commission budget is forwarded to the LEA's governing board and then to the county superintendent for approval or disapproval.
8	<i>Audits</i> <ul style="list-style-type: none">By May 1, the COE must make arrangements for the audit of any LEAs that have not made their own arrangements by April 1.The county superintendent shall notify the SPI and the SCO by May 15 that they have reviewed district audit reports and any audit exceptions, and that all exceptions have been corrected or the district has submitted an acceptable correction plan.
19 20	<i>Attendance Accounting, Local Control Funding Formula</i> <ul style="list-style-type: none">The COE exports P-2 attendance and other LCFF-related data to the CDE no later than May 1 using the CDE's Principal Apportionment Data Collection software.
21	<i>Special Education</i> <ul style="list-style-type: none">By May 1, submit P-2 LEA infant data using the CDE's Principal Apportionment Data Collection software.By May 1, applicable counties submit P-2 SELPA ADA allocation and special education tax allocation data using the CDE's Principal Apportionment Data Collection software.

Calendar

Procedure 1

Revised 2/2023

**Procedure
Number**

Activity

JUNE

- 7 *Interim Report Review (commonly referred to as the “third interim report”)*
- No later than June 1, each school district with a qualified or negative certification for the second interim report must provide financial statement projections of the district’s fund and cash balances through June 30, for the period ending April 30, to the county superintendent, the SCO, and the SPI.

Calendar

Procedure 1

Revised 2/2023

**Procedure
Number**

Activity

ANNUALLY

- 7 *Interim Report Review*
(for districts with a disapproved budget, qualified or negative interim certification, or other fiscal uncertainty)
- The county superintendent shall present a report to the district's governing board and the SPI regarding the fiscal solvency of a district with a disapproved budget, qualified or negative interim certification, or that has been determined to be in a position of fiscal uncertainty.
 - For districts with qualified or negative certifications, the county superintendent shall approve the issuance of any non-voter-approved debt. The county superintendent must determine that repayment is probable.

Fiscal calendars, including apportionments, budget, interim and year-end financial reporting calendars, are available online from the CDE at <http://www.cde.ca.gov/re/ca/fc/>.

Which Entities Are Included?

Procedure 2

Revised 2/2018

Procedure Number	Procedure Name	Entities Included		
		School Districts	Community Colleges ⁽¹⁾	Joint Powers Authorities
3	Facility Maintenance Accounts	Yes	No	No
4	AB 1200 Overview	Yes	No	Yes ⁽²⁾
5	Budget Review	Yes	No	Yes ⁽²⁾
6	The Unaudited Actuals	Yes	No	Yes ⁽²⁾
7	Interim Report Review	Yes	No	Yes ⁽²⁾
8	Audits	Yes	No	Yes ⁽³⁾
9	Charter Schools	Yes	No	No
10	Cash	Yes	No	No
11	Internal Controls for AB 1200	Yes	No	Yes
12	Approving District Orders	Yes	Yes	No
13	Fiscally Accountable and Fiscally Independent Districts	Yes	Yes	No
14	Disclosures for Negotiations	Yes	No	No
15	Apportionment Posting	Yes	No	No
16	ERAF	Yes	Yes	No
17	Property Taxes	Yes	Yes	No
18	PERS and STRS Reporting	Yes	Yes	Yes
19	Attendance	Yes	No	No
20	Local Control Funding Formula	Yes	No	No
21	Special Education	Yes	No	Yes
22	Direct Service Districts	Yes	No	No
23	Tax Override and Bond Interest and Redemption Funds	Yes	No	No
24	AB 1200 Reimbursements	N/A	N/A	N/A

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Which Entities Are Included?

Procedure 2

Revised 2/2018

Procedure Number	Procedure Name	Entities Included		
		School Districts	Community Colleges ⁽¹⁾	Joint Powers Authorities
25	Territory Transfers	Yes	Yes	No
26	Working with the County	Yes	Yes	Yes
27	Cash Flow Procedures	Yes	No	No

(1) Education Code 1240 (l)(4) states that the county superintendent of schools is not responsible for the fiscal oversight of community colleges in the county, although the county may perform financial services on behalf of the colleges.

(2) Education Code 41023 requires JPAs (consisting solely of school districts and county offices of education and excluding health and welfare JPAs) to follow the legal provisions in Education Code 42100, 35010, and 42600.

(3) Regional occupational centers and programs (ROC and ROP) are also subject to the provisions of Education Code 41020.

Facility Maintenance Accounts

Procedure 3

Revised 2/2018

I. OVERVIEW

Local educational agencies (LEAs) are required to establish a restricted ongoing and major maintenance account in the general fund if they participate in the state school building programs. The requirements for establishing a routine restricted maintenance account (RRMA) for facilities are based on an LEA's participation in the old Leroy Greene Lease-Purchase Program or the School Facility Grant Program. County offices are required to verify that restricted amounts have been set aside within the LEA's general fund budget, in either resource 8100 (Leroy Green Lease-Purchase Program) or resource 8150 (School Facility Grant Program).

II. RESTRICTED MAINTENANCE ACCOUNTS

- A. Education Code 17014 (b)(2): LEAs participating in only the Leroy Greene Lease-Purchase Program Law of 1976 are required to establish a restricted (account within the district's general fund for the exclusive purpose of providing moneys for regular maintenance and routine repair of school buildings) routine repair and regular maintenance fund (RRRMF) account (SACS Resource 8100).
 - 1. The LEA must annually deposit a minimum of at least 2% of the LEA's total general fund adopted budget for the term of the lease agreement.
 - a. Under this program, participating school districts enter into a 40-year lease-purchase agreement with the state.
 - 2. A contribution to the RRMA may be provided in lieu of meeting the ongoing requirements for the RRRMF, per Education Code 17070.75(b)(2)(c).
- B. Education Code 17070.75: LEAs in the 1998 School Facility Grant Program (SFP) must annually deposit at least 3% of the LEA's total general fund adopted budget expenditures and other financing uses into an ongoing and major maintenance account called the RRMA (SACS Resource 8150).
 - 1. The RRMA must be set up for the fiscal budget year following the fiscal year any SFP project(s) receives full grant funding.
 - 2. The district must make the first deposit that fiscal year and make additional deposits each fiscal year for 20 years.
 - 3. County offices are allowed to calculate the 3% based on the total general fund unrestricted expenditures. This exemption does not apply to the Lease-Purchase program.
 - 4. Districts that are the administrative unit for a special education local plan area (SELPA) are allowed to exclude the pass-through funds from the expenditures when making the calculation.
 - 5. Education Code 17070.766 reduced the required deposit to the routine restricted maintenance account from 3% to 1% for the 2008-09 through 2014-15 fiscal years for most LEAs, and to 0% for LEAs with facilities maintained in good repair pursuant to the Williams settlement and as defined in Education Code Section 17002.

Facility Maintenance Accounts

Procedure 3

Revised 2/2018

Education Code 17070.75 reduced the required deposit to the routine restricted maintenance account for the 2015-16 and 2016-17 fiscal years to the lesser of 3% of the total general fund expenditures for that fiscal year or the amount that the school district deposited into the account in the 2014-15 fiscal year.

For the 2017-18 to 2019-20 fiscal years, the minimum amount required to be deposited shall be the greater of the following amounts:

- (a) The lesser of 3% of the general fund expenditures for that fiscal year or the amount that the school district deposited into the account in the 2014-15 fiscal year.
 - (b) Two percent of the total general fund expenditures of the applicant school district for that fiscal year.
6. Proposition 51 contains a provision to apportion funds as the Education Code read on January 1, 2015.
- (a) The RRMA requirement on January 1, 2015 for fiscal years beyond 2014-15 was to deposit 3% of total general fund expenditures.
 - (b) Therefore, in the fiscal year after it receives Proposition 51 funding, the district should deposit 3% of the total general fund expenditures.
7. The state budget software's *criteria and standards* will validate that the minimum required percentage of the LEA's adopted budget has been set aside in the RRMA.

III. EXCEPTIONS

A. There are exceptions to both of the restricted maintenance programs.

1. Small school districts are exempt from the annual minimum contribution requirement; that is, elementary districts with less than 901 ADA, high school districts with less than 301 ADA, and unified school districts with less than 1,201 ADA (E.C. 17070.75).
 - a. Every school district, regardless of size, must establish and maintain an RRMA upon receipt of funds from the State Allocation Board, and certify that they can adequately maintain their facilities.
 - b. However, small exempt school districts can base the amount of the transfer into the account on the district's needs rather than the percentage established in the Education Code by doing the following annually:
 - Developing a maintenance plan and budget that identifies how the district will meet its facility needs.
 - Designate the amount less than 3% that is to be transferred into the RRMA.

Facility Maintenance Accounts

Procedure 3

Revised 2/2018

- Certify in an open board meeting that the amount to be transferred into the RRMA is sufficient to meet the district's facility needs.

IV. ROUTINE MAINTENANCE ACCOUNT EXPENDITURES ACTIVITIES

- A. Funds may be used for maintenance and upkeep of any district facilities; their use is not restricted to facilities constructed or modernized under the State School Building Lease-Purchase Program.
- B. Education Code 17014(c) under the Leroy Green Lease-Purchase Program states:

For purposes of this subdivision, the term "major maintenance, repair and replacement" means roofing, siding, painting, floor and window coverings, fixtures, cabinets, heating and cooling systems, landscaping, fences, and other items designated by the governing board of the school district.
- C. Education Code 17070.75(b)(1) for the most current School Facility Grant Program states:

[The district shall] establish a restricted account within the General Fund of a school district for the exclusive purpose of providing moneys for ongoing and major maintenance of school buildings . . .
- D. For additional direction in determining appropriate expenditures, LEAs may want to refer to the California School Accounting Manual (CSAM) Procedure 650 for the definition of what is considered maintenance.

V. COUNTY OFFICE OF EDUCATION RESPONSIBILITIES

- A. Confirm that, as disclosed in the district's budget criteria and standards, the annual contribution for facilities maintenance funding is not less than the amount required by Education Code Section 17070.75.

VI. LEGAL CITATIONS

- A. Education Code
 - Sections 17002(d)(1) and 17014(1) through 17014(7)(d)
 - Sections 17070.75 through 17070.77

AB 1200 Overview

Procedure 4

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I. OVERVIEW

- A. Assembly Bill (AB) 1200 took effect on January 1, 1992. AB 1200 redefined and expanded the county superintendents' financial oversight responsibilities.
- B. In subsequent years, additional laws have amended and expanded the original enacting legislation. Most noteworthy of these are AB 2756, approved June 2004; and the Budget Act of 2014, which implemented the Local Control Funding Formula (LCFF) and the Local Control and Accountability Plan (LCAP).
- C. The term AB 1200 has come to include the review of school districts' budgets and LCAPs, the review of unaudited actual financial statements, the county office's financial oversight at the first and second interim reporting periods, the review of collective bargaining agreement disclosures and non-voter-approved debt, intervention on behalf of financially troubled districts, and the responsibility for monitoring district corrective action for certain audit exceptions.

II. LEGAL REQUIREMENTS

A. The Budget and LCAP

- 1. Education Code (E.C.) sections 1240, 42103 and 42122 – 42129 establish the legal standards for the budget, and sections 52060 – 52077 establish legal standards for the LCAP.
- 2. The following are the key elements of these code sections:

Education Code Section	Key Elements of the Code Section
Budget	
1240	Requires the county superintendent to annually present a report to the school district board and the Superintendent of Public Instruction (SPI) regarding the fiscal solvency of any district with a disapproved budget, qualified or negative interim certification, or that has been determined to be in a position of fiscal uncertainty. <i>Note: This is often referred to as an AB 139 letter.</i>
42103	Requires the governing board to hold a public hearing regarding the budget in a district facility or some other public place. The hearing must be not less than three working days after the proposed budget is made available for public inspection. Requires the county superintendent to publish the notification of the dates and locations at which the proposed budget may be inspected in a newspaper of general circulation at least three days before the budget is ready for inspection, but no earlier than 45 days and not less than 10 days before the public hearing.
42122	Requires the budget to show a complete plan and itemized statement of all estimated revenues and expenditures for the next fiscal year as well as a comparison of revenue and expenditures for the current year.
42123	Requires the budget to be on forms prescribed by the SPI.

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Education Code Section	Key Elements of the Code Section
42124	Allows the budget to include a general reserve to meet cash requirements.
42125	Allows the budget to include designations of fund balance. The designated funds are available for appropriation by a majority vote of the governing board.
42126	Requires the SPI to prepare the forms used for the budget and the comparison of revenue and expenditures.
42127	<p>Requires the governing board of each district to do the following:</p> <ul style="list-style-type: none"> • By July 1, hold a public hearing on the budget, and post the agenda for the public hearing at least 72 hours in advance. Based on requirements of the LCAP, a hearing on the specific actions and expenditures proposed to be included in the LCAP or annual update to the LCAP shall be held before the budget hearing; however, both the budget and LCAP public hearings can be held at the same meeting (E.C. 52062(b)(1)). • By July 1, adopt a budget. The budget cannot be adopted before the school district adopts an LCAP or an update to the LCAP. The budget must include expenditures necessary to implement the LCAP (The LCAP and the budget cannot be adopted at the same meeting as the public hearing). • Beginning with the 2015-16 fiscal year, if ending fund balances that include an assigned and unassigned balance exceed the minimum recommended reserve for economic uncertainty, a district must present the following at the budget adoption public hearing: (i) the minimum recommended reserve for economic uncertainties for each fiscal year identified in the budget; (ii) the combined assigned and unassigned ending fund balances that are in excess of the minimum recommended reserve for economic uncertainties for each fiscal year identified in the budget; and (iii) a statement of reasons that substantiate the need for an assigned and unassigned ending fund balance that is in excess of the minimum recommended reserve for economic uncertainties. A school district shall provide this information each time it files an adopted or revised budget (45 day revised budget as noted below, not at interim reporting periods) with the county superintendent of schools. • File the adopted budget with the county superintendent of schools no later than five days after the adoption or July 1, whichever comes first. • No later than 45 days after the governor signs the Budget Act, the district must make available to the public any budget revisions made to reflect the funding made available by that Budget Act. <p>Requires the county superintendent to do all of the following:</p> <ul style="list-style-type: none"> • Examine the budget and determine whether it complies with the standards and criteria adopted by the State Board of Education (SBE) (E.C. 33127). • Determine whether the budget allows the district to meet its financial obligations (budget year and multiyear), including the expenditures needed to implement the LCAP. • Determine whether the adopted budget includes the expenditures necessary to implement the LCAP or annual update to the LCAP approved by the county superintendent of schools. • Determine whether the budget includes ending fund balances that exceed the minimum recommended reserve for economic uncertainties and, if so, verify that the school district complied with the requirements for a public hearing and disclosure.

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Education Code Section	Key Elements of the Code Section
42127 (continued)	<ul style="list-style-type: none">• Review and consider studies, reports, evaluations or audits that were commissioned by the district, the county superintendent, the SPI, and state control agencies if these documents contain evidence of fiscal distress. Fiscal distress is determined by the standards and criteria adopted in E.C. 33127 or findings by an external reviewer that the school district is at moderate or high risk of intervention based on the most common indicators of a school district needing intervention, as determined by the County Office Fiscal Crisis and Management Assistance Team (FCMAT).• Either conditionally approve or disapprove a budget that does not provide adequate assurance that the district will meet its current and future obligations and resolve any problems identified in studies, reports, evaluations or audits.• Ensure that, in a fiscal year immediately after a fiscal year in which the amount of moneys in the Public School System Stabilization Account (PSSSA) is equal to or exceeds 3% of the combined total of general fund revenues appropriated for school districts, a district's budget does not contain a combined assigned or unassigned ending fund balance that exceeds 10% in the general fund (01) and special reserve for other than capital outlay fund (17) combined. The county superintendent may grant an exemption to school districts for up to two consecutive fiscal years within a three-year period if the school district provides documentation of extraordinary fiscal circumstances that substantiate the need for reserves in excess of the 10%. Basic aid and small school districts with less than 2,501 units of ADA are exempt from the 10% cap (E.C. 42127.01). <ul style="list-style-type: none">• On or before September 15, approve, conditionally approve, or disapprove the adopted budget.<ul style="list-style-type: none">• The county superintendent must provide the conditional approval or disapproval in writing no later than September 15 and provide recommendations for budget revisions and the reasons for those recommendations, including, but not limited to, the amounts of any budget adjustments needed before they can approve the budget.<ul style="list-style-type: none">• The budget shall not be adopted or approved by the county superintendent before an LCAP or an update to an LCAP is approved.• The county superintendent may assign a fiscal advisor to assist the district to develop a budget in compliance with those revisions.• In addition, the county superintendent may appoint a committee to examine and comment on the county superintendent's review and recommendations, subject to the requirement that the committee report its findings to the superintendent no later than September 20.• If a district's adopted budget is conditionally approved or disapproved, on or before October 8, the governing board of the district, in conjunction with the county superintendent, must review and respond to the recommendations of the county superintendent at a regular meeting of the governing board of the district. The response must include any revisions to the adopted budget and other proposed actions to be taken, if any, as a result of those recommendations.• On or before October 22, the county superintendent shall provide a list to the SPI of districts for which budgets may be disapproved.

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Education Code Section	Key Elements of the Code Section
<p>42127 (continued)</p>	<ul style="list-style-type: none"> • Review the revised budget to determine that it: 1) complies with the standards and criteria adopted by the SBE pursuant to E.C. 33127; 2) allows the district to meet its financial obligations during the fiscal year; 3) satisfies all conditions established by the county superintendent of schools in the case of a conditionally approved budget; 4) is consistent with a financial plan that will enable the district to satisfy its multiyear financial commitments; and 5) whether the budget contains assigned or unassigned fund balance in excess of the minimum recommended reserve and, if so, whether the district met the requirements for the disclosure of such reserves.. • No later than November 8, approve or disapprove the revised budget. <ul style="list-style-type: none"> • If the county superintendent disapproves the revised budget, they will call for a budget review committee under Section 42127.1 unless the governing board of the district and the county superintendent agree to waive the requirement for a committee and the California Department of Education (CDE) approves the waiver. • If the county superintendent disapproves the budget solely because the county superintendent has not approved an LCAP, the county superintendent shall not call for the formation of a budget review committee. • Based on the waiver, the county superintendent immediately has the authority and responsibility provided by Section 42127.3. • Upon approving the waiver of the budget review committee, the CDE must ensure that a balanced budget is adopted for the school district by December 31. <ul style="list-style-type: none"> • If no budget is adopted by December 31, the SPI may adopt a budget for the district. • The SPI must report to the Legislature and the director of finance by January 10 if any district does not have an adopted budget by December 31. The report must include the reasons why a budget has not been adopted by the deadline, the steps being taken to finalize budget adoption, the date the adopted budget is anticipated, and whether the SPI has or will exercise their authority to adopt a budget for the district. • No later than November 8, submit a report to the SPI identifying all districts with disapproved budgets, including a copy of the written response to each district. • If a school district does not submit a budget, the county superintendent will, at district expense, develop a budget for that district by September 15 and transmit that budget to the governing board of the school district. <ul style="list-style-type: none"> • The budget prepared by the county superintendent will be deemed adopted, unless the county superintendent approves any modifications made by the governing board of the school district. • The approved budget will be used as a guide for the district's priorities. • The SPI will review and certify the budget approved by the county office. <p>If the county board of education also serves as the governing board of the school district, the district is subject to E.C. 1622.</p>
<p>42127.1</p>	<p>Establishes standards for the budget review committee and the waiver process.</p>

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Education Code Section	Key Elements of the Code Section
42127.2	<p>School district must select a budget review committee five working days after receipt of the candidate list from SPI.</p> <p>SPI convenes the budget review committee no later than five working days after selection.</p> <p>The county superintendent may ask the State Controller's Office to conduct an audit or review of the fiscal condition of the school district to assist the budget review committee.</p>
42127.3	<p>Establishes guidelines for the county superintendent of schools and the district based on the work of the budget review committee.</p> <p>If the budget committee disapproves the budget, the SPI may either approve or disapprove the budget. If it is disapproved, the county superintendent must develop and adopt a fiscal plan and budget for the district no later than December 31.</p> <p>Provides authority to the county superintendent to implement and monitor the plan and budget.</p>
42127.4	<p>Provides guidelines to the school district on which budget to use for operations until its budget is approved.</p>
42127.5	<p>Requires a school district to provide with the budget, annual audit and interim certifications a statement identifying the reasons for a negative unrestricted fund balance or cash balance and the steps that have been taken to ensure that negative balance will not occur.</p>
42127.6	<p>Requires school districts to provide to the county superintendent copies of studies, reports, evaluations, or audits that were commissioned by the district, the county superintendent, the SPI, and the state control agencies that contain evidence that the school district is showing fiscal distress. Fiscal distress is determined based on the standards and criteria adopted in E.C. 33127, or a report on the school district by FCMAT or any regional team. Fiscal distress is also determined if any of these reports or studies contain a finding by an external reviewer that the school district is at moderate or high risk of intervention based on the most common indicators of a school district needing intervention, as determined by FCMAT.</p> <p>The county superintendent must review and consider these studies. The county superintendent must investigate the financial condition of the school district and determine if the district may be unable to meet its financial obligations for the current or two subsequent fiscal years or should receive a qualified or negative interim financial certification pursuant to E.C. 42131.</p> <p>Outlines actions required by the county superintendent if the county office determines that the school district may not be able to meet its financial obligations for current or two subsequent fiscal years or if the district has qualified certification (on interim report).</p> <p><i>Note: This section is often referred to as "going concern" or "lack of going concern."</i></p> <p>Provides guidelines for an appeal by the school district.</p>
42127.9	<p>Provides the criteria for an appeal by the school district of a disapproved budget.</p>
42128	<p>If the school district neglects to make a budget or to file interim reports, authorizes the county superintendent of schools to withhold funds from the district and to notify the appropriate county official to refuse to issue warrants of the district.</p>
42129	<p>Authorizes the SPI to direct the county auditor to withhold payment to district superintendents, county superintendents, and governing board members for failure to file reports on time (14 days after the submission date in the statute).</p>

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Education Code Section	Key Elements of the Code Section
LCAP	
52060	Requires adoption of a three-year LCAP to be developed or updated on or before July 1 of each year, including all information specified in the state template. The plan must focus on the eight state priorities, which are: <ul style="list-style-type: none">• Basic services• Implementation of state standards• Parent involvement• Pupil achievement• Pupil engagement• School climate• Course access• Pupil outcomes
52061	Requires that a district update its LCAP on or before July 1. The annual update must be completed on the template approved by the SBE.
52062	Requires the following to occur prior to a school district's adoption of the LCAP and annual update: <ol style="list-style-type: none">1. Superintendent presents the plan to the parent advisory committee and responds to any comments in writing.2. Superintendent presents the plan to the English learner parent advisory committee and responds to any comments in writing.3. Superintendent notifies members of the public of the opportunity to submit written comments regarding the specific actions and expenditures proposed in the LCAP (may also need to be provided in additional primary language(s) subject to the provisions of E.C. 48985).4. Ensure that the LCAP is consistent with the School Plan for Student Achievement (SPSA), as required in E.C. 64001.5. Superintendent consults with its SELPA administrator(s) to ensure that specific actions for individuals with exceptional needs are included in the LCAP or annual update and are consistent with strategies included in the annual assurances support plan for the education of individuals with exceptional needs.6. Hold at least one public hearing at a board meeting to allow the public to comment on the LCAP and/or annual update, with the agenda posted at least 72 hours before the hearing, along with the location of the LCAP for public review. This must occur at the same meeting as the adopted budget hearing.7. Adopt the LCAP or annual update in a public meeting, and in a meeting on a day following the public hearing. LCAP adoption must occur at the same meeting as the budget adoption.8. LCAP revisions may be adopted during the term of the plan, if necessary, using the same process as adoption and provided the adoption occurs at a public meeting.

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Education Code Section	Key Elements of the Code Section
52063	Requires the district governing board to establish a parent advisory committee to advise the district board and superintendent, if such a committee does not already exist. Also requires the establishment of an English learner parent advisory committee, if necessary (per E.C. 52063), if such a committee does not already exist.
52064	Requires the SBE to adopt an LCAP template. LEAs must include all elements in the template, pursuant to E.C. 52064.
52065	<p>Requires clear posting of the LCAP, along with any revisions, on the district's website. Includes the LCAPs of any charter schools authorized by the district.</p> <p>Requires county offices to clearly post their approved LCAP on their website. Also requires posting on the county office website of all school district and charter LCAPs submitted to the county office.</p> <p>Requires SPI to make all LCAPs available electronically statewide.</p>
52070	<p>Requires a district to file its LCAP with the county office within five days of adoption.</p> <p>Allows the county office to seek clarification, in writing, on a district's LCAP on or before August 15. District shall respond within 15 days, in writing.</p> <p>Within 15 days of receiving the district's response, the county office may submit recommendations, in writing, to the district. The district has 15 days to consider the recommendations in a public meeting.</p> <p>By October 8, county office must approve the LCAP or annual update, provided the district has adhered to the template and met all requirements as outlined in E.C. 52070(d)(1).</p>
52071	Requires the county office to provide technical assistance and work collaboratively with the district in identifying strengths and weaknesses in regard to the state priorities. Assistance may consist of an academic, programmatic, or fiscal expert or team of experts to identify and implement effective programs and practices that are designed to improve performance in any areas of weakness identified by the school district. May include the use of another service provider, such as a school district, county office or charter school, to act as a partner.
52072	The SPI may, with the approval of the SBE, identify school districts in need of intervention, but may only do so if the school district meets the criteria as outlined in E.C. 52072.
52073 - 52074	Establishes the operational parameters for the California Collaborative for Educational Excellence (CCEE).
52075	<p>Requires that a complaint that a school district, county office, or charter school has not complied with LCAP requirements be submitted using the Uniform Complaint Procedures. Allows for an appeal to the SPI if complainant is not satisfied with the decision of the school district, county office, or charter school.</p> <p>Requires information regarding this process to be included in the annual notification distributed to all educational partners.</p>
52076	Prohibits the SBE from providing a waiver of the LCAP requirements.
52077	If any LCAP activities are found to be a state-reimbursable mandate, LCFF funding provided for school districts and county offices of education shall be used to directly offset any mandated costs.

B. Unaudited Actual Financial Reports

1. Education Code Section 42100 establishes legal standards for the unaudited actual financial reports.

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2. The following are the key elements of this code section:

Education Code Section	Key Elements of the Code Section
42100	<p>On or before September 15, the governing board of each district must approve, on a form prescribed by the SPI, a statement of all receipts and expenditures of the district for the preceding fiscal year.</p> <p>On or before October 15, the county superintendent must verify the mathematical accuracy of the statement and transmit a copy to the SPI.</p>

C. Interim Reports

1. Education Code sections 1240 and 42127.6 – 42133.5 establish legal standards for interim reports.
2. The following are the key elements of these code sections:

Education Code Section	Key Elements of the Code Section
1240	<p>Requires the county superintendent to annually present a report to the school district board and the SPI regarding the fiscal solvency of any district with a disapproved budget, qualified or negative interim certification, or that has been determined to be in a position of fiscal uncertainty.</p> <p><i>Note: This is often referred to as an AB 139 letter.</i></p>
42127.6	<p>If at any time during the fiscal year the county superintendent of schools determines that a school district may be unable to meet its financial obligations for the current or two subsequent fiscal years, or if a school district has a qualified or negative certification pursuant to Section 42131, they will notify the governing board of the school district and the SPI in writing of that determination and the basis for the determination. The notification will include the assumptions used in making the determination and will be available to the public.</p> <p>The county superintendent will report to the SPI on the financial condition of the school district and their proposed remedial actions. The county superintendent will do at least one of the following and all actions that are necessary, to ensure that the district meets its financial obligations:</p> <ul style="list-style-type: none">• Assign a fiscal expert, paid for by the county superintendent.• Conduct a study of the financial and budgetary conditions of the district that includes, but is not limited to, a review of internal controls.• Direct the school district to submit a financial projection of all fund and cash balances of the district as of June 30 of the current year and subsequent fiscal years as he or she requires.• Require the district to encumber all contracts and other obligations, to prepare appropriate cash flow analyses and monthly or quarterly budget revisions, and to appropriately record all receivables and payables.

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Education Code Section	Key Elements of the Code Section		
<p>42127.6 (continued)</p>	<ul style="list-style-type: none"> • Direct the district to submit a proposal for addressing the fiscal conditions that resulted in the determination that the district may not be able to meet its financial obligations. • Withhold compensation of the members of the governing board and the district superintendent for failure to provide requested financial information. This action may be appealed to the SPI. <p>If after taking the actions identified above, the county superintendent determines that a district will be unable to meet its financial obligations for the current or subsequent fiscal year, they will notify the school district governing board and the SPI in writing of that determination and the basis for that determination. The notification will include the assumptions used in making the determination and will be provided to the superintendent of the school district and parent and teacher organizations of the district.</p> <ul style="list-style-type: none"> • Within five days of the county superintendent making this determination, a school district may appeal the determination to the SPI. The SPI will sustain or deny the appeal within 10 days. • If the appeal is denied or not filed, or if the district has a negative certification, the county superintendent, in consultation with the SPI, will take at least one of the following actions: <ul style="list-style-type: none"> • Develop and impose, in consultation with the SPI and the school district governing board, a budget revision that will enable the district to meet its financial obligations in the current fiscal year. • Stay or rescind any action that is determined to be inconsistent with the school district's ability to meet its obligations for the current or subsequent fiscal years. • Assist in developing, in consultation with the governing board of the school district, a budget for the subsequent fiscal year. • Appoint a fiscal advisor. • The school district is required to pay 75% and the county office of education 25% of the expenses incurred in improving the district's financial management. 		
<p>42130</p>	<p>Requires school districts to submit two interim reports to the governing board:</p> <ul style="list-style-type: none"> • First Interim - For the period ending October 31 • Second Interim – For the period ending January 31 <p>The governing board must approve the reports no later than 45 days after the close of the period being reported.</p> <p>The district must prepare the reports in a format or on forms prescribed by the SPI and ensure that they are based on standards and criteria for fiscal stability adopted by the SBE pursuant to Section 33127.</p>		
<p>42131</p>	<p>Requires the governing board of each school district to certify, in writing, within 45 days after the close of the period being reported, whether or not the district is able to meet its financial obligations for the remainder of the fiscal year and for the subsequent fiscal year. The certifications are classified as:</p>		
	<table border="1"> <tr> <td data-bbox="448 1782 630 1850">Positive</td> <td data-bbox="636 1782 1409 1850">The district will be able to meet its financial obligations for the current fiscal year and subsequent two fiscal years.</td> </tr> </table>	Positive	The district will be able to meet its financial obligations for the current fiscal year and subsequent two fiscal years.
Positive	The district will be able to meet its financial obligations for the current fiscal year and subsequent two fiscal years.		
	<table border="1"> <tr> <td data-bbox="448 1866 630 1915">Qualified</td> <td data-bbox="636 1866 1409 1915">The district may not be able to meet its financial obligations for the current fiscal year or subsequent two fiscal years.</td> </tr> </table>	Qualified	The district may not be able to meet its financial obligations for the current fiscal year or subsequent two fiscal years.
Qualified	The district may not be able to meet its financial obligations for the current fiscal year or subsequent two fiscal years.		

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Education Code Section	Key Elements of the Code Section	
	Negative	The district will be unable to meet its financial obligations for the remainder of the year and the subsequent fiscal year.
	<p>Requires the governing board to file a copy of each certification and a copy of the report with the county superintendent of schools.</p> <p>If the county office of education receives a positive certification when it determines that a qualified or negative certification should have been issued, the county office is authorized to change the certification to qualified or negative as appropriate.</p> <p>No later than 75 days after the close of the reporting period, the county office will provide notice of the change in the certification to the district's governing board and the SPI.</p> <p>Provides guidance for an appeal process.</p>	
<p>42131 (continued)</p>	<p>For districts with a qualified or negative certification, the county superintendent has authority under E.C. 42127.6.</p> <p>Within 75 days of the close of each reporting period, the county superintendent of schools must report to the Controller and the SPI whether each district under their jurisdiction has provided the required certification and the type of certification for each district.</p> <p>Requires each school district filing a qualified or negative certification for the second interim report to provide financial statement projections of the district's fund and cash balances through June 30. This report is for the period ending April 30 and is due to the county superintendent, the SPI and the Office of the State Controller by June 1.</p> <p>The Controller's office may conduct an audit or review of the fiscal condition of any district that has a negative or qualified certification.</p>	
<p>42133</p>	<p>A school district that has a qualified or negative certification in any fiscal year may not issue, in that fiscal year, or the next fiscal year, certificates of participation, tax anticipation notes, revenue bonds, or any other debt instruments that do not require voter approval, unless the county superintendent determines that the repayment on the debt is probable.</p>	
<p>42133.5</p>	<p>Regardless of the certification of the budgetary status of the district, no proceeds obtained by a school district from the sale of a saleback or leaseback agreement, or interests therein, or certificates of participation, or debt instruments that are secured by real property and do not require the approval of the voters of the school district, shall be used for general operating purposes of the school district.</p>	

D. Audit Reports

1. Education Code Section 41020 and following establishes the legal requirements for the annual audit.
2. Education Code Section 14504 authorizes the county superintendent to report auditors to the California Board of Accountancy.
3. The following are the key elements of these code sections:

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Education Code Section	Key Elements of the Code Section
14504.2	<p>Authorizes the county superintendent or the county board of education to refer an independent auditor of a local educational agency to the California Board of Accountancy for action if an audit of a local education agency was conducted in a manner that may constitute unprofessional conduct as defined by Section 5100 of the Business and Professions Code, including but not limited to gross negligence resulting in a material misstatement in the audit.</p>
41020	<p>A contract to perform the audit of a local educational agency that has a disapproved budget or has received a negative certification on any budget or interim report during the current fiscal year or either of the two preceding fiscal years, or for which the county superintendent has otherwise determined that a lack of going concern exists, is not valid unless approved by the county superintendent of schools and the governing board.</p> <p>If a district has not made arrangements for an audit by April 1, the county superintendent will make arrangements for the school district audit.</p> <p>The auditors are required to file a copy of the audit report with the county superintendent, the CDE, and the Office of the State Controller no later than January 31.</p> <p>The county superintendent is responsible for reviewing the audit exceptions in the annual audit reports related to:</p> <ul style="list-style-type: none">• Attendance (e.g., Local Control Funding Formula pursuant to E.C. 42238.02; independent study)• Equipment inventory• Internal control<ul style="list-style-type: none">• Miscellaneous items• Instructional material program funds• Teacher misassignments pursuant to E.C. 44258.9• Information reported on the school accountability report card (SARC) pursuant to E.C. 33126 <p>The county superintendent is responsible for determining that the exceptions have either been corrected or an acceptable plan of correction has been developed.</p> <p>If the description of the correction or the plan of correction are not included in the audit report, the county superintendent will notify the school district and ask the governing board to provide this information by March 15.</p> <p>Each county superintendent of schools will certify to the SPI and the Controller by May 15 that the county office staff have reviewed the audits, reviewed the audit exceptions, and that all exceptions that the county superintendent was required to review were reviewed, and that all of those exceptions, except as noted in the certification, have been corrected or the district has submitted an acceptable correction plan.</p> <p>The county superintendent will adjust the future local property tax requirements to correct audit exceptions relating to school district tax rates and tax revenues.</p> <p>Audits of regional occupational centers and programs are also subject to the provisions of this section.</p>

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Education Code Section	Key Elements of the Code Section
41020 (continued)	In the audit of the LEAs in the subsequent year, the auditors must review the correction or plan of corrections to determine if the audit exceptions have been resolved. If not, the auditor will notify the county office of education and the CDE.
41020.2	If the annual audit report is not filed with the county superintendent on or before January 31, the county superintendent may investigate the causes of the delay and initiate action to obtain the annual audit report in the most effective manner. These actions include: <ul style="list-style-type: none">• Granting an extension.• Contracting with another audit firm to complete the work.• Asking the Controller's office to investigate and initiate action.
41020.5	A county superintendent is required to notify in writing the certified public accountant or public accountant and the California Board of Accountancy if the audits conducted of school districts in the county were not performed in substantial conformity with the audit guide. Provides guidelines for an appeal by the accountant. If the determination by the county superintendent becomes final, the certified public accountant or the public accountant will be ineligible to perform school district audits for three years.
41020.8	Gives the county superintendent authority to request information from the district's auditors if the county superintendent has determined that the district may not be able to meet its obligations for the current or subsequent fiscal year.

III. IMPLEMENTING THE LEGAL REQUIREMENTS

- A. The county office of education is required by law to review and examine the budget and interim reports prepared by the district to determine the financial solvency of the district.
- B. The law does not provide guidance on the procedures to use in determining a district's solvency.
- C. This manual provides samples of procedures used in various counties for reviewing a district's key financial documents and determining a district's solvency.
- D. These additional procedures are:
 1. Procedure 5 – Budget Review
 2. Procedure 6 – The Unaudited Actuals
 3. Procedure 7 – Interim Report Review
 4. Procedure 8 – Audits

Budget Review

Procedure 5

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I. OVERVIEW

- A. Procedure P-004 – AB 1200 Overview provides the legal requirements for the review of adopted budgets by county offices of education.
- B. This procedure provides guidance and sample documents for county offices to use in meeting the legal requirements.

II. CALENDAR

Month	Activity
Prior to July	<ul style="list-style-type: none">• Districts must hold a public hearing on the budget to be adopted for the subsequent fiscal year. The agenda for that hearing shall be posted at least 72 hours before the public hearing and shall include the location where the budget will be available for public inspection. [E.C. 42127(a)(1), E.C. 42103, E.C. 42126]
July	<ul style="list-style-type: none">• Districts must file the adopted budget with the county superintendent of schools no later than five days after the adoption of the budget or July 1, whichever comes first. [E.C. 42127(a)(2)]• The governing board shall not adopt a budget before the governing board adopts a local control and accountability plan (LCAP) if an existing LCAP or annual update to a LCAP is not effective for the budget year. The governing board of a school district shall not adopt a budget that does not include the expenditures necessary to implement the LCAP that is effective during the budget year. [E.C. 42127(a)(2), E.C. 42103, E.C. 42126]• The governing board of a school district that proposes to adopt a budget that includes a combined assigned and unassigned ending fund balance in excess of the minimum recommended reserve for the economic uncertainties (adopted by the state board of education pursuant to subdivision (a) of E.C. 33128) shall provide all of the following for public review [E.C. 42127 (a)(2)(B)]:<ul style="list-style-type: none">(i) The minimum recommended reserve for economic uncertainties for each fiscal year identified in the budget.(ii) The combined assigned and unassigned ending fund balances that are in excess of the minimum recommended reserve for economic uncertainties for each fiscal year identified in the budget.(iii) A statement of reasons that shall substantiate the need for an assigned and unassigned ending fund balance that is in excess of the minimum recommended reserve for economic uncertainties for each fiscal year for which the school district identifies such a balance.• If a school district does not submit a budget, the county superintendent will, at district expense, develop a budget for that district by September 15 and transmit the budget to the governing board of the school district. [E.C. 42127(d)]• Note: The county superintendent shall withhold apportionments of state or county money for any school district that neglects or refuses to make a school district budget (or neglects to file interim reports). The county superintendent is also authorized not to approve warrants for these districts. [E.C. 42128]• Note: The State Superintendent of Public Instruction (SPI) may direct the county auditor to withhold payment of stipends, expenses, or salaries to district superintendents, county superintendents, and governing board members for failure to file financial reports on time (14 days after the submission date in the statute). [E.C. 42129]

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Month	Activity
July (cont.)	<ul style="list-style-type: none"> • In a fiscal year immediately after a fiscal year in which the amount of money in the Public School System Stabilization Account is equal to or exceeds 3% of the combined total of general fund revenues appropriated for school districts, a school district budget that is adopted or revised shall not contain a combined assigned or unassigned ending general fund balance that exceeds 10% of those funds. [E.C. 42127.01(a)] • The SPI shall notify school districts and county offices of education whenever these conditions are met, and when those conditions no longer exist. [E.C. 42127.01(e)] • “Combined assigned or unassigned ending general fund balance” refers to assigned and unassigned moneys in the general fund accounts of school districts, including assigned and unassigned moneys in the Special Fund for Other Than Capital Outlay (Fund 17). [E.C. 42127.01(d)(2)] • A county superintendent of schools may grant a school district an exemption from the reserve restriction for up to two consecutive fiscal years within a three-year period if the district provides documentation indicating extraordinary fiscal circumstances. [E.C. 42127.01(b)] <p>Note: This section does not apply to a basic aid school district or to a small school district (fewer than 2,501 ADA). [E.C. 42127.01(d) and 52070(b)]</p>
August	<ul style="list-style-type: none"> • On or before August 15 of each year, the county superintendent of schools may seek clarification, in writing, from the governing board of a school district regarding the contents of the LCAP.
September	<ul style="list-style-type: none"> • On or before September 15, the county superintendent of schools must approve, conditionally approve, or disapprove the adopted budget. The county superintendent shall disapprove a budget if the county superintendent of schools determines that the budget does not include the expenditures necessary to implement a LCAP or an annual update to the LCAP approved by the county superintendent of schools. The county superintendent must provide the conditional approval or the disapproval in writing to the governing board of the school district. [E.C. 42127(d)(1)] • For districts with a conditionally approved budget or a disapproved budget, the county superintendent may appoint a committee to examine and comment on the county superintendent’s review and recommendations. The committee must report its findings to the county superintendent no later than September 20. [E.C. 42127(d)(1)] • On or before September 15 each year, the county superintendent must present a report to the school district board and the SPI regarding the fiscal solvency of any district with a disapproved budget, qualified or negative interim certification, or that has been determined to be in a position of fiscal uncertainty. [E.C. 1240]

Budget Review

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Month	Activity
October	<ul style="list-style-type: none">• On or before October 22, the county superintendent must provide a list to the SPI of the districts the budgets of which the county superintendent may disapprove. [E.C. 42127(e)]• On or before October 8, the county superintendent of schools shall approve a district's LCAP or annual update to the LCAP if it complies with the three criteria for LCAP approval, which are listed in Education Code Section 52070(d) and the California County Superintendents (CCS) LCAP Approval Manual.• On or before October 8, if the adopted budget of a school district is conditionally approved or disapproved, the governing board of the school district, in conjunction with the county superintendent of schools, shall review and respond to the recommendations of the county superintendent of schools at a regular meeting of the governing board of the school district. [E.C. 42127(d)(3)]• For districts with a conditionally approved or disapproved budget, the county superintendent of schools must review the revised budget to determine whether it: 1) complies with the standards and criteria adopted by the State Board of Education pursuant to Education Code Section 33127; 2) allows the district to meet its financial obligations during the fiscal year; 3) satisfies all conditions established by the county superintendent of schools in the case of a conditionally approved budget; and 4) is consistent with a financial plan that will enable the district to satisfy its multiyear commitments. [E.C. 42127(f)]
November	<ul style="list-style-type: none">• No later than November 8, the county superintendent must:• Approve or disapprove the revised budget for districts whose budgets were conditionally approved or disapproved as of September 15. [E.C. 42127(f)(1)]• If the county superintendent disapproves the revised budget, the county superintendent will call for a budget review committee under Education Code Section 42127.1 unless the governing board of the district and the county superintendent agree to waive the requirement for a committee and the California Department of Education approves the waiver.<ul style="list-style-type: none">• Based on the waiver, the county superintendent immediately has the authority and responsibility provided by Education Code Section 42127.3.• Submit a report to the SPI that identifies all districts with disapproved budgets and includes a copy of the written response to each district. [E.C. 42127(g)]
December	<ul style="list-style-type: none">• No later than December 31, the county superintendent, in consultation with the SPI and the governing board of the district, must develop and adopt a fiscal plan and budget for districts with disapproved budgets. [E.C. 42127.3(b)(1)]

III. DETAILED PROCEDURES

- A. The following are some recommended procedures for the budget review and documentation:
1. Establish a permanent file.
 2. Document the statewide budget assumptions.
 3. Obtain the district's budget assumptions.
 4. Prepare a budget review checklist.

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5. Perform additional financial analysis.
 6. Provide a technical correction letter to each district or meet with the district financial officer to discuss the budget review.
 7. Provide each district with a budget review letter documenting the approval or disapproval of the budget.
- B. The Permanent File
1. The determination of a district's solvency is in some measure based on the county office staff's knowledge of the district's history. For example:
 - a. Does the district have a history of submitting a balanced budget that was later determined to have deficiencies?
 - b. Has the district been able to adequately project average daily attendance (ADA) in recent years?
 - c. Does the district have a history of underestimating certain categories of expenditures?
 - d. Does the district usually make a significant number of errors in preparing the budget?
 - e. Does the district have an adequate position control system?
 - f. Do the district staff understand the internal controls that affect the district's budget development?
 - g. Does the district have a history of not reconciling balance sheet accounts?
 2. To allow county office staff reviewing the budgets to easily review historical information and other pertinent information, it is a good idea to set up a permanent file for each district.
 3. The permanent file contains an ongoing financial history of the district.
 4. The permanent file should include the following types of information:
 - a. Information on the number and type of charter schools the district has sponsored.
 - i. The list should include the name of each charter school.
 - ii. Include whether the charter school is legally part of the district or has established separate legal status as a nonprofit public benefit corporation.
 - iii. If the charter school is a nonprofit public benefit corporation, include documentation of the school's legal status. This is important because the district will not include the financial data for these charter schools in its budget, year-end statements, or interim reports.

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iv. A copy of the memorandum of understanding between the charter school and the sponsoring district.

b. Newspaper articles that provide information relevant to the district's financial situation.

Examples include articles on the closure of a school, the opening of a closed school, the purchase of land, unexpected or sudden resignations of district administrators or governing board members, allegations of fraud, possible bond issues or other indebtedness, etc.

c. Documentation of significant phone calls with the school district, such as those regarding significant fiscal or accounting problems, audit findings and potential corrective action, financial software concerns, etc.

d. Information on audits performed by outside agencies.

i. For example, an audit performed by the Office of the State Controller on building funds.

ii. If any audits resulted in an audit disallowance, obtain a copy of the repayment schedule for the debt.

e. Information on any debt issued by the district. It may also be useful to obtain copies of the amortization schedules.

f. Copies of relevant correspondence between the district and the county office related to financial issues.

g. Information on whether the district has capped its health benefits to employees and retirees.

h. Information on any outside groups that provide significant benefit to the district (e.g., an education foundation).

i. Information on the district's internal controls that affect the budget development and financial reporting.

j. A review of the district's status using FCMAT's Indicators of Risk or Potential Insolvency (i.e., leadership stability, level of reserves, cashflows, borrowing, volatility of negotiations, etc.).

k. Annual audits for the two prior fiscal years.

C. Statewide Assumptions

1. Beginning in January, the legislature begins work on the state budget for the next fiscal year.

2. As work on the budget progresses, school districts will have preliminary information on what may be included in the state budget for the next fiscal year.

3. Many of the assumptions that school district staff make in preparing their budget are based on assumptions about what the state will include in its budget.

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4. School districts will use information from the Governor's May Budget Revise to develop their budgets. If the state budget is passed before June 30, districts may also have time to include in their budgets information from the state's adopted budget. School districts should use the Department of Finance's May Revise Assumptions in the LCFF Calculator to calculate the LCAP percentage to increase or improve services for unduplicated students.
5. When county office staff review the school district budgets, it is important to ensure that all staff are using the most recent state budget assumptions.
6. To ensure there is no misunderstanding about the state budget assumptions, it is helpful to document the information in an assumption document that all county staff refer to when reviewing the budget. This document is also useful as an historical reference.

D. District Budget Assumptions

1. The governing board of each school district is required to present the adopted budget on the state's Standardized Account Code Structure (SACS) forms.
2. In addition to the SACS forms, many districts provide information designed for the board and the public that is easier for laypersons to understand.
 - a. This additional information may be comprehensive and include information presented in ways that are not possible on the SACS forms. For example, it may include detailed information on district programs, full-time equivalents, and other similar items.
 - b. Many districts include detailed information about the assumptions used in developing the district's budget.
 - c. The information about the budget assumptions is critical to a complete understanding of the budget and for a comprehensive review by county office staff.
 - d. Sometimes these budget assumptions are included at the beginning of a more detailed budget document presented to the board, and sometimes they are dispersed throughout a comprehensive document.
3. It is helpful to have each district submit a budget assumptions worksheet or narrative when they send the SACS forms to the county office. This worksheet ensures that the county office staff have easy access to the district's budget assumptions, especially those that are significant to a thorough understanding of the district's solvency.
4. A sample budget assumption worksheet is included at the end of Procedure 7.

E. The Budget Review Checklist

1. To ensure a methodical, comprehensive, and standardized review of each district's budget by county office staff, it is helpful to use a budget review checklist.

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2. A sample checklist is included at the end of this section that builds on the analysis performed automatically by the SACS software.
- F. Using Other Studies, Reports, and Documents
1. The Education Code requires county offices of education to review and consider studies, reports, evaluations, or audits commissioned by the district, the county superintendent, the SPI, and state control agencies if these documents contain evidence of fiscal distress. The county superintendent must review this information in addition to the county office's own analysis of the budget of each school district. [E.C. 42127 and E.C. 42127.6]
 2. Fiscal distress is determined by finding that a local educational agency (LEA) is at moderate or high risk based on the common indicators of risk or potential insolvency, as determined by FCMAT. Although the existence of any one of these indicators increases risk, the more indicators an LEA has, the greater the risk of collapse or failure.
 3. To ensure districts provide the information to the county office of education, county offices should consider annually sending districts a notice of this legal requirement or including a paragraph in the budget approval letter that reminds district staff of the legal requirement.
- G. Additional Financial Analysis
1. In addition to using a budget review checklist to evaluate the adequacy of the budget, many county offices also maintain spreadsheets showing a three- to five-year history of the district's general fund and average daily attendance (ADA).
 2. These spreadsheets are used to perform additional analysis in determining the district's overall solvency.
- H. The Technical Corrections Letter
1. Once the county office staff have completed the budget review, it is important to communicate the results of the review to the district staff.
 2. Some county offices meet with the district staff and discuss any issues or concerns noted in the budget review.
 3. In other counties, the county office sends a letter to the district that identifies any problems noted during the review and asks the district to respond in writing.
- I. Included at the end of this section are samples of letters a county office may send to its districts following the review of their LCAPs and budgets.

Sample Letters and Checklists

Sample County Office Letters

Adopted Budget and LCAP — Budget Approval — [.pdf](#) • [.docx](#)

Adopted Budget and LCAP — Budget Conditional Approval — [.pdf](#) • [.docx](#)

Annual Summary AB 139 — Short — [.pdf](#) • [.docx](#)

Annual Summary AB 139 — Long — [.pdf](#) • [.docx](#)

Non-Voter-Approved Debt Review — [.pdf](#) • [.docx](#)

Lack of Going Concern — [.pdf](#) • [.docx](#)

Stay and Rescind — [.pdf](#) • [.docx](#)

Sample County Office Checklists and Procedures

Adopted Budget Review Checklist — [.pdf](#) • [.xlsx](#)

Non-Voter-Approved Debt — Procedures — [.pdf](#) • [.docx](#)

Non-Voter-Approved Debt — Summary of Disclosure — [.pdf](#) • [.docx](#)

The Unaudited Actuals

I. OVERVIEW

Background Information

- A. Each school district is required to prepare year-end financial statements on forms that are prescribed by the State Superintendent of Public Instruction (SPI).
 - 1. The forms prescribed by the SPI are known as the unaudited actuals.
 - 2. With the implementation of the standardized account code structure (SACS), the unaudited actuals are extracted by the SACS state software directly from the district's general ledger.
- B. The unaudited actuals are enhanced periodically to allow the California Department of Education (CDE) to obtain more financial information.
- C. The unaudited actuals are used as the basis for the financial statements prepared as part of the district's annual audit report; these forms are the trial balance used to prepare the district's audited financial statements.

II. COUNTY OFFICE RESPONSIBILITIES

- A. Responsibilities of the County Office
 - 1. Education Code Section 42100 requires the county superintendent to verify the mathematical accuracy of the unaudited actuals and submit the forms to the SPI.
 - 2. In the early 2000s, school districts converted to the SACS. This allowed districts to use the software provided by the CDE to extract the financial data directly from their financial software into the forms for the unaudited actuals.
 - a. This automated process and the technical checks built into the CDE software eliminated the mathematical errors that were common when the forms were prepared manually.
 - b. This automation has eliminated county offices' need to verify the mathematical accuracy.
 - 3. Assembly Bill (AB) 1200 created new responsibilities for county offices of education. AB 1200 requires the county office to periodically monitor the financial position of the districts in the county.
 - a. This requirement also creates the need for counties to review the districts' unaudited actuals to determine whether a district's financial position has deteriorated since the new year's budget was approved.
 - b. If the unaudited actuals show deterioration in a district's financial position that adversely affects the budget that was approved, the county office may need to take action before the first interim reporting period.
 - 4. AB 1994 added the requirement for charter school financial reporting, effective beginning in fiscal year 2003-04. Charter schools may choose to submit their financial data either in

The Unaudited Actuals

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the SACS format or in the alternative form prescribed in regulations. Each charter school is required to submit its financial data to its authorizing local educational agency (LEA) on or before September 15. The reports are then reviewed for mathematical accuracy by the county office and then submitted to the CDE.

B. Calendar

Month	Activity
October	<ul style="list-style-type: none">On or before October 15, the county superintendent must verify the mathematical accuracy of the "Unaudited Actuals" and transmit a copy of the reports to the SPI. The county office will coordinate the district and county information and send it to the CDE (via the unaudited actual software data submission). [E.C. 42100, E.C. 1628, G.C. 7906 (f)]

III. DETAILED PROCEDURES

- A. County offices of education will exercise their authority to monitor the solvency of the districts in the county in different ways.
- B. The review of the unaudited actuals is not an audit. The review should focus on:
 1. Ensuring that the ending fund balance in all funds has not deteriorated from the beginning fund balance that was used in the review of the adopted budget.
 2. Determining if there are any significant changes between the unaudited actuals and estimated actuals (on which the review of the budget was based). This may indicate a problem in the adopted budget.
 3. Determining if any action is needed before the first interim reporting period, including those specified under Education Code Section 42127.6 where fiscal health is identified to be at risk (i.e., in instances where the fund balance of one or more funds has deteriorated significantly or the unaudited actuals indicate problems in the adopted budget).
 4. Ensuring the county office has accurate data that it can upload to the CDE.
- C. Included in this section are four sample forms (checklists) that county offices of education use to review the unaudited actuals.

IV. LEGAL CITATIONS

Education Code

- Section 42100

The Unaudited Actuals

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**[Click here to view or download the checklists
and sample documents on the following pages
in Microsoft Word format](#)**

The Unaudited Actuals

Procedure 6

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Unaudited Actuals Checklist #1

Name of the District:

	Initials	Date	Comments
Reviewer			
Date Review Began			
Date Review Completed			
Correspondence:			
Letter to district with technical corrections.			
Approval letter sent to district.			
Items to Complete Review:			
Unaudited actuals and electronic file			
Prior year unaudited actuals			
Prior year audit report			
June 30 cash reconciliation			
Local Control Funding Formula prepared by county office			
Online P-2 and annual attendance reports			
Online property tax report - annual			
Budget for the current fiscal year			
Form CA			
Verify that the form contains an original signature.			
Verify that the date of the board meeting is after the date printed on the submitted forms.			
TRC - Technical Review Checklist			
Re-extract the TRC and compare to printed copy. Determine that there are no Fatal (F) exceptions. Determine that all (W) and (WC) exceptions are adequately explained.			

The Unaudited Actuals

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Form Number	01	09	11	12	13	14	15	17	18	19	21	25	30	35	40	51	53	56	57	61	63	66	67	71	72	73	76	
Compare hard copy report to SACS .dat file. (1)																												
Confirm the posting of all audit adjustments.																												
Check for negative fund balance or negative unappropriated fund balance.																												
Compare the unaudited ending fund balance to the beginning fund balance in the adopted budget to determine whether any changes in ending fund balance adversely affect the adopted budget.																												N/A
Determine that reserves are established for stores, prepaids, and inventory accounts.																												
Compare account 9110 to the 6/30 cash reconciliation.																												
Scan the revenue and expenditure accounts to determine whether they are reasonable. Compare the amounts to the budget in the new year to determine if there are any amounts that do not appear reasonable based on this comparison.																												N/A

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How to use this form:

Put a check mark in each box confirming that you have performed the step. The easiest way to use the form is to eliminate all lines (form numbers) that you won't need prior to starting your review.

Complete		Comments
	Schedule for Categoricals Subject to Unearned Revenue (State and Federal)	
	Compare the grants on the schedule to the grants on the schedule from the prior year to determine whether all grants are included on the schedule.	
	Determine whether any new state grants are included on the schedule.	
	Determine whether the prior year carryover (line 1) agrees with the carryover on line 15 from the prior year's schedule.	
	Determine whether the Unearned revenue on line 5 agrees with the Unearned revenue on line 13(a) of the prior year's schedule.	
	Determine whether the schedule has been prepared correctly.	
	Determine whether the total of line 13(a) agrees with the Unearned revenue reported in account 9650 of the restricted general fund. Note: Some of the unearned revenue may also be included in other funds.	
	Schedule for Categoricals Subject to Restricted Ending Balance (State and Federal)	
	Compare the grants on the schedule to the grants on the schedule from the prior year to determine whether all grants are included on the schedule.	
	Determine whether any new state grants are included on the schedule.	
	Compare the prior year's restricted ending balance (line 13) to line 1 on the current year's schedule to determine whether they agree.	
	Determine whether the schedule has been prepared correctly.	
	Determine whether the total of the restricted ending balance on the schedule agrees with the ending fund balance in the restricted general fund (unless some of the grants are accounted for in other funds).	

**County Office of Education
Business & Advisory Services
Unaudited Actuals Review
Fiscal Year 20XX-XX**

District: ABC Unified School District

CDS Code: 00-00000

Reviewed by:

SUMMARY OF REVIEW AND RECOMMENDATIONS

COMMENTS - NOTES

Unaudited actuals verified.
Returned to district for corrections.
Ready for submission to CDE.

Technical Review Checks

Completed and exceptions annotated.
Verify accuracy and appropriateness of explanations.

Form SIAA - Summary of Interfund Activities

Do all transfers in equal transfers out?
Verify appropriateness of interfund transfers.

Form A - Average Daily Attendance

Compare first column against current year's annual P-2 attendance report.
Compare second column against current year's annual attendance report.
Verify that the third column agrees with either the current year's P-2 attendance report or the prior year's attendance report, whichever is greater.

Form 51 - Bond Interest and Redemption Fund

Obtain and insert Form 51 into binder.
Ensure that districts have printed copies.
Enter data into district electronic file or imported file.
Rerun technical review checks and insert

printed copy into binder.
Add updated 51, TC and TR files to district electronic file or imported file prior to exporting to CDE.

Form ASSET - Schedule of Capital Assets

Compare to latest audit report.
Verify the reasonableness of the Increases column with the 6000 accounts for all appropriate funds.
Determine the reasonableness of the Accumulated Depreciation section and Decreases column.

Form DEBT - Schedule of Long-Term Liabilities

Compare to latest audit report and multiyear commitments on Criteria and Standards (C&S).
Determine reasonableness of the Increases, Decreases and Amounts Due Within One Year columns. Verify that long-term debt for all funds is included.

Form CEA - Current Expense Formula / Minimum Classroom Compensation

Verify that percentage meets requirement of Education Code. Compare percentage to prior year for reasonableness.

Form CAT - Categorical Programs Subject to Unearned Revenues / Restricted Ending Balances

If district is not using state software, determine if the schedule has been prepared correctly.

Form CAT Grants

Compare line 5 to audited prior year unearned revenue for each program. Compare total of line 13a for all programs to object 9650 in Form 01.

The Unaudited Actuals

Compare line 16 for all programs in each revenue object to Form 01R revenues.

Form CAT Entitlements

Compare line 1 to audited prior year restricted balance for each program.

Compare line 9 for all programs in each revenue object to Form 01R revenues.

Determine whether total of line 13 for all programs is included in the Form 01 legally restricted balances in the fund balance.

Form ICR, PCR, PCRAF (Indirect Costs)

Determine whether total expenditures and other uses in Form 01 equal general fund expenditures in col. 6, Form PCR.

Compare indirect cost rate to prior year for reasonableness.

Charter School Financial Reporting Status Form

Verify that the form is completed.

Determine that the reporting status indicated in the form agrees with SACS financial information.

NOTES AND COMMENTS:

The Unaudited Actuals

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Unaudited Actuals Checklist #2

Unaudited Actuals Review, Fiscal Year 20XX-XX

Date:

Reviewed By:

CDS Code:

District:

Description	Form Number	1	9	11	12	13	14	17	21	25	30	35	40	51	53	56	57	61	67	71	72	95
General Fund																						
Charter Schools Fund																						
Adult Education Fund																						
Child Development Fund																						
Cafeteria Fund																						
Deferred Maint. Fund																						
Spec. Rsv.-Other than Cap.																						
Building Fund																						
Capital Facilities Fund																						
State Sch. Bldg. Lease Purch.																						
County Sch. Facilities Fund																						
Spec. Rsv.-Capital Outlay																						
Bond Interest & Redemption																						
Tax Override Fund																						
Debt Service Fund																						
Foundation Fund																						
Enterprise Fund																						
Self-Insurance Fund																						
Retiree Benefit Fund																						
Article XIII-B Fund																						
Student Body Fund																						
Compare hard copy of reports to SACS .dat file.																						
Compare amounts to district financial statements.																						
Verify proper posting of beginning balances and all audit adjustments.																						
Check for negative fund balance or negative unappropriated fund balance.																						
Determine any adverse impact of the unaudited actuals ending fund balance on the adopted budget.																						
Determine reasonableness of the components of ending fund balance.																						
Compare account 9110 to the 6/30 cash reconciliation and note any negative cash balance.																						
Determine reasonableness of revenue and expenditure accounts in the current year budget based on comparison with unaudited actuals.																						
Check findings and actions pending from review of budget, prior year actuals and interim reports.																						
Comments																						

Unaudited Actuals Checklist #3

DIVISION OF BUSINESS ADVISORY SERVICES
Financial Management Services
Solvency Evaluation Work Program

20XX-20XX UNAUDITED ACTUAL REVIEW
Executive Summary and Approvals

DISTRICT NAME: _____

BAS REVIEW RESULTS: **Approved** **Letter Completed**

Evaluation Summary _____

Review and Certification
Consultant

Signature **Date**

Concurrent Review
Financial Advisory Services Officer

Signature **Date**

Review and Approval
Assistant Director, Financial Management Services

Signature **Date**

Approval (if required)
Director, Division of Business Advisory Services

Signature **Date**

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20XX-20XX UNAUDITED ACTUALS PROCESS FOR REVIEWING SACS REPORTS

DISTRICT NAME: _____
LEA Contact Person: _____
District CDS No. _____ Phone No. _____

CHECK-IN PROCESS

The login process begins in September. The following individuals will be responsible for doing initial check-ins:

Person Completing Check-in: _____

1. Date Unaudited Actual received:

2. Validate each of the following items:

- | | | |
|---|------------------------------|-----------------------------|
| a. Two hard copies received | <input type="checkbox"/> YES | <input type="checkbox"/> NO |
| b. One electronic file received accompanied by all of the following: | | |
| • Full district name (not initials) | <input type="checkbox"/> YES | <input type="checkbox"/> NO |
| • The report title (i.e., SACS 20XX–XX Unaudited Actuals) | <input type="checkbox"/> YES | <input type="checkbox"/> NO |
| • The district’s CDS code | <input type="checkbox"/> YES | <input type="checkbox"/> NO |
| • Date that electronic file was received | <input type="checkbox"/> YES | <input type="checkbox"/> NO |
| If any of the above information is not included with the file, add as needed. | | |
| • Official export has been verified | <input type="checkbox"/> YES | <input type="checkbox"/> NO |

3. Verify for proper original signature, date received, and contact person listed on SACS Form CA YES NO

- A. The unaudited actuals with original signature from the clerk/secretary of the district’s board with adoption date is:
- | | | |
|---|------------------------------|-----------------------------|
| • Date stamped | <input type="checkbox"/> YES | <input type="checkbox"/> NO |
| • Numbered the same as its jacket | <input type="checkbox"/> YES | <input type="checkbox"/> NO |
| • Logged in on the master record | <input type="checkbox"/> YES | <input type="checkbox"/> NO |
| • Stamped “UNAUDITED ACTUALS” and either “COPY” or “ORIGINAL” as appropriate. | <input type="checkbox"/> YES | <input type="checkbox"/> NO |
| • “Used” or “Not Used” is marked for all proper funds on SACS TC | <input type="checkbox"/> YES | <input type="checkbox"/> NO |

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- Contents is complete as shown on SACS TC YES NO

- Validate that the following forms were received:

- Form SIAA

- Form CEA

- Form CAT

Contact district if any forms are missing. List all missing forms for any appropriate funds not received.

- Technical Review Checklist (TRC) is received and complete. YES NO

- B. All funds are checked for negative beginning/ending balance. YES NO
(Validate against the TRC comments.) List any funds with negative balances and report to the director and consultant for discussion with district/LEA.

Negative Funds:

- C. Validate that the SACS .dat file and hard copy agree. YES NO
(All numbers, totals, etc., must match.)

- D. TRAN report review YES NO

- E. Note any communication with the district/LEA regarding missing documents:

- Date(s) called: _____
- District contact person: _____
- Item(s) requested: _____

District/LEA Response: _____

Date check-in completed: _____

Accounting/Operational Technician initials: _____

UNAUDITED ACTUAL REVIEW

All unaudited actual reviews should be completed no later than October 15. Discuss any issues or concerns with district business staff. It is important to discuss potential critical issues with the director of external business services before contacting the district/LEA.

Note Business Advisory Services (BAS) Staff Completing Review:

PHASE 1

Perform the following tests:

1. Review the results of the initial check-in.
2. Contact the district if any items are missing. Verify the items are forthcoming.
3. Confirm if there are any negative balances. If so, notify the director.
4. Review cover letters and/or narratives.
5. Review the Technical Review Checklist (TRC) for any exceptions.

NOTES

Ensure that both the director and support staff are reviewing the same district simultaneously.

Any corrections made by the consultant should be noted on the unaudited actuals. Any district staff authorizing the change(s) should be noted along with the date and time of authorization. A revised .dat file may be required.

If a correction will result in a change to the fund balance, the district should be notified.

If you have any concerns about the information submitted by the district, request additional information from the district in sufficient time to meet the review deadline.

PHASE 2 FISCAL SOLVENCY/CRITERIA AND STANDARDS REVIEW

1. Verify each item on the TRC for accuracy and reasonableness. Verify that the official export file does not reflect any fatal errors and that warnings are reasonably explained. Comment actions needed.

Notes/Comments _____

2. Verify that the various SACS Form, including CA, SIAA, A, L, CAT, PCRAF, PCR, ICR, DEBT, and AS-SET, have been completed as applicable and are technically correct. Comment on any missing or incomplete reports.

Notes/Comments _____

3. If the district has a charter school(s), did it submit the unaudited actuals for the charter school on a separate fund and was this information submitted in the electronic format required by the CDE? Yes No

Notes/Comments _____

4. Verify that the beginning fund balances for all funds are the same as the prior year unaudited actuals ending fund balance reported to the CDE.

Notes/Comments _____

5. For all funds, compare unaudited actuals ending fund balances to the beginning balances included in the adopted budget estimated actuals. Note / comment on any significant differences.

Notes/Comments _____

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6. Test and verify that available reserves are not less than the required percentages as applied to total expenditures, transfers out and other uses, except as provided for in Education Code Section 33128, and include exceptions in the unaudited actuals letter. Note any negative effects of excessive contributions to restricted programs, unsettled collective bargaining negotiations, adjustments for overstated ADA, and deficit spending on the district's reserve for economic uncertainties (REU). If the district is the special education administrative unit for its special education local plan area (SELPA), factor the pass-through funds into the calculation. If the REU is below what is required for this district, note in unaudited actuals letter. Confirm that the district's revenue allocations from its SELPA (as applicable) are shown accurately in the unaudited actuals.

Comments _____

7. Review fund balances. Verify that for each fund the ending fund balance was positive. Analyze and note the status of other funds that have negative fund balances at the end of the fiscal year. Verify and confirm that all interfund borrowing was repaid within the required time frame per Education Code Section 42603. Note the effects of any understatement or outstanding repayments on the unrestricted general fund ending balance and reserves.

Comments _____

8. Verify that the general long-term debt balance as of July 1 reported on the Form DEBT agrees with the general long-term balance as of June 30. Note any discrepancies.

Comments _____

9. Review the net increase/(decrease) in each fund balance for reasonableness compared to estimates submitted with the adopted budget. Analyze and determine the cause of major differences.

Comments _____

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10. Review the district's prior year annual audit for outstanding solvency-related findings concerns. Note any audit comments about reserve levels. Verify and confirm that audit adjustments noted in audit report were made and are reflected in unaudited actuals. Note any concerns in the unaudited actuals letter.

Comments _____

11. Verify that the district's SACS Form 51 (Bond Interest and Redemption Fund) ties to the form prepared by the county auditor/controller. If there is a difference, ask the district to submit a corrected copy.

Comments _____

12. Verify that no entries have been made on improperly designated lines in the SACS report or improperly added lines. Note / comment on any discrepancies.

Comments _____

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Unaudited Actuals Checklist #4

Issues	Form 01 - Unrestricted General Fund - (column A)	Comments
	(page 1) - Verify that each amount, by major object classification, agrees with an unrestricted report from the district's financial system.	
	(page 2) - Verify that the unrestricted beginning balance on line F.1.a is correct.	
	(page 2) - Verify that the unrestricted ending balance on line F.2. is positive.	
	(page 2) - Verify that any undesignated amount on line F.2.e. is positive or zero.	
	(page 2) - Verify that the amount designated for economic uncertainties in object 9789, plus any amount in object 9790, (F.1.e), together meet the minimum reserve requirement. Include amounts in object 9789 and 9790 in Fund 17.	
	Form 01 - Restricted General Fund - (column B)	
	(page 1) - Verify that each amount, by major object classification, agrees.	
	(page 2) - Verify that the restricted beginning balance on line F.1.a is correct.	
	(page 2) - Verify that the restricted ending balance on line F.2. is positive.	
	(page 2) - Verify that line F.2.e. is zero. All restricted ending fund balances should be reserved under object 9740.	
	Form 01 - Overall General Fund - (column C)	
	(page 2) - Verify that all audit adjustments have been included on line F.1.b.	
	(page 2) - Verify that district has reserved its correct revolving cash amount on line F.2.a., object 9711.	
	(page 3) - Verify that all asset and liability object codes agree with the district's financial system.	
	(page 3) - Verify that cash in county treasury on line G.1.a. is positive in column 3.	
	Verify that objects 9200 and 9500 have zero balances, by resource code.	
	Verify that 1% of the original budget's total expenditures have been transferred to the routine restricted maintenance account (RRMA) in resource 8150.	
	Form A - Average Daily Attendance	
	Verify that the first column agrees with the current year's P-2 attendance report.	
	Verify that the second column agrees with the current year's annual attendance report.	
	Verify that the third column agrees with either the current year's P-2 attendance report or the prior year's attendance report, whichever is greater. Note the following exceptions: 1) District nonpublic school (NPS) and community day school are always current year annual average daily attendance (ADA). 2) County office of education (COE) county community schools is always current year P-2 ADA. 3) COE special education (regular year special day class) is always current year P-2 ADA. 4) COE special education (extended year special day class) is always current year annual ADA.	
	Form ASSET - Schedule of Capital Assets	
	Verify that the third column agrees with the district's prior year audit report for capital assets.	
	Form CEA - Minimum Classroom Compensation	
	Verify that the minimum percentage has been met in Part III, line 1.	
	If exemption is claimed, verify that the district meets the provisions of exemption under Education Code 41374.	

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	Form DEBT - Schedule of Long-Term Liabilities	
	Verify that the third column agrees with the district's prior year audit report for long-term liabilities.	
	If the district had expenses in Object 7439, there should be amounts in the "Decreases" column.	
	Amounts in the "Decreases" column should be reasonable compared to the audit report.	
	"Amounts Due Within One Year" should be reasonable compared to the audit report.	
	Form GANN - Gann Limit Appropriations Calculation	
	Verify that the amount on line D.10. (page 3) is zero.	
	If line D.10. is a positive amount, a copy of the letter to the California Department of Finance, requesting an increase to the district's appropriations limit, must be included with the Gann Limit.	
	Form ICR - Indirect Cost Rate Worksheet	
	(Exhibit A) Verify that no rate charge in the current year was higher than the district's approved indirect cost rate.	
	Form NCMOE - No Child Left Behind Maintenance of Effort Expenditures	
	Verify that the maintenance of effort has been met in Section III., line E. (page 2).	
	Financial Analysis - General Fund	
	1) Note the actual current year unrestricted ending fund balance (EFB) on page 2, column A, line F.2. (from unaudited actuals).	
	2) Note the estimated current year unrestricted EFB on page 2, column A, line F.2. (from estimated actuals in adopted budget)	
	3) Note the difference between the actual EFB from unaudited actuals and the estimated EFB from the adopted budget.	
	Verify that the budget year unrestricted EFB on line F.2. in column D does not become negative with the newly adjusted numbers.	
	Verify that the minimum reserve requirement is still met when the actual beginning fund balance is used.	
	Other Concerns	
	If the district has a charter school that is not accounted for in Fund 09 of the district's unaudited actuals, verify that the charter school has submitted its own independent unaudited actuals report to the county office.	
	Document any discussion with the district staff concerning any other financial issues.	

Interim Report Review

Procedure 7

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I. OVERVIEW

- A. Education Code Section 42130 requires each school district to submit two interim financial reports to the governing board:
 - 1. First Interim Report – For the period ending October 31, covering July 1 – October 31.
 - 2. Second Interim Report – For the period ending January 31, covering July 1 – January 31.
- B. The interim reports are prepared on state-approved forms.
- C. The governing board of each school district is required to:
 - 1. Approve the reports no later than 45 days after the close of the period being reported.
 - 2. Certify in writing within 45 days after the close of the period being reported whether the district is able to meet its financial obligations for the remainder of the fiscal year and for the subsequent two fiscal years.
 - 3. There are three possible certifications:
 - a. Positive – The district will be able to meet its financial obligations for the current fiscal year and subsequent two fiscal years.
 - b. Qualified – The district may not be able to meet its financial obligations for the current fiscal year or two subsequent fiscal years.
 - c. Negative – The district will be unable to meet its financial obligations for the current fiscal year or the subsequent fiscal year.
 - 4. File a copy of the certification page and the interim report with the county superintendent of schools.

II. COUNTY OFFICE RESPONSIBILITIES

- A. Responsibilities of the County Office of Education
 - 1. Education Code Section 42131 requires the county office of education (COE) to obtain a copy of the interim report and the certification for each district.
 - a. If the COE receives a positive certification when a qualified or negative should have been filed, or receives a qualified certification when a negative certification should have been filed, the COE is authorized to change the certification to qualified or negative.
 - b. If the COE changes the certification, the COE must notify the district's governing board and the superintendent of public instruction (SPI) no later than 75 days after the period being reported.

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- c. The COE is required to send to the State Controller and the SPI copies of the certifications and reports in which the governing board is unable to certify without qualification that the financial obligations will be met (i.e., files a qualified or negative certification). A completed transmittal form provided by the SPI is to be sent with such reports.
2. Education Code Section 42131 requires the county superintendent to report to the Controller and the SPI whether each district under their jurisdiction has provided the required certification and the type of certification for each district.
 - a. The form for reporting to the Controller and the SPI can be found on the CDE's website (currently at <http://www.cde.ca.gov/fg/fi/ft/>). The form is titled, "Notice of Interim Certifications from County Offices of Education".
 - b. The county superintendent is also required to submit their comments on those certifications and report any action proposed or taken to the Controller and the SPI within 75 days after the close of the reporting period.
3. Education Code Section 42131 provides for an appeal process if the district does not agree with the change in the certification.
 - a. The district's governing board must submit the appeal to the SPI regarding the validity of the change no later than five days after the school district receives the notice from the county superintendent of the change in certification.
 - b. The SPI must determine the certification that will be assigned to the district no later than 10 days after receiving the appeal. The SPI must then notify the district governing board and the county superintendent.
4. Education Code Section 42127.6 provides authority for the county superintendent to act if at any time the county superintendent determines that a district may be unable to meet its financial obligations for the current or two subsequent fiscal years or if a school district has a qualified or negative certification pursuant to Section 42131.
 - a. The county superintendent must notify the governing board of the school district and the SPI in writing of the determination and the basis for the determination.
 - b. The county superintendent will report to the SPI on the financial condition of the school district and any proposed remedial actions.
 - c. The county superintendent shall do at least one of the following, including all actions that are necessary to ensure that the district meets its financial obligations:
 - i. Assign a fiscal expert, paid for by the county superintendent, to advise the district on its financial problems.
 - ii. Conduct a study of the financial and budgetary conditions of the district.

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- iii. Direct the district to submit a financial projection of all fund and cash balances of the district as of June 30 for the current and subsequent fiscal years.
- iv. Require the district to encumber all contracts and other obligations, to prepare appropriate cash flow analyses and monthly or quarterly budget revisions, and to appropriately record all receivables and payables.
- v. Direct the district to submit a proposal for addressing the fiscal conditions that resulted in the determination that the district may not be able to meet its financial obligations.
- vi. Withhold the compensation of the members of the governing board and the district superintendent for failure to provide the requested financial information. The district may appeal this action to the SPI.
- vii. Assign the Fiscal Crisis and Management Assistance Team to review teacher hiring practices, teacher retention rate, percentage of provision of highly qualified teachers, and the extent of teacher misassignment in the school district and provide the district with recommendations to streamline and improve the teacher hiring process, teacher retention rate, extent of teacher misassignment, and provision of highly qualified teachers. If a review team is assigned to a school district, the district shall follow the recommendations of the team, unless the district shows good cause for failure to do so. The Fiscal Crisis and Management Assistance Team may not recommend an action that would abrogate a contract that governs employment.

The county superintendent of schools must have any contracts entered into pursuant to this subdivision of the Education Code approved by the SPI.

- d. Within five days of the county superintendent making the determination to take any of these actions, the school district may appeal to the SPI. The SPI has 10 days to sustain or deny the appeal.
5. If after taking the actions identified in item 4 of this procedure the county superintendent determines that a district will be unable to meet its financial obligations, they will notify the school district governing board and the SPI in writing of that determination and the basis for the determination.
- a. The notification will include the assumptions used in making the determination, and the county superintendent will provide the notification to the superintendent of the school district, parent and teacher organizations of the district, employee organizations of the district, and the president of the state board of education.
 - b. Within five days of the county superintendent making the determination, a school district may appeal the determination to the SPI. The SPI will sustain or deny the appeal within 10 days.
 - c. If the appeal is denied or not filed, or if the district has a negative certification, the county superintendent, in consultation with the SPI, shall take at least one of the following actions:

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- i. Develop and impose a budget revision that will enable the district to meet its financial obligations in the current fiscal year. The county superintendent must also consult with the district governing board.
 - ii. Stay or rescind any action that is determined to be inconsistent with the school district's ability to meet its obligations for the current or subsequent fiscal year.
 - iii. Assist in developing, in consultation with the district's governing board, a financial plan that will enable the district to meet its future obligations.
 - iv. Assist in developing, in consultation with the district's governing board, a budget for the subsequent fiscal year.
 - v. Appoint a fiscal advisor.
 - d. The school district is required to pay 75% and the county office of education 25% of the expenses incurred in improving the district's financial management practices.
6. Education Code Section 42131 requires each school district filing a qualified or negative certification for the second interim period to provide financial statement projections of the district's fund and cash balances through June 30. This report is for the period ending April 30 and is due to the county superintendent, the SPI and the State Controller's Office by June 1.
7. A school district that has a qualified or negative certification in any fiscal year may not issue, in that fiscal year or in the next succeeding fiscal year, certificates of participation, tax and revenue anticipation notes, revenue bonds, or any other debt instruments that do not require the approval of the voters of the district unless the county superintendent of schools determines, pursuant to criteria established by the SPI, that the district's repayment of that indebtedness is probable.
8. Education Code Section 1240(e) requires the county superintendent to annually present a report, on or before September 15, to the district's governing board and the SPI regarding the fiscal solvency of any district with a disapproved budget, qualified or negative interim certification, or that has been determined at any time to be in a position of fiscal uncertainty.
 - a. This is often referred to as the AB 139 letter.
 - b. The Education Code does not specify the information the county superintendent should include.
 - c. Sample AB 139 letters are included at the end of Procedure 5 – Budget Review.
9. Education Code Section 42128:
 - a. The county superintendent shall not make any apportionment of state or county money if the governing board of any school district neglects or refuses to make a school district budget, or neglects to file interim reports.

Interim Report Review

- b. The county superintendent shall notify the appropriate county official that they shall not approve any warrants issued by the school district.

B. Calendar

Month	Activity
December	<ul style="list-style-type: none"> • School districts provide first interim reports to the county office after they are approved by the district's governing board (45 days after October 31, the close of the period being reported).
January	<ul style="list-style-type: none"> • No later than 75 days after October 31, the county office will provide notice of any change in certification to the district governing board and the SPI. • No later than 75 days after October 31, the county superintendent of schools must report to the Controller and the SPI whether each district under their jurisdiction has provided the required certification and the type of certification for each district.
March	<ul style="list-style-type: none"> • School districts provide second interim reports to the county office after they are approved by the district's governing board (45 days after January 31, the close of the period being reported).
April	<ul style="list-style-type: none"> • No later than 75 days after January 31, the county office will provide notice of any change in certification to the district governing board and the SPI. • No later than 75 days after January 31, the county superintendent of schools must report to the Controller and the SPI whether each district under their jurisdiction has provided the required certification and the type of certification for each district.
June	<ul style="list-style-type: none"> • No later than June 1, each school district with a qualified or negative certification for the second interim report must provide financial statement projections of the district's fund and cash balances through June 30 for the period ending April 30 to the county superintendent, the Controller, and the SPI.
September	<ul style="list-style-type: none"> • The county superintendent must present a report, on or before September 15, to the school district board and the SPI regarding the fiscal solvency of any district with a disapproved budget, qualified or negative interim certification, or that has been determined to be in a position of fiscal uncertainty.
Ongoing	<ul style="list-style-type: none"> • For districts with qualified or negative certifications, the county office must also review and either approve or disapprove the issuance of any non-voter-approved debt. The county superintendent must determine whether repayment is probable.

III. DETAILED PROCEDURES

- A. COEs exercise their authority to monitor the solvency of the districts in the county in different ways. The review should focus on:
 1. Determining whether the information is reasonable.

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2. Determining whether the financial position has or has not deteriorated since the adopted budget or first interim reporting period.
 3. Determining whether the financial position has improved for districts with qualified or negative certifications at the first interim reporting period.
 4. Determining whether the current operating budget is sustainable through the end of the year.
- B. COEs may require districts to submit additional materials that the county office determines it needs to perform the interim reviews.
1. For example, some counties require districts to complete a form documenting the assumptions used in completing the interim reports and the multiyear projections.
 2. This section includes a sample required by one county to document a district's assumptions.
- C. At the end of this section are checklists used by some counties to perform their interim report reviews.

IV. LEGAL CITATIONS

Education Code

- Section 1240
- Section 42127.6
- Sections 42128 – 42134

Sample Documents

Click on the title of any sample item below to view or download that document in the file format indicated.

[District Budget Assumptions \(Word\)](#)

[Interim Report Review Checklist sample 1 \(Word\)](#)

[Interim Report Review Checklist sample 2 \(Excel\)](#)

[Interim Review Response — .pdf • .docx](#)

I. OVERVIEW

A. Audit Requirements

1. Education Code Section 41020 requires each local educational agency (LEA) to contract for an audit by April 1 of each year. For this requirement, LEAs include K-12 school districts, most joint powers authorities (JPAs), and regional occupational centers/programs (ROC/Ps); community colleges are not included. According to Education Code Section 41023, JPAs established per Education Code 17567 (for health benefits, workers' compensation, and property insurance) are also not included.
2. The audits shall be performed by a certified public accountant or a public accountant who is licensed by the California Board of Accountancy and included in the directory of certified public accountants and public accountants deemed by the state controller as qualified to conduct audits of LEAs. The controller publishes an updated list no later than December 31 of each year.

In addition, Education Code 41020(f)(2) regulates the rotation of auditors, making it unlawful for an audit firm to provide audit services if the lead auditor partner, or coordinating audit partner, having primary responsibility for the audit, or the audit partner responsible for reviewing the audit, has performed audit services for that local agency in each of the six previous fiscal years. The Education Audit Appeals Panel may waive this requirement if the panel finds that no otherwise eligible auditor is available to perform the audit.

3. The county superintendent of schools and the LEA's governing board must approve the audit contract for any LEA that had a disapproved budget or negative certification during the current fiscal year or either of the two preceding years, or for which the county superintendent of schools has otherwise determined that a lack of going concern exists.
4. If an LEA fails to contract for an audit by April 1, it is the responsibility of the county superintendent of schools to contract with an audit firm on behalf of the LEA by May 1 of each year.
5. For school districts that receive an emergency apportionment from the state:
 - a. Education Code 41320.1(e) allows the State Controller's Office (SCO) or its designee to conduct an audit in lieu of the audit required under Education Code Section 41020.
 - b. At the SCO's discretion, the SCO may conduct the audit, choose an auditor the SCO has designated as both active and able to perform K-12 local education agency audits, or use an auditor selected by the school district and approved by the Controller.
 - l. The auditor selected, if any, the county superintendent of schools, a County Office Fiscal Crisis and Management Assistance Team representative, the superintendent of public instruction (SPI), and the school district superintendent, or their respective designees, shall meet before the audit to discuss the terms of the audit and the timeline under which it will proceed.

- c. These audits shall be required until the SCO determines, in consultation with the county superintendent of schools and the SPI, that the school district is financially solvent, but in no event earlier than one year following the implementation of the plan or later than the time the apportionment made is repaid, including interest.
 - d. The SCO shall conduct quality control reviews pursuant to Education Code Section 14504.2 (c).
- B. Filing Audit Reports (E.C. 41020 (h))
1. Annual audit reports must be filed electronically no later than December 15 by the certified public accounting (CPA) firm that performed the audit. The firm must file a copy of the report with the following:
 - a. The county superintendent of schools of the county in which the LEA is located.
 - b. The California Department of Education (CDE).
 - c. The State Controller's Office (SCO).
 2. Education Code Section 47605 (m) requires each nonprofit charter school to submit a copy of its annual audit to the charter authorizing entity, the SCO, the county superintendent of schools of the county in which the charter school is located, and the CDE, by December 15 of each year.
 3. Delays (E.C. 41020.2)
 - a. The county superintendent of schools may investigate the causes of the delay and take action if the auditors do not file the audit report with the county superintendent by December 15.
 - b. The county superintendent is responsible to initiate one of the following actions:
 - i. The county superintendent may grant an extension for the audit, after consultation with the district governing board and the auditors, and with the consent of the SCO and the SPI.
 - ii. The CDE's guidelines state that extensions will be granted only under extraordinary circumstances. The request must be received by both the SCO and the CDE no later than December 15. The SCO and CDE will review the request and accompanying justification and provide notification of whether the extension is granted or denied. The SCO provides guidelines on extensions on its [website](#) under Information and Instructions, [Filing Extension](#).
 - iii. The county superintendent may contract with another audit firm to complete the audit, after consultation with the district governing board, the auditors, and the SCO. If the county superintendent contracts with another firm, the county superintendent should, to the extent possible, help the district initiate action to avoid payment to the original contracted audit firm.

- iv. The county superintendent may ask the SCO to investigate the situation and initiate action.
 - c. Note: There is no provision in the law for an extension of a charter school audit (E.C. 47605(m))
- D. Quality of School District Audits
- 1. Education Code Section 14504.2 authorizes the county superintendent or the county board of education to refer an independent auditor of a local educational agency to the California Board of Accountancy for action if an audit of an LEA was conducted in a manner that may constitute unprofessional conduct as defined by Section 5100 of the Business and Professions Code, including but not limited to gross negligence resulting in a material misstatement in the audit.
 - 2. Education Code Section 41020.5 requires the county superintendent to notify in writing the CPA or public accountant and the California Board of Accountancy if the audit of any school district in the county was not performed in substantial conformity with the provisions of the *Guide for Annual Audits of K-12 LEAs and Compliance Reporting* (Audit Guide), or if the audit reports for two consecutive years do not conform to the Audit Guide. The most recent Audit Guide can be found at <http://eaap.ca.gov/>.
 - a. This section provides for an appeal process.
 - b. If the determination by the SCO or county superintendent becomes final, the CPA or the public accountant will be ineligible to perform school audits for three years.
- E. Responsibility for Audit Exceptions (E.C. 41020(i))
- 1. The county superintendent of schools is responsible for reviewing the audit exceptions and for determining whether each audit exception has been corrected or whether the LEA has developed an acceptable plan of correction in the following areas:
 - a. Attendance
 - b. Inventory of equipment
 - c. Internal control
 - d. Miscellaneous
 - e. Instructional material program funds
 - f. Teacher misassignments pursuant to Education Code Section 44258.9
 - g. Information reported on the school accountability report card (SARC) pursuant to Education Code Section 33126

2. The CDE is responsible for reviewing the audit exceptions related to federal and state compliance.
3. The auditor is required to review the correction or plan of correction to determine if the exceptions have been resolved in the subsequent year audit.(E.C. 41020(l))
 - a. If not, the auditor immediately notifies the county office of education and the CDE.
 - b. After receiving the notification, the CDE either consults with the LEA to resolve the exception or requires the county superintendent to follow up with the LEA.
- F. Education Code Section 41020.8 authorizes the district's auditor to release information to the county superintendent if the county has determined the district may not be able to meet its financial obligations for the current or subsequent fiscal year (E.C. 42127.6).

II. COUNTY OFFICE RESPONSIBILITIES

1. Auditor Selection
 - a. Education Code Section 41020(b)(3) requires the county superintendent to determine, by April 1 of each year, whether each LEA has made arrangements for an annual audit of its financial statements.
 - i. If the governing board of the LEA has not made arrangements for the audit by April 1, the county superintendent must provide for the audit.
 - ii. The county superintendent must provide for the audit by May 1.
 - b. Education Code Section 41020(b)(2) requires the county superintendent of schools (and the LEA's governing board) to approve the contract for audit services for any LEA in the following situations:
 - i. The LEA has had a disapproved budget or a negative certification on its interim financial reports during the current year or either of the two preceding fiscal years.
 - ii. The county office has determined that a lack of going concern exists.
2. Review of the Audit Exceptions (E.C. 41020(i))

The county superintendent of schools is required to do the following:

- a. Review the audit exceptions related to the following:
 - i. Attendance, which can include but is not limited to:
 - Local Control Funding Formula (LCFF) allocations pursuant to Education Code Section 42238.02

- Independent study
 - ii. Inventory of equipment
 - iii. Internal control
 - iv. Miscellaneous, which can include, but is not limited to:
 - Classroom teacher salaries
 - Local Control and Accountability Plan (LCAP)
 - Instructional materials
 - Teacher misassignments pursuant to Education Code Section 44258.9
 - Information reported on the school accountability report card (SARC) pursuant to Education Code Section 33126
- b. Identify any audit exceptions for which a description of the correction or plan of correction is not provided in the audit report, notify the LEA of these, and request that a description of the correction or plan of correction be provided by March 15 (E.C. 41020(j))
 - i. Education Code Section 41020(g)(2) states:

To the extent possible, a description of correction or plan of correction shall be incorporated in the audit report, describing the specific actions that are planned to be taken, or that have been taken, to correct the problem identified by the auditor. The descriptions of specific actions to be taken or that have been taken shall not solely consist of general comments such as “will implement,” “accepted the recommendation,” or “will discuss at a later date.”
- c. Review the description of correction or plan of correction for each audit exception and determine if it is adequate (E.C. 41020(j))
 - i. For any description that is found to be inadequate, require the LEA to submit a response to the county office that adequately resolves the audit exception.
- d. Certify to the SPI and the SCO not later than May 15 that (E.C. 41020(k)):
 - i. All of the annual audits and all of the audit exceptions required to be reviewed by the county office have been reviewed.
 - ii. Except as otherwise noted in the certification, the LEAs have adequately corrected, or developed an acceptable plan of correction for, the audit exceptions reviewed by the county office.
- e. Direct all LEAs with attendance-related exceptions or other exceptions that involve state funds to submit the appropriate forms to resolve the exception. For example, if the auditors determine

- that average daily attendance (ADA) was incorrectly reported, the county office staff will request a revised report of attendance (P-2 or Annual) (E.C. 41020(k)).
- f. Adjust the future local property tax requirements (tax rates or tax revenues) if there are audit exceptions that have a fiscal impact on local property taxes (E.C. 41020(o)).
3. Delays in Filing Audit Reports (E.C. 41020.2)
 - a. Investigate causes of the delay and take action if the auditors do not file the audit report with the county superintendent by December 15.
 - b. Initiate one of the following actions:
 - i. Grant an extension for the audit (after consultation with the district’s governing board and the auditors, and with the consent of the SCO and the SPI).
 - ii. Contract with another audit firm to complete the audit (after consultation with the district governing board, the auditors, and the SCO).
 - iii. Request that the SCO investigate the situation and initiate action.

CALENDAR

Month	Activity
December	<ul style="list-style-type: none"> • By December 15, the county superintendent must file requests with the SCO and the CDE for extensions for filing the annual audit report. • Annual audit reports are due by December 15 • If not received by the deadline, the county superintendent may investigate the cause of the delay and initiate action to obtain the audit in the most effective manner.
January	<ul style="list-style-type: none"> • Update and send the auditor selection letter to LEAs, requesting information on the selection of their auditors by April 1.
January - February	<ul style="list-style-type: none"> • Audit Exceptions <ul style="list-style-type: none"> • Review all audit exceptions that require review by the county office. • Notify LEAs of deficiencies in their plans of correction and request additional documentation. • If the description of the correction or plan of correction is not in the audit report, notify the LEA and request that the governing board provide this information by March 15. • Direct LEAs to submit revised reports for attendance-related exceptions or other audit exceptions that involve state funds.

Month	Activity
April	<ul style="list-style-type: none"> Assess LEAs' corrective actions for audit exceptions for which the plan of correction was previously determined to have deficiencies. Assess LEAs' corrective actions for audit exceptions that previously lacked a description of the correction. Begin making arrangements for the annual audit of the next fiscal year for any LEAs that did not make such arrangements by April 1.
May	<ul style="list-style-type: none"> By May 1, arrangements must be made for the audit of any LEAs that did not make their own arrangements by April 1. Notify the SPI and the SCO by May 15 that the county staff have reviewed the audits, reviewed the audit exceptions, and that all exceptions have been corrected or the LEA has submitted an acceptable plan of correction.

III. DETAILED PROCEDURES

Note: The forms in this section are provided for illustration and are not required by law or by the CDE.

A. Selection of an Auditor

- In January, update the auditor selection letter and send it to the LEAs. See samples at the end of this section.
- By April 1, determine whether all districts have selected an auditor.
- For those LEAs that have not selected an auditor by April 1, the county superintendent of schools must make arrangements for an audit by May 1.

Education Code Section 41020(e)(1):

The cost of the audits provided by the county superintendent of schools shall be paid from the county school service fund and the county superintendent of schools shall transfer the pro rata share of the cost chargeable to each district from the district funds.

B. Review of Audit Exceptions

- The auditors are required to code all findings to allow the CDE and county offices to properly evaluate and resolve audit findings.

These codes are:

Five-Digit Code	Finding Type	COE Review
10000	Attendance	X
20000	Inventory of Equipment	X

Five-Digit Code	Finding Type	COE Review
30000	Internal Control	X
40000	State Compliance	
50000	Federal Compliance	
60000	Miscellaneous	X
61000	Classroom Teacher Salaries	X
62000	Local Control and Accountability Plan	X
70000	Instructional Materials	X
71000	Teacher Misassignments	X
72000	School Accountability Report Card	X

2. In January, the county office staff should begin reviewing audit exceptions in the audit reports to determine whether each LEA's responses to the audit exceptions represent a sufficient corrective action plan.

If county office staff determine that the response from the LEA in the audit report is not adequate, they should notify the LEA in January or February. Sample forms for requesting the LEA's corrective action plan are at the end of this section.

If the county office staff determine that the LEA did not provide a response in the audit report, they should notify the LEA in January or February requesting the LEA's governing board provide the response by March 15.

3. There are no standards for what is an acceptable corrective action plan; each county office determines whether an action plan is acceptable and the level of documentation needed to assess its acceptability.
4. Not later than May 15, the county office must notify the SPI and the SCO that the county office staff have reviewed the audits, reviewed the audit exceptions, and that all exceptions have been corrected or the LEA has submitted an acceptable plan of correction.

C. Quality of School District Audits

1. Education Code sections [14504](#) and [41020.5](#) authorize the county superintendent to notify the California Board of Accountancy if he or she determines that the audit was conducted in an unprofessional manner or that the audit was not conducted in accordance with the audit guide.

- a. Once the California Board of Accountancy is notified of potential problems, the board will determine whether an investigation is warranted, and, if so, will conduct the investigation.
 - b. Based on the results of the investigation, the California Board of Accountancy may sanction the CPA or accountant.
2. A sample audit activity calendar is available at the end of this section.

IV. LEGAL CITATIONS

Education Code sections 14502-14504, 41020 et al., 47605(m)

Resources and Sample Documents

The State Controller maintains a webpage devoted to K-12 Local Educational Agencies, Charter Schools, and Joint Powers Entities (LEAs) at https://www.sco.ca.gov/aud_k12_lea.html

For each sample item below, click on the format name (docx or pdf) to view and download the document in that format.

Sample Audit Finding Letter • [pdf](#) • [docx](#)

Sample Audit Finding Corrective Action Form • [pdf](#) • [docx](#)

Sample Audit Finding Letter and Forms #1 • [pdf](#) • [doc](#)

Sample Audit Finding Letter and Forms #2 • [pdf](#) • [docx](#)

Audit Timeline and Responsibilities • [pdf](#) • [docx](#)

COE Audit Review Checklist • [xls](#)

Sample SCO Corrective Action Certification Letter • [pdf](#) • [doc](#)

Independent Auditor Selection Letter • [pdf](#) • [docx](#)

Independent Auditor Selection Certification • [pdf](#) • [docx](#)

I. OVERVIEW

A. The Charter Schools Act of 1992 authorized charter schools to operate in California.

B. Charter School Petitions

1. To operate a charter school, applicants (also known as petitioners) must prepare a petition for authorization by a school district or county office of education. The elements that must be included in a petition and the procedures for approvals and appeals are described mainly in Education Code (E.C.) Section 47605.
2. School districts may approve a charter school to operate independently from the existing school district structure; however, the charter school must operate within the geographic boundaries of that school district. A charter school may propose to operate at multiple locations within the school district as long as each location is included in the charter school petition. Exceptions apply (E.C. 47605, 47605.1).
3. Upon approval of the petition by the governing board of the school district, the petitioners must provide written notice of that approval, including a copy of the petition, to the applicable county superintendent of schools, the California Department of Education (CDE), and the State Board of Education (SBE) (E.C. 47605(j)).
4. If the school district governing board denies the petition to establish a charter school, the petitioner may submit the petition to the county board of education. After the petitioner has appealed to the county board of education, and if the county has denied the petition, the petitioner may appeal to the SBE (E.C. 47605(k); 5 CCR 11967). The SBE may affirm the denials, or it may reverse upon a determination that there was an abuse of discretion. If the denial is reversed, the state board shall designate, in consultation with the petitioner, either the governing board of the school district or the county board of education as the chartering authority.
5. Education Code Section 47605.5 allows petitioners to submit charter school petitions directly to a county board of education for a charter school that will serve pupils for whom the county office of education would otherwise be responsible for providing direct education and services.
6. Education Code Section 47605.6 authorizes the county board of education to approve a petition for the operation of a charter school that operates at one or more sites within the geographic boundaries of the county and that provides instructional services that are not generally provided by a county office of education. These are known as countywide charter schools.

A county board of education may approve a countywide charter only if it finds, in addition to the other requirements of this section, that the educational services to be provided by the charter school will offer services to a pupil population that will benefit from those services and that cannot be served as well by a charter school that operates in only one school district in the county.

7. Education Code Section 47605.8 has been repealed. It allowed petitioners to submit petitions directly to the SBE.

Education Code Section 47605.9 allows charter schools that are operating under a charter approved by the SBE pursuant to Section 47605, as that section read on January 1, 2019, to continue to operate under the authority of that chartering authority only until the date on which the charter is up for renewal, at which point the charter school shall submit a petition for renewal to the governing board of the school district within the boundaries of which the charter school is located. If the petition is denied, the charter school may submit the petition for renewal directly to the SBE, which shall review the petition in accordance with Section 47605(k)(1)(B). If the SBE grants renewal pursuant to Section 47607, the SBE shall designate, in consultation with the petitioner, either the governing board of the school district or the county board of education in which the charter school is located as the chartering authority.

Education Code Section 47605.9 allows charter schools that are operating under a charter approved by the SBE pursuant to Section 47605.8, as that section read on January 1, 2019, to continue to operate under the authority of that chartering authority only until the date on which the charter is up for renewal, at which point the charter school shall submit a petition for renewal to the SBE. If the SBE grants renewal pursuant to Section 47607, the SBE shall designate, in consultation with the petitioner, the governing board of the school district or county board of education in which the charter school is located as the chartering authority.

8. Charter petitions must include the elements described in Education Code Section 47605(b)(5). Some of these elements are described below:
 - a. The educational program of the proposed charter school and the facilities the school will use. Among other requirements, the description must include:
 - The charter school's annual goals for all pupils and each subgroup to be achieved in the state priorities that apply for the grade levels served, or the nature of the program operated by the charter school, and specific annual actions to achieve those goals. A charter petition may identify additional school priorities, the goals for the school priorities, and the specific annual actions to achieve those goals. (E.C. 47605(b)(A)(ii), E.C. 52052, E.C. 52060(d))
 - The transferability of courses offered by a proposed charter school that plans to serve high school students.
 - Information about how the charter school will inform parents of whether courses offered by the charter school meets college entrance requirements if the charter school plans to serve high school students.
 - b. The measurable pupil outcomes identified for use by the charter school and the methods for measuring pupil outcomes for state priorities consistent with the way information is reported on a school accountability report card.
 - c. The governance structure of the school.

- d. The qualifications that persons employed by the school must meet.
 - e. The procedures that the school will follow to ensure the health and safety of pupils and staff.
9. Each petition to establish a charter school that is submitted to a chartering agency, or for which a renewal is sought, must identify a single charter school and specify the geographic and site requirements for the school. Charter school facilities must be within the geographic boundaries of the authorizing district unless specifically exempted (E.C. 47605.1).
- a. Charter schools that provide instruction in partnership with specific entities are exempt from these geographic limitations (E.C. 47612.1).
10. Attachments to this procedure include charter petition review documents that may be used to review appeals coming to the county superintendent of schools' office or requests to establish countywide benefit charters.
- C. The authority that granted the charter may inspect or observe any part of the charter school at any time (E.C. 47607(a)(5)).
- D. Restrictions (E.C. 47605)

Beginning January 1, 2003, no entity is authorized to approve a charter school to serve pupils in a grade level that is not served by the school district of the governing board considering the petition, unless the petition proposes to serve pupils in all the grade levels served by that school district.

- E. Petition Process (E.C. 47605)
- 1. No later than 60 days after receiving a petition, the governing board of the school district must hold a public hearing on the provisions of the charter.
 - 2. Following review of the petition and the public hearing, the governing board of the school district must grant or deny the charter within 90 days of receipt of the petition.
 - 3. Both parties may agree to an extension of 30 days.
 - 4. Findings and recommendations by the potential authorizer must be published at least 15 days before the final public hearing.
 - 5. For charter renewals only, if within 60 days of receipt of the petition the governing board of a school district has not made a written factual finding (E.C. 47605(b)), the renewal petition shall be deemed approved.(5 CCR §11966.4). The timeline for appeals is found in 5 CCR Section 11967.
 - 6. The governing board of the school district or county office shall not deny a charter petition unless it makes written factual findings to support one or more of the eight specific criteria for denial listed in E.C. 47605(c).

F. Types of Charter Schools

1. Charter schools may operate as governmental agencies or be operated by independent organizations such as nonprofit public benefit corporations, and may:
 - a. Choose to receive funding directly or through their authorizing agency.
 - b. Be included in the authorizer's budget.
 - c. Be included in the authorizer's financial reports to the state in the general fund (district), county school service fund (county), a special revenue fund 09, or an enterprise fund 62.
 - d. Be included in the authorizer's annual audit report.
2. The decision about whether a charter school should report as part of its authorizing local educational agency (LEA) or separately should be based on whether the charter school is part of the LEA or a separate reporting entity for purposes of Generally Accepted Accounting Principles (GAAP). Authoritative guidance on the reporting entity is contained in Governmental Accounting Standards Board (GASB) Statements 14, 39 and 61. See also "Procedure 810, Charter Schools" in the *California School Accounting Manual* on the CDE's website.
3. Education Code Section 47604:
 - a. Authorizes charter schools to operate as, or be operated by, a nonprofit public benefit corporation formed and organized pursuant to the nonprofit public benefit corporation law of the Corporations Code.
 - b. Authorizes the governing board of the school district that grants the charter to have one representative on the board of directors of the nonprofit public benefit corporation.
 - c. Limits liability as follows:

An authority that grants a charter to a charter school to be operated by or as a nonprofit public benefit corporation is not liable for the debts or obligations of the charter school, or for claims arising from the performance of acts, errors or omissions by the charter school, if the authority has complied with all oversight responsibilities required by law, including but not limited to those required by Section 47604.32 and subdivision (m) of Section 47605.
 - d. Charter schools that are operated as nonprofit public benefit corporations:
 - i. Are not included in the district's budget.
 - ii. File separate financial reports to the state (using the Standardized Account Code Structure (SACS) or Charter Alternative Form).
 - iii. Are not included in the district's annual audit; although they may be reported as a component unit of the district, these entities have a separate audit.

(If the charter school is operating as a part of the authorizing school district or county office of education rather than as a nonprofit public benefit corporation, the charter school is included in the annual audit of the school district or county office of education.)

G. Direct Funded Charter Schools (E.C. 47651)

1. Education Code Section 47651 authorizes a charter school to receive its state aid portion of the charter school's total Local Control Funding Formula (LCFF) entitlement either directly or through the LEA that grants its charter or was designated by the SBE.
2. When the charter school elects to receive its funding directly, the warrant is drawn in favor of the county superintendent of schools.
3. The county superintendent of schools is authorized to establish appropriate funds or accounts in the county treasury for each charter school.
4. An election to receive funds directly applies to all funding the charter school is eligible to receive, including LCFF, other state and federal categorical aid, and lottery.

H. Inquiries (E.C. 47604.3)

Requires a charter school to respond promptly to all reasonable inquiries, including but not limited to inquiries regarding its financial records, from its chartering authority, the county office of education that has jurisdiction over the school's chartering authority, or from the state superintendent of public instruction (SPI). Charter schools are required to consult with the chartering authority, the county office of education, or the SPI regarding those inquiries.

I. Responsibilities of Chartering Authority (E.C. 47604.32)

Requires each chartering authority to:

1. Identify at least one staff member as a contact person for the charter school.
2. Visit each charter school at least annually.
3. Ensure that each charter school under its authority complies with all reports required of charter schools by law, including the annual update to its Local Control and Accountability Plan (LCAP) required in Section 47606.5.
4. Monitor the fiscal condition of each charter school under its authority.
5. Provide timely notification to the CDE if any of the following circumstances occur or will occur with regard to a charter school for which it is the chartering authority:
 - a. A renewal of the charter is granted or denied.
 - b. The charter is revoked.

- c. The charter school will cease operation for any reason.
 6. The cost of performing these duties will be funded with the supervisory oversight fees collected pursuant to Education Code Section 47613.
- J. Financial Reports (E.C. 47604.33, 42100)
 1. Requires each charter school to annually prepare and submit financial reports to its chartering authority and the county superintendent of schools, or only to the county superintendent of schools if the county board of education is the chartering authority. County offices of education may encourage chartering authorities to use standard reporting formats. The charter memorandum of understanding can detail mutually agreed upon reporting forms. Many agreements request the submission of reports similar to those required by SACS or the SACS alternative object-driven format. The following reports are required:
 - a. On or before July 1, an LCAP and an annual update, pursuant to E.C. 47606.5.
 - b. On or before July 1, a preliminary budget. For a charter school in its first year of operation, the information submitted pursuant to subdivision (h) of E.C. 47605 satisfies this requirement.
 - c. On or before December 15, an interim financial report. This report shall include changes through October 31.
 - d. On or before March 15, a second interim financial report. This report shall include changes through January 31.
 - e. On or before September 15, a final unaudited financial report for the full prior fiscal year must be submitted to the chartering authority and to the county superintendent of schools, or only to the county superintendent of schools if the county board of education is the chartering authority.
 - i. Pursuant to Education Code Section 42100, the charter school shall approve its annual statement of all receipts and expenditures of the charter school for the preceding fiscal year (unaudited actuals) in the format prescribed by the SPI.
 - ii. These reports must be submitted to the chartering authority for signature, then forwarded to the county superintendent of schools, or submitted only to the county superintendent of schools if the county board of education is the chartering authority. The county superintendent of schools must verify the mathematical accuracy of the form and submit the report to the CDE in the manner prescribed by the CDE, on or before October 15.
 3. The chartering authority shall use any financial information it obtains from the charter school, including but not limited to the reports required by this section, to monitor the fiscal condition of the charter school.

4. The cost of performing these duties shall be funded with the supervisorial oversight fees collected pursuant to E.C. 47613.
- K. County Office Authority (E.C. 47604.4 and 1241.5c)
1. Authorizes the county superintendent of schools to monitor the operations of a charter school within the county and conduct an investigation into the operations of that charter school, based on parental complaints or other information.
 2. Limits the county office of education's liability to the cost of the investigation when it conducts monitoring or investigation activities.
 3. Requires charter schools to notify the county superintendent of schools of the county in which it is located of the location of the charter school, including the location of each site, if applicable, before it begins operating.
 4. At any time, the county superintendent may review or audit the expenditures and internal controls of any charter school if he or she has reason to believe that fraud, misappropriation of funds, or other illegal fiscal practices have occurred (this is known as an extraordinary audit).
 - a. The review or audit shall be conducted in a timely and efficient manner.
 - b. Within 45 days of the completed review, audit, or examination, the county superintendent must report the findings and recommendations to the governing board of the charter at a regularly scheduled meeting and provide a copy of the information to the chartering authority.
 - c. No later than 15 calendar days after receipt of the report, the charter school governing board must notify the county superintendent and its chartering authority of its proposed response to the recommendations.
 - d. If the county superintendent determines that there is evidence that fraud or misappropriation of funds has occurred, the county superintendent shall notify the governing board of the charter school, the chartering authority, the state controller, the SPI, and the local district attorney (E.C. 42638).
- L. Annual Audits
1. Each charter school must undergo an annual audit. (E.C. 47605(c)(5)(I))
 2. A charter school that is part of the same reporting entity as its authorizing LEA may be included in the LEA's financial statements, audited as a component unit of the authorizing LEA, and presented as part of the LEA's combined financial reporting. Charter schools operated as or by a nonprofit public benefit corporation may follow either nonprofit or governmental reporting standards and should be audited separately from the authorizing LEA.

3. By April 1 of each year, each LEA, including each charter school, should provide for an audit of its books and accounts. If a contract has not been secured with an audit firm by May 1, the county superintendent of schools having jurisdiction over the LEA shall provide for the audit. The chartering authority should be asked to provide the county superintendent with information regarding the audit engagement for each charter under its authority (E.C. 41020(b)(3)).
4. On or before May 31 of each year, the state controller asks county offices to confirm that all school districts, certain joint powers entities, and charter schools have arranged for their annual audit. The following information is requested:
 - a. The name, charter number and the county-district-school (CDS) number of the charter.
 - b. The name and address of the contracted certified public accounting (CPA) firm.
 - c. The fiscal year(s) covered by the audit contract.
 - d. The audit fee for each fiscal year.
5. Charter schools must submit a copy of their annual audit report to the chartering entity, the state controller, the county superintendent of schools in which the charter school is located, and the CDE, by December 15 of each year (E.C. 47605(m)).

M. Duration of the Charter (E.C. 47607)

1. Authorizes a charter for no more than five years.
2. Authorizes one or more subsequent renewals.
3. Requires the authority that granted the charter to give greater weight to performance on measurements of academic performance when determining whether to grant a renewal. Renewal duration is based on the charter school's specific measurements of academic performance and can be two years, five years, or five to seven years (EC 47607.2).
4. Charter schools may make material revisions of their charter petition only with the approval of the authority that granted the charter.

N. Revocation of the Charter (E.C. 47607)

1. The authority that granted the charter may revoke the charter if the authority finds that the charter school did any of the following:
 - a. Committed a material violation of any of the conditions, standards or procedures in the charter.
 - b. Failed to meet or pursue any of the pupil outcomes identified in the charter.

- c. Failed to meet generally accepted accounting principles, or engaged in fiscal mismanagement.
 - d. Violated any provision of law.
 2. Prior to the revocation, the authority that granted the charter must notify the charter school of any violations and give the school a reasonable opportunity to remedy the violation, unless the authority determines, in writing, that the violation constitutes a severe and imminent threat to the health or safety of the pupils.
 3. Education Code Section 47604.5 also authorizes the SBE, whether or not it is the authority that granted the charter, to revoke the charter when the board finds any of the following:
 - a. Gross financial mismanagement that jeopardizes the financial stability of the charter school.
 - b. Illegal or substantially improper use of charter school funds for the personal benefit of any officer, director or fiduciary of the charter school.
 - c. Substantial and sustained departure from measurably successful practices such that continued departure would jeopardize the educational development of the school's pupils.
 - d. Failure to improve pupil outcomes across multiple state and local priorities identified in the charter.

O. Charter Closures

1. The procedures to be used if a charter closes must be included in the charter petition. These procedures must include a final audit to determine the disposition of all assets (E.C. 47605). Because of the timing of state funding apportionments, the county superintendent or county treasury often still has state aid dollars after the closure of a charter. Unearned dollars (apportionments for any closed charter school without average daily attendance) should be communicated to the CDE for retrieval, usually at the next apportionment certification cycle. The status of all other funds needs to be communicated to the chartering authority to determine the process for the retrieval of funds.
2. The chartering authority of the closing charter shall send a notice of the school closure to the Charter Schools Division at the CDE (E.C. 47604.32; 5 CCR 11962.1). The notification should include the following:
 - a. The charter school name, number and CDS code.
 - b. The date of closure action, and effective date of the closure if different.
 - c. The reason for the closure and whether the charter was revoked, not renewed, or closed for other reasons.
 - d. The location of pupil and personnel records.

3. The chartering authority should ensure that student and school records are secured and that the student records are transferred to the district(s) in which students are eligible to enroll.
4. The charter school must complete its financial closeout within six months after closure (5 CCR 11962(f)).
5. Recommended charter school closure guidelines are available on the CDE's website at <https://www.cde.ca.gov/sp/ch/csclosure/rules.asp>.

P. Funding

1. **Funding equal to similar school district:** The Legislature's intent is to provide each charter school with funding equal to funding that would be available to a similar school district serving a similar population, except charter schools are not funded as necessary small schools (E.C. 47630).
2. **Local Control Funding Formula (LCFF):** LCFF funding for charter schools is largely identical to district LCFF funding, except in certain circumstances charter funding will be constrained by factors related to the district in which the charter school is physically located. See Procedure 20, LCFF Funding, for more detail. Actual funding rates for new charter schools are determined by the CDE. The FCMAT LCFF Calculator includes tools to help estimate the funding for new charter schools.
3. **Local Aid portion of LCFF funding:** Charter schools will receive a portion of their LCFF funding from local funds that are transferred from the sponsoring LEA in lieu of local property taxes.

a. **Definition of Sponsoring LEA (E.C. 47632(i))**

The sponsoring LEA is defined as:

- (1) If a charter school petition is granted by a school district, the sponsoring LEA is the school district.
- (2) If a charter school petition is granted by a county office of education after having been previously denied by a school district, the sponsoring LEA means the school district that initially denied the charter petition.
- (3) If a charter school petition is granted after an LEA determination is reversed by the SBE, the sponsoring local educational agency means the pupils' school district of residence if the school district is a basic aid school district. For purposes of this paragraph, "basic aid school district" means a school district that did not receive an apportionment of state funds in the prior fiscal year as described in subdivision (o) of Section 42238.02. The requirements of this paragraph shall not be waived by the SBE pursuant to Section 33050 or any other law.
- (4) For pupils attending county-sponsored charter schools authorized pursuant to Section 47605.5 who do not meet the criteria identified in subdivision (b) of Section 47631, the sponsoring local educational agency means the pupils' school district of residence.

- (5) For pupils attending countywide charter schools authorized pursuant to Section 47605.6 who reside in a basic aid school district, the sponsoring LEA means the pupils' school district of residence. For purposes of this paragraph, "basic aid school district" means a school district that did not receive an apportionment of state funds as described in subdivision (o) of Section 42238.02 in the prior fiscal year.
- b. **Calculation of the Local Aid Portion:** The annual amount to transfer in lieu of local property taxes from the sponsoring LEA to the charter school is the lesser of:
- i. The average amount of property taxes, excluding RDA taxes received as pass-through, residual, or asset liquidation, per unit of funded average daily attendance (ADA) (district plus charter funded) received by the LEA, multiplied by the charter school's ADA.
 - ii. The charter school's LCFF base grant entitlement.
 - iii. A county office program charter will collect the local in-lieu property taxes from the district of residence based on this calculation. The CDE provides an excel worksheet on the principal apportionment webpage that shows the principal apportionment certified calculation of charter property tax amounts per ADA at P-1, P-2, and annual certifications. The following webpage provides additional information: <https://www.cde.ca.gov/fg/aa/pa/csfunding.asp>.
- c. **Schedule of Transfers in Lieu of Property Taxes:** The transfers in lieu of property taxes to charter schools are to be monthly. Each monthly amount represents a specified percent of the estimated annual in lieu of property tax amount (E.C. 47635).
- i. The monthly installments of funding in lieu of property taxes are to be transferred to the charter school no later than the 15th of each month.
 - ii. For August through February, the estimated annual amount to transfer is calculated based on property taxes received by the sponsoring LEA during the preceding fiscal year and ADA certified in the prior year's P-2 principal apportionment, and the following percentages are applied:
 - a) Six percent in August.
 - b) Twelve percent in September.
 - c) Eight percent each month in October, November, December, January and February.
 - iii. For March through June, the estimated annual amount to transfer is calculated based on property taxes estimated to be received by the sponsoring LEA during the fiscal year and ADA certified in the current year's P-1 principal apportionment. The amount to transfer in March through June is the difference between the estimated annual amount and the amount already transferred in August through February, at the following fractions:
 - a) Two-sixths in March.
 - b) One-sixth each month in April, May, and June.

- iv. The final one-sixth amount due for the fiscal year is recalculated based on P-2 certification and paid in July as follows:
 - a) The estimated annual amount to transfer is calculated based on property taxes estimated to be received by the sponsoring LEA during the prior fiscal year and ADA certified in the prior year's P-2 principal apportionment.
 - b) The amount to transfer in July is the difference between the estimated annual amount and the amount already transferred in August through June.
- v. Final adjustments to the amount of funding in lieu of property taxes allocated to a charter school are made in June of the subsequent fiscal year, in conjunction with the third recertification of annual apportionments to schools.
- vi. A countywide charter school's LCFF funding amount is determined without deduction of any property tax calculation. The CDE provides the total per-ADA funding unless the student's district of residence was basic aid in the prior year, in which case the countywide charter school must contact that basic aid district to receive funding (E.C. 42238.03(c), 47635(a), 47635(c)).
- d. **Adjustment for Sponsoring LEA:** For purposes of the LCFF calculation for the sponsoring LEA, the property taxes received by the sponsoring LEA are reduced by the amount of funding in lieu of property taxes allocated to charter schools (E.C. 47662) (i.e., for non-basic aid districts, the state provides state aid to backfill the in-lieu tax payments to charter schools).
- e. Sample downloadable files listed at the end of this section include a sample calculation of transfers to charter schools in lieu of taxes. LEAs can also use the FCMAT LCFF Calculator to calculate in lieu of property tax transfers.

Q. Certification of Attendance Reports (E.C. 1245)

1. Pupil Estimates for New or Significantly Expanding Charters (PENSEC) — Charter schools in their first year of operation and continuing charters that are significantly expanding (adding a grade level or enrollment increasing by 25% or more) may receive a special advance apportionment by submitting this report. The report collects data needed to estimate LCFF funding, such as ADA, pupil demographic data, and charter physical location. Charter schools with PENSEC reports that include ADA must also submit certification with the signatures of the authorizing district and county superintendents for the data to be processed. Upon review of the information, the county superintendent and/or the chartering authority may determine that they cannot certify the information and thus may choose to use the noncertification block and provide an explanation for the noncertification or submit a separate letter to the CDE's School Fiscal Services Division with the reasons for the noncertification. The PENSEC form provides a comment section to allow the county superintendent or a chartering authority to state that they are not certifying the data and the reasons for the noncertification. The report is usually due to the CDE by July 31 to mid-August. Information can be found on the CDE's website at <https://www.cde.ca.gov/fg/aa/pa/csfunding.asp?tabsection=2#PENSEC>.

2. Charter School 20 Day Attendance Report — Based on information collected previously in the PENSEC report, the 20 day report will automatically provide data screens based on whether the charter is new or expanding. Actual attendance numbers for the first 20 days of instruction are reported, and the 20 day report is used to adjust a second advance apportionment distribution for actual attendance values. A certification page with signatures of the charter, sponsoring district, and county superintendent is also required. Upon review of the information, the county superintendent and/or the chartering authority may determine that they cannot certify the information and thus may choose to use the noncertification section to not certify the submission. The report is usually due to the CDE by October 31. Information can be found on the CDE's website at <https://www.cde.ca.gov/fg/aa/pa/csfunfunding.asp#charter20day>.
3. For attendance reports, charter schools have the same due dates as school districts. Reports are filed using the Principal Apportionment Data Collection (PADC) Web-based application , with certifications provided by the charter to the chartering authority and the county superintendent. Reports may be revised using the same process and regulations as K-12 revisions. See Procedure 19 for more detailed information.

Other reports to the CDE — not certified by county office of education:

1. Charter Annual Information Survey —See <http://www.cde.ca.gov/sp/ch/csinfosvy.asp> for more information. New and existing charter schools must complete the annual survey to provide the CDE with pertinent information regarding funding, location, contact information, facilities, and other items. In the past, this survey was submitted through the local county office of education but is now submitted online directly to the CDE by an authorized representative of the charter school. The completed survey is usually due to the CDE by May 31. If the deadline is missed, the charter school should contact the CDE's Charter Schools Division.

R. Funding Determinations for Nonclassroom-Based Instruction

Charter schools may receive apportionment funding for nonclassroom-based instruction only if a determination of funding is made by the SBE. Nonclassroom-based charter schools will not receive funding for their nonclassroom-based ADA without an approved funding determination. For detailed information, see <https://www.cde.ca.gov/sp/ch/nclrbifunddet.asp> (E.C. 47612.5 and 47634.2; 5 CCR 11963.4).

II. COUNTY OFFICE PROCEDURES

A. At a minimum, the county office of education needs:

1. A list of all charter schools in the county, which should include location, contact information and authorizer.
2. The legal status of each charter school including, but not limited to, organizational structure, nonprofit status, and charter term.

B. County offices of education have certain legal responsibilities for charter schools as outlined in this procedure.

1. At a minimum, the county office must comply with all legal requirements.
2. County offices of education may choose to provide more services or oversight at their discretion.

C. Approving Charter School Petitions

Attachments to this section include sample matrices that county offices may use internally to evaluate a charter school petition submitted to them.

D. Direct-Funded Charter Schools

When a charter school is direct funded, county offices may establish a fund or funds to account for these monies in the county treasury.

E. Oversight of Charter Schools

1. Education Code sections 47604.32 and 47604.33 require each chartering authority to monitor the fiscal condition of each charter school under its authority. If the county office of education is not the chartering authority, it may still provide additional fiscal oversight as a service to the school districts in the county.
2. Education Code Section 47604.33 requires all charter schools to submit a preliminary budget, an annual update (LCAP), two interim reports, and a final unaudited report to the county office of education. However, the law does not indicate that the county office is responsible for any specific level of fiscal oversight for charters not authorized by the county office. Therefore, once the county office of education receives these reports, it is up to the county office to decide what level of review it will perform.
3. Education Code Section 47604(d) absolves the chartering authority of liability for debts or obligations of the charter school for claims arising from the performance of acts, errors, or omissions by the charter school if the chartering authority has complied with all oversight responsibilities as referenced above. The county office of education, in its oversight role for school districts, should consider the effectiveness of the oversight of the chartering authority in its assessment of the fiscal condition of school districts to the extent that lack of oversight could expose the district to such liability.

III. LEGAL CITATIONS

Education Code

A. Section 1241.5(c)

County superintendent may review or audit the expenditures and internal controls of a charter school if there is reason to believe that fraud, misappropriation of funds, or other illegal fiscal practices have occurred.

B. Section 1245

Requires the county office of education to submit reports required by the SPI.

C. Section 1628

Requires the county office of education to file financial statements for charter schools approved by the county.

D. Section 1981

County community school referrals.

E. Sections 17078.52 – 17078.66

Charter school facilities funded with the proceeds of state bonds authorized after January 1, 2002.

F. Section 41020

Accounting regulations, budget controls and audits.

G. Sections 41365 – 41367

Charter School Revolving Loan Fund.

H. Section 42100

Requires charter schools to approve, on or before September 15, an annual statement of all receipts and expenditures in a format prescribed by the SPI. The charter school must file the statement with the sponsoring agency.

I. Sections 42238.02 – 42238.04

LCFF Funding Calculations.

J. Section 42238.05

Charter average daily attendance.

K. Sections 42238.51 – 42238.52

Adjustments to school district prior year average daily attendance due to district students moving to and from charter schools.

L. Section 42638

County superintendent's response if there is evidence of fraud or misappropriation.

M. Sections 47600 – 47604.5

The Charter Schools Act of 1992. Authority for charter schools to elect to operate as, or be operated by, a nonprofit public benefit corporation.

N. Section 47604.32 – 47604.33

Charter authorizer responsibilities.

O. Sections 47605 – 47608

Charter school petitions.

P. Section 47610, 47610.5

Exemption of charter schools from the laws governing school districts.

Q. Section 47611

Charter schools choosing to make the State Teacher's Retirement System (STRS) or the Public Employees' Retirement System (PERS) available to employees.

R. Section 47611.3

Authorization for the chartering authority to create STRS and PERS reports.

S. Section 47611.5

Authority of the Public Employment Relations Board.

T. Sections 47612 – 47612.1

Age and residency requirements for charter school pupils.

U. Section 47612.5

- The conditions of apportionment.
- Instructional minutes.

- Maintaining attendance documentation.
- State testing program certification.
- Independent study requirements.
- Nonclassroom-based instruction.

V. Section 47613

Authority for a chartering agency to charge for its oversight of the charter school an amount not to exceed 1% of the revenue of the charter school. The chartering agency may charge 3% if the charter school receives substantially rent-free facilities.

W. Section 47613.1

Charter schools in school districts in which all schools have been converted to charters.

X. Section 47614

Availability of public school facilities for charter schools.

Y. Section 47614.5

Establishes the Charter School Facility Grant Program.

Z. Section 47615

Establishes that charter schools are part of the public school system.

AA. Sections 47620 – 47625

Elementary school that has been operated by the University of California at the Los Angeles campus.

BB. Section 47632

Definitions, including sponsoring LEA.

CC. Section 47634.2

Funds for nonclassroom-based instruction.

DD. Section 47634.4

Conditions for charters to apply individually for categorical programs.

EE. Section 47635

Transfer of in-lieu taxes to charter schools.

FF. Sections 47636 – 47638

Eligibility to receive lottery funding and negotiate with district to receive a fair share of other funding sources.

GG. Section 47640

Defines a charter school as a local educational agency.

HH. Sections 47641 – 47647

Participation in a special education local plan area (SELPA).

II. Sections 47650 – 47651

Direct funding versus funding through the LEA.

JJ. Section 47652

Funding in the first year of operation.

KK. Sections 47660 – 47663

Funding for the sponsoring agency.

LL. Sections 51745 – 51749.3

Independent study.

MM. Section 52052

Public school performance and accountability program.

NN. Section 52060

Local Control and Accountability Plans.

OO. California Code of Regulations (CCR)

California Code of Regulations (CCR) | OAL

Regulations applicable to charter schools adopted by the SBE to implement specific sections of the law (Title 5 Education / Division 1 CDE / Chapter 11 Special Programs / Subchapter 19 Charter Schools).

Sample Documents and Online Resources

Click on the title of any item below to view or download it.

[Charter Petition Review Checklist \(.docx\)](#)

[Charter Appeal Following District Denial \(.docx\)](#)

[Countywide Charter Petition Process \(.pdf\)](#)

[Application Packet for Countywide Charter \(.docx\)](#)

[Countywide Charter Petition Review Checklist \(.docx\)](#)

[Sample In-Lieu Schedule \(.xls\)](#)

[Charter 20 Day Report \(CDE website\)](#)

[Charter Legal Opinion \(pdf\)](#)

I. OVERVIEW

A. Background Information

1. School districts maintain cash in various accounts including:
 - a. Cash in the county treasury
 - b. Cash in local banks
 - c. Cash held by various fiscal agents on behalf of the school district.
 - d. Cash in the Local Agency Investment Fund (LAIF)
2. Education Code Section 41001 requires districts to deposit all funds in the county treasury.
3. Education Code Section 41002.5 allows school districts to deposit certain funds into federally insured banks or financial institutions. These other funds are:
 - a. Funds received for making loans, scholarships, or grants to students in, or graduates of, a school under the jurisdiction of the governing board of the district.
 - b. Funds received for the sale of food or other services performed by the cafeterias.
 - c. Funds received from the sale of produce, livestock, and products of school farms.
 - d. Clearing accounts established pursuant to Education Code Section 41017.
 - e. Funds of a student body organization.
 - f. Funds in a revolving cash fund established pursuant to Education Code Section 42820.
 - g. Funds for community recreation programs established pursuant to Chapter 10 (commencing with Section 10900) of Part 7 of the Education Code.
 - h. Funds that, pursuant to any other law or provision of the *California School Accounting Manual*, may be deposited in a bank or other federally insured financial institution in lieu of the county treasury.
4. For certain types of transactions (e.g., the issuance of certificates of participation), school districts are required to establish a financing corporation. In these instances, the cash proceeds of the transaction may be deposited in a bank and held on behalf of the financing corporation.

B. Cash in the County Treasury

1. Education Code Section 41000 prohibits assessors, tax collectors, city, city and county, or county treasurers from charging or receiving fees or compensation for assessing, collecting, receiving,

- keeping, or disbursing any school moneys; they must pay the “whole moneys collected” to the city, city and county, or county treasurer.
2. Education Code Section 41001 requires the governing board of every school district to pay all moneys received or collected from any source and all moneys apportioned to it from taxes levied, and collected under the authority of city councils for school purposes, into the county treasury to be placed to the credit of the proper fund of its districts.
 - Districts are required to deposit the money daily, unless the county superintendent of schools authorizes the deposits to be made weekly or otherwise, but in no event less frequently than monthly.
 3. Government Code Section 53684 (b) requires the county treasurer to apportion interest at least quarterly on the funds invested in the county treasury.
 - a. The county treasurer is required to apportion interest in an amount proportionate to the average daily balance of the amounts deposited by the local agency.
 - b. Prior to distributing the interest, the county treasurer may deduct the actual costs incurred by the county in administering this section of the Government Code.
- C. Borrowing Options
1. Internal borrowing between district funds
 - a. Education Code Section 42603 authorizes a school district to temporarily transfer moneys held in any fund to another fund of the district for payment of obligations.
 - b. The borrowing fund must earn sufficient income, during the current fiscal year, to repay the amount transferred.
 - c. These temporary transfers may not exceed 75% of the maximum amount of moneys held in any fund during the current fiscal year.
 - d. Amounts transferred must be repaid in the same fiscal year or in the following fiscal year if the transfer takes place within the final 120 days of the fiscal year. Interfund borrowing should be monitored as part of the AB 1200 review process to better understand cash-related risks.
 2. Borrowing from the county treasurer
 - a. Education Code Section 42620 authorizes the board of supervisors of the county or city and county to order the auditor and treasurer to make a temporary transfer from any funds not immediately needed to pay claims against them to any school district or county school service fund that does not have sufficient funds to its credit in the county treasury to meet current expenses.

- b. Article XVI, Section 6 of the California Constitution provides that the county treasurer cannot loan districts money prior to the first day of the fiscal year or after the last Monday in April of the current fiscal year.
 - c. This type of borrowing requires the approval of the governing board of the county or city and county by resolution.
 - d. These temporary transfers may not exceed 85% of the money that will accrue to the school district or county school service fund during the fiscal year.
 - e. The auditor and treasurer are required to repay the funds to the county or city and county fund from which they were taken from the first moneys accruing to the school district or county school service fund and before any other obligation of the school district or county office is paid.
3. Borrowing from the county office of education
- a. Education Code Section 42621 authorizes the county superintendent of schools, with the approval of the county board of education, to make temporary transfers to any school district or charter school that does not have sufficient money to its credit to meet current operating expenses.
 - i. The county superintendent will make these transfers from the county school service fund.
 - ii. The transfers may not exceed 85% of the amount accruing to the school district/charter school at the time of the transfer.
 - iii. The district or charter school must repay the county school service fund prior to June 30 of the current fiscal year from any funds subsequently received by the school district or charter school.
 - b. Education Code Section 42622 authorizes the county superintendent of schools, with the approval of the county board of education, to make an apportionment to a school district or charter school.
 - i. The apportionment is made from the county school service fund.
 - ii. The apportionment is conditional upon repayment in the next fiscal year from the district's or charter school's general fund.
4. Tax and revenue anticipation notes (TRANS)
- a. Definition and purpose
 - i. Government Code Section 53852 authorizes the issuance of tax revenue anticipation notes (TRANS), which are short-term loans school districts can use to finance cash flow deficits that are created when expenditures are incurred before revenues are received.

- ii. The notes are retired from revenues of the fiscal year to which the TRANs are related.
- b. Basic types of TRANs
 - i. Traditional 12-Month (typically July to June) (also known as regular TRANs)
 - a) Covers beginning of fiscal year deficit
 - b) Only one issuance cost
 - c) Does not cover end-of-year deficit
 - d) May be issued as a tax-exempt TRAN
 - e) Projected maximum deficit must occur within six months of issuance
 - f) If pledge dates on an October to October TRAN are all in the current fiscal year (e.g. January and April), the TRAN is also categorized as a regular TRAN.
 - ii. Fall 12-Month Cross Fiscal Year TRAN (typically October to October)
 - a) Covers the fall deficit and the fiscal year-end deficit
 - b) Portion of TRANs that can be used to fund fiscal year-end deficit is dictated by the amount of unearned revenue
 - c) Requires analysis of debt service coverage at maturity from unearned revenues
 - d) Only one issuance cost
 - e) Typically has higher interest cost than a regular TRAN due to unearned revenues being part of the security
 - f) Projected maximum deficit must occur within six months
 - g) Credit analysis focuses on ability to repay from unearned revenues; repayment from a future TRANs is a red flag
 - h) May be issued as a tax-exempt TRAN
 - iii. 15-Month TRAN (July to October)
 - a) Covers beginning of the fiscal year, fall and end-of-year deficits
 - b) Portion of TRANs that can be used to fund fiscal year-end deficit is dictated by the amount of unearned revenues
 - c) Requires analysis of debt service coverage at maturity from unearned revenues
 - d) One issuance cost
 - e) Government Code Section 53854 allows TRANs to be payable up to 15 months after date of issuance; however, the IRS has issued a revenue ruling that it is not comfortable with a maturity date beyond 13 months; thus, issuers of 15-month notes should expect to be audited and questioned about the business reason for

- the 15-month maturity; districts with significant unearned revenues may be able to defend issuance.
- f) Higher interest rate due to weaker security from unearned revenues
 - g) Potential for higher interest rates due to investor concern over tax-exempt status of TRANs as described above and inability of money market funds to directly purchase notes due to term; however, interest may not exceed 10% per annum, per Government Code Section 53854.
 - h) Credit analysis focuses on ability to repay from unearned revenues; repayment from a future TRANs is a red flag
 - i) 15-month TRAN can be issued as a tax-exempt TRAN
- iv. Multiple TRANs (July to March or June and February to October)
- a) Two issuance costs
 - b) Able to cover various deficits throughout the year
 - c) Cross-fiscal-year component requires analysis of debt service coverage at maturity from deferred revenues
 - d) May be issued as tax-exempt TRANs
- c. TRAN sizing guidelines and limitations
- i. The principal and interest cannot exceed 85% of uncollected revenues at time of TRAN issuance.
 - ii. Maximum tax-exempt TRAN amount is equal to projected negative cash balance that occurs within six months from the date of TRAN issuance plus a working capital reserve and
 - a) For cross-fiscal-year TRANs, use of the TRANs beyond fiscal year end is further limited by the amount of unearned revenues
 - iii. Under federal law, the working capital reserve is equal to 5% of the prior year's expenditures.
 - iv. TRAN issuance typically precludes districts from constitutional borrowing from the county treasurer while the TRAN is outstanding.
 - v. Only revenue received or accrued during the fiscal year in which a TRAN is issued may be pledged for TRAN repayment. Revenue deferred by the State into the following fiscal year may be available to be pledged and used to repay a cross-fiscal-year TRAN.
 - vi. IRS arbitrage rebate compliance
 - a) TRAN issuers are subject to rebate payments to the IRS on arbitrage interest earnings on TRAN proceeds unless one of the following rebate exemptions is met;

- 1) Small Issuer Exemption: Borrower issues less than \$5 million in TRANs and other non-construction tax-exempt debt and less than \$15 million in total tax-exempt debt in the calendar year of TRAN issuance with a reasonable projection of a cash flow deficit; or,
 - 2) Large Issuer (Safe Harbor) Exemption: A borrower that issues more than \$5 million in TRANs or other non-construction tax-exempt debt or more than \$15 million in total tax-exempt debt in the calendar year of TRAN issuance must experience the reasonably projected cash flow deficit used to size the TRAN within six months of the date of issuance of the TRAN.
- b) In an audit, the IRS may call into question the reasonableness of the deficit projections of a small issuer that continually fails to meet prior deficit projections.
 - c) Failure to make required rebate payment as a large issuer may result in additional penalty payments to the IRS.
- d. TRAN issuance steps
- i. Adopt resolution to authorize TRAN issuance and establish parameters for financing.
 - ii. Collect historical financial data (i.e., audit reports, budget and interim reports, current and prior year cash flows) to assess financial standing and cash needs.
 - iii. Provide revenue and expenditure projections for TRAN issuance year.
 - iv. Provide cash flow projections for TRAN issuance year.
- e. Required action
- i. The county board of education, school district, or community college district adopts a resolution to authorize the TRAN issuance.
 - ii. For a county board of education, school district, or community college district that has not been accorded fiscal accountability status, the adopted resolution is sent to the board of supervisors, with a copy to the county superintendent of schools and the county treasurer.
 - a) Explanation for borrowing is provided to county treasurer (recommended).
 - b) The board of supervisors authorizes, by resolution, the issuance of a note.
 - c) If the board of supervisors doesn't (or notifies that they won't) adopt a resolution to issue the note within 45 days, then the county board of education, school district or community college district may issue the note on its own.
 - iii. Under Education Code Section 42133(a), if a district has a qualified or negative interim report certification in any year, the district may not issue non-voter-approved debt instruments in that year or the next, unless the county superintendent of schools, using the Superintendent of Public Instruction's criteria, determines repayment is probable.
 - iv. TRAN proceeds, set-asides and repayments

- a) The resolution authorizing the issuance of the note will specify what taxes, income, revenue, cash receipts or other moneys are pledged for the payment of the note and interest.
 - 1) The note and interest is payable from the first moneys received from these pledged moneys.
 - 2) "Revenue" includes, but is not limited to, revenue from the state and federal governments.
- b) If a district will issue a TRAN in addition to borrowing from the county office of education, the order of repayment should be addressed in the memorandum of understanding between the county office of education and the district.
- c) The note is a general obligation of the local agency, and, to the extent it is not paid from the pledged moneys, it will be paid with interest from any other moneys of the local agency that are lawfully available.
- d) TRAN proceeds may be deposited with a fiscal agent outside the county treasury.
 - 1) A draw of cash from the fiscal agent to the county treasury is processed as needed to meet cash needs.
 - 2) Repayments are made from the county treasury to the fiscal agent.
 - 3) The fiscal agent holds amounts in a repayment reserve account according to the repayment schedule defined in the note issuance and processes the repayments.
- e) TRAN proceeds may be deposited in the county treasury.
 - 1) Funds are available to meet cash flow needs.
 - 2) Interest earned should be accounted for separately from interest earned on other funds of the district.
 - 3) A schedule of pledged revenues to be set aside to meet repayment obligations is defined in the authorizing resolution.
 - a. The repayment set aside deposits are held in a separate restricted account for the benefit of the owner of the note, and the district does not have any right to requisition or otherwise access such moneys.
 - b. The set-aside amounts may be deposited into an agency fund.
 - c. The county auditor-controller or the county office of education may coordinate the transfer of set-aside amounts and repayments according to the schedule and as authorized by the district.
 - d. Consideration should be given to initiating the transfers for set-asides and repayments with sufficient time to ensure timely processing, such as at least a day before the required date.

- f. Fiscal Impact
 - i. Cost of issuance may be high
 - ii. Qualification status (qualified or negative) may also affect the ability to issue a TRANs as well as the cost to borrow.
 - iii. Interest earned may partially or completely offset issuance costs.
 - iv. The IRS conducts routine audits of TRANs; such audits may incur significant costs, including retention of qualified tax counsel to assist in negotiations as well as potential loss of arbitrage earnings, if any, should the district fail to satisfy IRS requirements.
 - g. Potential structures for TRANs
 - i. A TRAN may be issued independently, which is often economical for large issuers.
 - ii. A TRAN may be issued through an established pool, which is often economical for small issuers and minimizes costs, time and effort of participating school districts.
 - iii. A TRAN may be issued through the local county office of education, which has the benefits of a pool, is consistent with the county office's fiscal oversight duties, and can be structured such that the county office is or is not liable for any repayment shortfalls by participating districts.
- D. Payments from the Funds of the School District
- 1. Education Code Section 42631 requires that all payments from the funds of school districts be made by written order of the governing board of the district. See Procedure 12, Approving District Orders, for detailed information regarding payments from the funds of a school district.
- E. Procedures for Registering Orders and Warrants
- 1. Overview
 - a. Education Code sections 42670 through 42678 and 42690 through 42694 grant county offices of education and school districts the authority to issue registered warrants if they are unable to meet current obligations because of cash flow difficulties. These registered warrants function as IOUs, with an annual interest rate of 5% to creditors when cash is not available to make payments.
 - b. The Education Code provides two possible procedures to be followed when funds are not available to pay orders presented by school districts or county offices.
 - c. Because registered warrants will adversely affect other entities and individuals who will receive them, local educational agencies (LEAs) should consider issuing registered warrants only after considering all the options listed below.
 - a. Education Code Section 42620: Loan from the county treasurer
This cannot exceed 85% of the amount of money which will accrue to the school district

or county school service fund during the fiscal year. Repayment must be made from the first monies received by the LEA before any other obligation is paid, and no loans can be made after the last Monday in April.

- b. Education Code Section 42621: Loans from the county office
Most county offices will experience the same cash shortage as local school districts and may not be able to accommodate the request.
- c. Education Code Section 42603: Temporary borrowing from other district funds
No more than 75% of the money held in any fund during the current fiscal year may be transferred, and there are strict guidelines regarding when the funds must be repaid.
- d. Short-term debt such as tax revenue anticipation notes (TRANS) if the school district or county office is able to obtain them.

2. Legal Requirements

- a. The legal authority for school districts and county offices to register orders and warrants is provided by Education Code sections 42670 through 42678 and 42690 through 42694.

The Education Code provides LEAs with two possible alternatives as follows:

- i. Alternative 1: Registering Orders

Education Code sections 42670 through 42674 outline the procedure for a county superintendent of schools to follow when they receive an order against a school district's funds but the monies are not available to pay the order. In this event, the county superintendent should do the following:

1. Record the order, endorse on the order the words "Not approved for want of funds," and register it (E.C. 42670).
2. Register the order in the county superintendent of schools' records, and number and date the registered order (E.C. 42671).
3. Return the registered order to the school district's governing board (E.C. 42671).

The affected school district then delivers the registered order to the payee. The order earns 5% interest from the date of registration until notice is given that the order can be paid (E.C. 42671).

When money is available to pay the registered order(s), the county superintendent of schools must then publish, in a newspaper of general circulation, a notice that the order can be approved. The notice may name the districts and list in order of registration the registered orders for which money is now available (E.C. 42672).

At the time of giving notice, the county superintendent of schools must set aside funds to cover the warrants for a period of 60 days. If the registered order is not presented for payment within 60 days of publication, or if money is not available when the order is presented, the order cannot be approved until money again becomes available and notice is again given (E.C. 42673).

The county superintendent of schools approves each district's registered orders and signs them as requisitions on the county auditor, in order of presentation. The total amount due, including interest, is entered on each (E.C. 42674).

As an alternative to the warrant approval procedure in Education Code Section 42674, whenever two or more orders registered on the same date and issued against the funds of the same district are presented for payment at the same time, the county superintendent of schools has the option to issue separately a special requisition for the total amount of interest. The special requisition shall be numbered by the county superintendent of schools and shall state, "In full payment of interest due on warrants numbered ____ to ____ , inclusive, of the _____ School District." (E.C. 42675-42677).

The county superintendent of schools shall report to the county treasurer and auditor the amount of interest paid. The county superintendent of schools shall also send to the governing boards of each school district the registered orders which have been approved and paid, and report to the clerk or secretary of the district the amount of interest paid and the numbers of the registered orders on which interest is to be paid (E.C. 42678).

- ii. Alternative 2: Registering Warrants with the approval of the County Board of Supervisors (includes coordination with the county auditor's and county treasurer's offices)

This second alternative for registering warrants is provided in Education Code sections 42690-42694. The difference is that when there is insufficient money against which the order from a district is drawn to pay the order in full, the county superintendent of schools can endorse on the order "to be registered for lack of sufficient funds."

To follow the below procedure for this alternative, the county board of supervisors must adopt a resolution as specified in Government Code Section 29822 (E.C. 42690)

When the county superintendent of schools receives an order for which there are insufficient funds to make the payment, they shall endorse the order "to be registered for lack of sufficient funds," sign, date and number the order as a requisition on the county auditor, and forward the requisition to the county auditor (E.C. 42691).

The county auditor shall then endorse on the order the phrase "examined and allowed," sign, date and number the order as a warrant on the county treasurer, and return the warrant to the county superintendent of schools. The county superintendent will then forward the warrant to the governing board of the school district for issuance to the payee (E.C. 42691).

When the warrant is presented to the county treasurer for payment, the county treasurer will follow the procedures outlined in Government Code sections 29821 to 29824 and 29826 to 29827, and endorse, register, advertise and pay it, along with 5% annual interest (E.C. 42692). Much of the process the county treasurer follows is the same as that provided for county warrants in Education Code sections 42671 to 42674.

If the warrants are not presented for payment within 60 days of the notice, the treasurer may use the funds to pay the next unpaid warrants in line (E.C. 42693).

Within 10 days after the end of the month, the county auditor must report to the county superintendent of schools the amount of interest added to the registered warrants and the amount paid during the preceding month, by district. This information shall then be forwarded to the clerk or secretary of each district for which interest was paid (E.C. 42694).

3. Things to Consider Before Issuing Registered Warrants

- a. Although legal, registered warrants entail a process that needs advance preparation because it is cumbersome and adversely affects many agencies, companies and individuals. Therefore, LEAs should ensure at least the following before issuing registered warrants:
 - i. The county office should verify that districts have done the following:
 - Used all other means of meeting cash needs, including transfers between funds and issuing TRANS.
 - Developed and verified a complete, detailed cash flow statement.
 - Lengthened purchasing cycles.
 - Followed up on any outstanding receivables.
 - Ensured that all cash balances have been reviewed for possible temporary interfund transfers.
 - Reviewed anticipated schedule of apportionments so cash flow infusions are known.
 - ii. The county office should verify the following with its information technology department:
 - The ability to print “registered school order” and “not approved for want of funds” if using registered orders.
 - The paper stock to be used and whether it is different than that normally used for warrants.
 - How a register will be created.
 - How accounting entries will be handled and whether existing processes need any adjustments.
 - iii. The county office should do the following regarding the county treasurer and county auditor
 - Communicate well in advance regarding potential need.
 - If using registered warrants, seek the required resolution from the county board of supervisors.

- iv. The county office should do the following regarding and in coordination with all agencies and departments:
 - Determine whether registered orders or registered warrants will be used.
 - Determine which agencies and departments are involved, including the county office and its information technology department, the district or districts, the county auditor and the county treasurer.
 - Develop written procedures.
 - Ensure that all parties clearly understand what the process will be and the roles and responsibilities of each agency and department.
- v. Additional actions and considerations include the following (responsible parties depending on the situation):
 - Communication with employees who will be affected.
 - Communication with vendors that will be affected.
 - Consider seeking legal counsel.
 - Consider seeking input from the IRS, CalPERS and CalSTRS.
 - Communication with voluntary deduction vendors.
 - Communication with local banks and credit unions. Will they honor registered orders/warrants made payable to their members or customers. If so, is there a special process for this, such as a special teller or manager approval?
 - Creation and distribution of press releases.
 - Determine who will be responsible to publish notice in the newspaper once funds are available. Wording should be prepared ahead of time and the numbers filled in when funds become available.
 - Determine the process for tracking registered warrants or orders that have been presented to ensure compliance with the statutory 60-day deadline.
 - Determine the process for generating warrants, including interest, when registered warrants or orders are presented.

4. Procedures

- a. The specific procedures for registering warrants will vary depending on many factors such as the following:
 - The extent and length of cash shortfall
 - The procedures and composition of the district, the county office, the county auditor and the county treasurer's office
 - Data processing services

- Legal opinions
 - Payees
- b. Following is a sample procedure for Alternative 1.

A sample procedure is not provided for Alternative 2 because that alternative must be approved by the county board of supervisors and is thus usually regulated by the county auditor.

Sample procedure under Alternative 1:

1. The district determines the order in which obligations are to be paid. Once an order is numbered and dated, no payment of any subsequent order is allowed until sufficient funds are on deposit to pay the first order. Thus, although subsequent smaller orders may be affordable, they are not payable until all prior orders are cleared for payment. This inflexible queuing means that a district should carefully consider where an order will fall in the queue before it is submitted.
 - a. Payroll orders normally supersede any others issued on the same date.
2. The district prepares the payroll or vendor payment request.
3. The individual warrants (now called registered school orders) are drawn according to the usual county office procedure for doing so.
4. The county office registers the entire order by number and date in the sequence, as submitted by the district.
5. A separate list is sent to the county auditor and treasurer.
6. The face of each warrant bears the notation, "Registered School Order." Pursuant to Education Code Section 42670, the reverse will be stamped, "Not approved for want of funds".
7. The registered school orders and accompanying register pages are then returned to the district.
8. An example of the accounting and general ledger entries is as follows:
 - a. Debit expense object.
 - b. Credit registered warrant suspense.
 - i. At this point there is no credit to cash.
 - c. Manually reverse all transfers that were posted to expense.
9. The district distributes the registered school orders.

10. Each registered school order should be accompanied by a complete and detailed explanation of what this means to the claimant, including information regarding interest, cashing and public notice.
 11. Interest at 5% per annum begins on the date the registered school order is issued and is calculated based on 360 days. Interest ceases to accrue on the date posted in the legal notice (see item 12 below).
 12. When funds become available, the office of the county superintendent of schools will publish a notice listing the registered school order numbers that may be redeemed and advise the district accordingly.
 13. To be redeemed, registered school orders are to be returned to the office of the county superintendent of schools.
 14. Interest is calculated from the date of issue through the date posted in the legal notice (E.C. 42671).
 15. Following is a suggested procedure and the accounting/general ledger entries for use when a warrant is issued in place of a registered school order.
 - a. The registered school order is stamped "VOID."
 - b. Debit interest object classification (to post applicable interest).
 - c. Debit registered warrant suspense.
 - d. Credit cash (sum of b and c above).
 - e. Post transfers.
 - f. Issue the warrant, including applicable interest.
 - g. Prepare new registers in the normal manner.
 - h. In the case of payroll warrants, a nonpayroll warrant should be issued to cover the net pay with interest. Because the registered warrant included posting to the employee earnings record, it is not necessary to repost this. The nonpayroll warrant should be issued payable to the bearer of the registered school order, not necessarily the employee.
 16. Warrants not redeemed within a reasonable period should be recalled and a letter sent to the claimant. (See E.C. 42673 through 42693 regarding the 60-day limit).
5. Payroll
- a. The Education Code's provisions for registered orders appear to allow some flexibility regarding the requirement that regular employees be paid no earlier than the last working day of any month and no later than the fifth working day of the following month. Registering

payroll orders enables an educational entity to place something in employees' hands but in reality not pay anything until the funds are on deposit to cover the order.

- b. This raises the legal question of whether the deposit of payroll taxes is due as usual on a payroll consisting of registered orders (particularly to the IRS as covered in IRS code sections 6656 and 6931). And, if payroll taxes are due, can payment be made by registered order without suffering penalties? In the past, one district did pay the IRS with a registered warrant and the IRS attempted to deposit it. When the bank refused the warrant, the IRS imposed on the district the standard penalty of one percent of the warrant. Seeking legal counsel and asking the IRS these and similar questions before acting may avoid extra cost in an already expensive process.
 - c. Voluntary employee deductions may be handled using the same process as other registered orders; each agency receiving the voluntary deduction would be issued a registered school order. It is essential that the various agencies be contacted to ensure that they understand the process and method for handling employee deductions. Districts that have had to register orders have found that some vendors have been quite cooperative and understanding and have deferred the payments until the funds have been received.
6. Credit Unions and Banks
- a. Almost all school-related credit unions, including school employee association credit unions, have demonstrated a willingness to honor registered school orders made payable to their members. Membership usually means having a small minimum balance on deposit. Credit unions often cash or deposit registered school orders in full without discounting them. The employee endorses the registered but unsigned school order over to the credit union and it becomes their property.
 - b. The credit union is entitled to the legislated (E.C. 42671) 5% annual interest from the date of issue of the warrant through the date on which sufficient funds became available to pay the warrant and the interest. This date is determined by the office of the county superintendent of schools based on its expectations of when apportionments will be forthcoming and is to be published as a legal notice in the newspaper.
 - c. The interest rate is determined based on the 5% annual rate and the number of days elapsed as compared to 360. The credit union submits all registered school orders and a claim for total interest to the office of the county superintendent of schools, and a warrant covering interest and principal is then issued.
 - d. Some banks will also honor registered school orders. County office and school district administrators should contact and make arrangements with specific bank branches. The payee may be required to obtain approval from the manager and a designated teller may be assigned to handle these warrants because the process for redeeming them is different than for other forms of payment.

- e. Individuals who hold registered warrants and do not cash them are also entitled to the 5% interest.
 - f. Districts and county offices should write letters to their respective vendors delaying payment for as many warrants as possible but should not delay payroll. Withholding amounts cannot be paid directly to credit unions as they normally can be for loan payments and share accounts.
7. Communications and Public Relations
- a. It is important to keep all parties affected by registered orders fully informed in a timely manner throughout the process, especially before the registered warrants are issued.
 - b. The county office should provide clear assurance that payment is forthcoming and that the district or county office's inability to pay is temporary.
 - c. Claimants need to know how the orders will be honored, what the procedure for exchanging them is, and how they will receive notice about the exchange. Employees need to be informed of the banks and credit unions that have agreed to accept orders from members and customers.
 - d. Local banks also need to be kept aware of the situation as it progresses.
 - e. It can be helpful to make both written and personal contact with vendors to assure them of eventual payment and keep them as a source of services and supplies.
 - f. The county auditor and treasurer need to be part of the initial planning and kept informed throughout the process.
 - g. Issuing a complete and factual news release can help reduce or eliminate public and media misinformation and speculation.
 - h. When registered orders are no longer necessary, a series of bulletins and news releases showing how the district or county office is putting itself in a better cash flow position can help to restore public trust and reduce the anxiety of employees and vendors who have been paid late.

II. COUNTY OFFICE RESPONSIBILITIES

- A. Based on the review of the various legal requirements for the county office of education in relation to the cash accounts of the district, there are two areas of responsibility for the county office:
 - 1. Responsibility to approve the orders on the funds of school districts.
 - 2. Responsibility to prescribe alternate procedures for fiscally accountable districts.
- B. These responsibilities of the county are addressed in the following procedures:

1. Procedure 12 Approving District Orders
2. Procedure 13 Fiscal Accountable and Fiscally Independent Districts

C. Cash Reconciliations

1. Each month, or more often as needed, the county office of education receives a report from the county treasurer on the cash balances for each district in the county.
 - a. These reports from the county treasurer are the information school districts need to reconcile the cash accounts in their general ledger to their bank account, the county treasury.
 - b. Many COEs request a copy of the district's cash reconciliation for their AB 1200 review (one tool to assess the adequacy of the district's cash flow).

D. Cash Monitoring

1. The COE should ensure that cash is monitored sufficiently. Depending on the circumstances, COEs may do the following:
 - a. Monitor the cash balances for their districts to ensure that the districts have sufficient funds to meet payroll and make vendor payments.
 - b. Monitor the cash balances daily, weekly or monthly.
 - c. Assist the districts in determining when to draw down their TRANs for cash flow purposes.

III. LEGAL CITATIONS

A. Government Code

1. Sections 27000-27013
Provide laws on county investments and disbursements from the county treasury.
2. Sections 53600 –53609
Provide laws on investing public funds.
3. Sections 53630-53686
Define terms, responsibilities of county treasurer, laws on deposits with county treasurer, and eligible securities.

B. Education Code

1. Sections 41000 – 41003

- Provide laws on deposits of district funds into the county treasury.
2. Sections 41015 - 41016

Authorize the district or county office of education to invest surplus moneys not required for the immediate necessities of the district or county office of education.
 3. Section 41017

Authorizes the school district or county office of education to deposit funds in a local bank to serve as a clearing account for miscellaneous receipts.
 4. Section 41018

Authorizes a school district or county office of education having an average daily attendance of 100,000 or more to deposit funds received from the temporary rental of property pending construction of school facilities on the property into a bank account.
 5. Education Code sections 42620 – 42633

Provide laws on temporary transfers to school districts and county offices of education that do not have sufficient money to their credit to meet current operating expenses.
 6. Education Code sections 42630 – 42652

Provides laws on the payment of money from the funds of a school district.
 7. Education Code sections 42820 – 42821

Provide laws on the revolving cash fund.
 8. Education Code sections 42670 – 42678

Provide laws on orders and warrants when moneys are not available.
 9. Education Code sections 42690 - 42694

Provide laws on optional method – registering warrants.

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I. OVERVIEW

- A. Internal controls are the policies and procedures that promote efficiencies in operations, protect public funds, reduce the risk of fraud and abuse, and ensure the accuracy, reliability and timeliness of financial reporting while maintaining compliance with applicable laws, regulations and statutes.
- B. Assembly Bill (AB) 1200 (Chapter 1213/Statutes 1991) requires superintendents of schools to review districts' financial reports and other documents. AB 2756 (Chapter 52/Statutes 2004) expanded county superintendents' fiscal oversight responsibilities to ensure districts maintain sound fiscal management and are able to meet their financial obligations. Evaluating a district's internal controls is a fundamental step in the fiscal oversight process.
- C. An understanding of a district's internal controls is necessary to adequately perform AB 1200 reviews, otherwise the reviewer must make certain assumptions regarding the accumulation and recording of financial data.

For example, to determine whether the budgeted salaries are correct in the second interim report, the county superintendent's staff will review various district financial reports.

To determine whether the budgeted salaries are reasonable, staff may compare the actual salaries expended to date, plus the encumbrances, along with an assessment of whether any changes in full-time equivalent positions (FTEs) from the prior period are reflected.

However, a reviewer can better determine the reasonableness of salary budgets if there is a good understanding of how salary information is calculated, documented and recorded.

The reviewer could, for example, examine the district's use of position control:

1. If the district is using a position control software module, is the position control system linked to the budget and payroll modules? Is the position control system used as a true control system or as a database to collect and report data? Are duties divided so that one person or one department is not entering all the information in the position control system? Are there adequate controls for the software process (e.g., board approval of all positions that are created and deleted)?
2. If the district's computer system encumbers salaries, are the encumbrances accurate? Are any salaries not encumbered?

II. USING INTERNAL CONTROLS IN THE AB 1200 REVIEW

- A. When a district's budget is qualified or negative, or the district has been designated as a lack of going concern or is undergoing an AB 139 extraordinary fraud audit per Education Code (EC) 1241.5, the county superintendent's staff may want to include the district's internal controls for financial reporting as a part of its AB 1200 review.
- B. There are several ways to determine if a district's internal controls can be relied on when conducting AB 1200 reviews.

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1. Evaluate internal controls by using FCMAT's Fiscal Health Risk Analysis (FHRA) and Indicators of Risk or Potential Insolvency. Suggest that district leaders assess and complete the FHRA as a team. This could provide an early warning of potential internal control weaknesses that could be proactively addressed. Several sections of these FCMAT tools can help identify where internal controls are lacking:
 - a. Cash Monitoring.
 - b. Management Information Systems.
 - c. Budget Development and Adoption.
 - d. Position Control.
 - e. Budget Monitoring.
 - f. Annual Independent Audit Report.
 - g. General Ledger.
2. Evaluate internal controls using FCMAT's Fiscally Accountable/Independent Risk Analysis tool, if applicable.
3. Review the district's latest audit report or other assessment report to determine if the internal controls failed, passed, or had major findings and exceptions. It helps to read the following sections of an audit report:
 - a. *Audit Opinion*

Determine whether the audit opinion is unmodified. If the opinion is anything other than unmodified, further examination is warranted.
 - b. *Reconciliation of Annual Financial and Budget Report with Audited Financial Statements*

An auditor's need to continually adjust a district's unaudited actuals can indicate weaknesses in internal controls. For example, if the auditors need to make an adjustment to the accounts receivable balance every year, it might mean the district has a control weakness in identifying and recording revenues.
 - c. *Report on State Compliance*

Determine which state programs were selected and tested. Read the opinion to see if the auditor found any areas of noncompliance and whether material weakness or significant deficiencies were identified.

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- d. *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*

Read the opinion to see if the auditor found any noncompliance and whether material weakness or significant deficiencies were identified.

- e. *Independent Auditor's Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by OMB Circular A-133*

Read the opinion to see if the auditor found any incidence of noncompliance and whether material weakness or significant deficiencies were identified.

- f. *Schedule of Findings and Questioned Costs*

Review this section for findings that detail issues with internal controls, and pay special attention to repeat findings.

4. Under the provision of EC 41020.8, county superintendents of schools may request that a district's independent auditors send to the county office their working papers regarding testing of internal controls. This can only be used for a district that the county superintendent has determined may not be able to meet its financial obligations for the current or subsequent fiscal year.

Information the independent auditor provides to the county superintendent does not constitute a violation of auditor-client confidentiality.

5. To gain information regarding internal controls in a district, the county superintendent can perform their own evaluation by using the internal control checklist included in this section. A district's cooperation in completing this checklist is voluntary. There is no provision in the law that authorizes a county superintendent to compel a district to complete such internal control reviews. Therefore, it is important to maintain good relations with a district so that their participation will be without reservation. When a cordial relationship exists with the district, the county superintendent can also learn about flaws in a district's internal controls through personal conversations with district staff.
 - a. The most efficient way to use these checklists is to email them to the districts for completion.
 - b. Upon completion, the county superintendent's staff should schedule a meeting with each district to determine if the responses are reasonable and to discuss any questions raised by the information submitted.
 - c. After the internal control checklist is first completed, the county superintendent should periodically send the completed checklist to each district with a request to review the responses and make changes if needed based on current operations.

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6. For the completed checklist to have value, a county superintendent must test the internal controls that a district claims it has in place. Otherwise, the county superintendent can make erroneous decisions about the district's financial status based on the mistaken belief that it has a complete understanding of the internal controls. Making decisions based on an understanding of written but untested internal controls may be riskier than making decisions when there is no understanding of the internal controls. There are several reasons for this:
 - a. If a district is not accurate when it completes the checklist, the county superintendent's staff will rely on inaccurate information when determining the sufficiency of internal controls.
 - b. The district may have written control procedures; however, actual practice may differ from the documentation.
 - c. The district may be unaware of significant errors in their processes. If the rate of error is unknown, too much confidence may be placed in a control procedure.
 - d. The quality of a written procedure may differ from the quality with which it is followed. The level of expertise of those assigned to follow a procedure can also vary.
 - e. A county superintendent is more likely to investigate differences and anomalies in a report if they lack confidence in a district's internal controls. Staff might be willing to accept a difference or anomaly if they believe that internal controls are sufficient, even though their understanding of those controls is based on inaccurate information in a checklist.
7. If a district has policies, procedures or reports that document its system of internal controls, obtain these documents for review in addition to the checklist.

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Internal Control Checklist

Instructions

Answer all questions by entering an "X" (where appropriate) under "Yes," "No," or "NA," and filling in additional information (if any) in the *Comments* section. In most instances, a "No" answer indicates an internal control weakness. The *Comments* section will expand to accommodate longer answers.

Question	Yes	No	NA	Comments
GENERAL				
What is the fiscal status of the district? (Mark all that apply)				
<input type="checkbox"/> Dependent <input type="checkbox"/> Fiscally Accountable <input type="checkbox"/> Fiscally Independent				
<input type="checkbox"/> Basic Aid <input type="checkbox"/> State Aid				
<ul style="list-style-type: none"> Is there a pattern of recurring audit findings, audit adjustments, compliance issues, internal control issues, or questioned costs? 				
A. BUDGET DEVELOPMENT				
REVENUE				
<i>Pupil Data</i>				
<ul style="list-style-type: none"> What method does the district use to project its enrollment and unduplicated pupil count for the current and subsequent years? What method does the district use to project ADA for the budget year and the two subsequent years? Are staff adequately trained to project revenues under the LCFF model? <ul style="list-style-type: none"> Explain the procedures in place to accurately record revenues from all sources. Who is responsible for monitoring the revenues, apportionments, and the end date of any voter-approved or state programs? Does the district routinely report CALPADS data by the due date? <ul style="list-style-type: none"> Does the district habitually amend data? Does the district report attendance data in a timely manner? Does the district habitually amend data? 				
<i>Grants</i>				
<ul style="list-style-type: none"> Explain the process for preparing the budgets for state and federal grants. For example, does the district prepare a budget based on an estimate from the previous year or wait until they receive a grant letter? 				

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Internal Control Checklist (cont.)

Question	Yes	No	NA	Comments
<ul style="list-style-type: none"> How does the district budget the salaries and benefits in the grants? That is, are individuals assigned to the grant at the beginning of the year, or are individuals charged to the grant during the year or at year-end closing? 				
<ul style="list-style-type: none"> When does the district budget the unearned revenue or carryover from the previous year? 				
<ul style="list-style-type: none"> Does the district have a procedure for including the expected cost of any negotiated salary increases in the grant budgets or ensuring that sufficient funds are available to cover any authorized salary increase? 				
EXPENDITURES				
<i>Salaries and Benefits</i>				
<ul style="list-style-type: none"> Does the district use a spreadsheet, software module, or an integrated financial software package that includes position control in the personnel, payroll and budget modules or elements? 				
<ul style="list-style-type: none"> Which positions are budgeted in position control and which positions are not? 				
<ul style="list-style-type: none"> Describe who maintains the position control system and how it is maintained. 				
<ul style="list-style-type: none"> Describe how the district verifies that payroll checks are issued only to people who are in authorized positions. 				
<ul style="list-style-type: none"> Does the district budget all authorized positions? If not, explain. 				
<ul style="list-style-type: none"> Does the district budget for the impact of salary savings due to positions that are authorized and budgeted but not filled for a period of time? 				
<ul style="list-style-type: none"> Does the district have a procedure to ensure that no one is hired or put on payroll unless there is a position in the budget? Explain. 				
<ul style="list-style-type: none"> Does the governing board approve all new hires, new positions, and upgrades of existing positions? How is this documented? 				
<ul style="list-style-type: none"> Explain how the district budgets the statutory benefits. 				
<ul style="list-style-type: none"> Explain how the district budgets the health and welfare benefits. 				
<ul style="list-style-type: none"> Are health and welfare benefits capped? 				
<ul style="list-style-type: none"> Is there a policy on how much vacation an employee may carry over from year to year? What are the limits? Is anyone over the limit? 				
LCAP				
<ul style="list-style-type: none"> How is the budget tied to the LCAP? 				
<ul style="list-style-type: none"> Is the budget monitored against the LCAP? How often? 				

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Internal Control Checklist (cont.)

Question	Yes	No	NA	Comments
<i>Construction</i>				
• Does the district have construction projects in progress?				
• Who is responsible for preparing the construction budgets?				
• How are these projects funded?				
• If the district has general obligation authority, does the district have a list of all the projects that it will fund from these amounts in the future and the cost of these projects, and does it obtain an annual audit?				
• Does the district report the performance of each project in each project's own separate financial statement?				
• Explain how the district prepares the budget for each construction project.				
• Does the district include reserves for change orders?				
• Does the district budget the amount of the entire construction project or only the amount that the district will use in that fiscal year?				
• Are the construction budgets monitored?				
• Who (which position) performs this function?				
B. BUDGET MONITORING				
• Are duties separated so that no one individual has complete authority over an entire financial transaction?				
• Are the accounting principles used in preparing the budget the same as those used in recording actual transactions and preparing the financial statements? If not, explain any differences.				
• Who is responsible for monitoring the budget:				
a. At the organization level?				
b. At the department or program/grant level?				
• Have the individuals who are responsible for the budget monitoring received training on how to read the financial reports (budget to actual)?				
• How often are budget-to-actual expenditure reports provided to the individuals identified as responsible for budget monitoring?				
• Is there a process to ensure that errors identified in the review of the budget-to-actual expenditure reports are reported to a responsible official for correction? Explain.				

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Internal Control Checklist (cont.)

Question	Yes	No	NA	Comments
<ul style="list-style-type: none"> Are budget variances (expenditures in excess of the budget or significantly less than the budgeted amount) identified periodically? Explain how this is done. 				
<ul style="list-style-type: none"> Is there a procedure to ensure that negative budget variances (expenditures in excess of the budget) are analyzed and that a budget adjustment is prepared? Explain the procedure. 				
<ul style="list-style-type: none"> Are there established procedures for adjustments to the budget? Describe the process for adjusting the budget. Do these procedures require documentation for all adjustments to the budget? 				
<ul style="list-style-type: none"> Does the district's financial software automatically prevent the issuance of a purchase order if there are not enough funds in that line item of the budget? If yes, who has authority to override the system? 				
C. FINANCIAL REPORTING				
<i>Financial Systems</i>				
<ul style="list-style-type: none"> Does the financial system adequately support the reporting needs of the business services department? 				
<ul style="list-style-type: none"> Does the district use subsidiary or separate applications from its main financial system when preparing and filing mandated county and state reports in a timely manner? If yes, how is the data from the separate subsidiary application reconciled with that of the main financial system? 				
<i>Monthly processes</i>				
<ul style="list-style-type: none"> What is the relationship of business, human resources, educational services, and program management to one another? 				
<ul style="list-style-type: none"> Are adequate controls in place to ensure that the hiring of full-time, part-time, or intermittent staff is appropriately preapproved? 				
<i>Cash and banking</i>				
<ul style="list-style-type: none"> Are monthly cash reconciliations up to date? Are outstanding items cleared on a timely basis? 				
<ul style="list-style-type: none"> Is there adequate separation of duty between the data entry of checks, the execution of checks, and the reconciliation of accounts? 				
<ul style="list-style-type: none"> Are receipts recorded promptly and deposited within 24 hours if greater than \$500, or at least weekly if less? If not, what is the standard practice regarding when deposits are made? 				
<ul style="list-style-type: none"> How are deposit slips prepared and retained? 				

Internal Controls for AB 1200

Procedure 11

Revised 3/2024

Internal Control Checklist (cont.)

Question	Yes	No	NA	Comments
<ul style="list-style-type: none"> How are deposit slips protected from modification after deposit? 				
<ul style="list-style-type: none"> Are bank and cash reconciliations performed regularly? Indicate how often cash accounts are reconciled and who performed them. 				
<ul style="list-style-type: none"> Is the reconciliation reviewed regularly by management? Indicate who reviews the reconciliation reports. 				
<i>Payroll and Accounts Payable</i>				
<ul style="list-style-type: none"> Is there adequate separation of duty between payroll and accounts payable entry and the processing of checks, including the delivery of checks to employees and vendors? 				
<i>Purchase orders and encumbrances</i>				
<ul style="list-style-type: none"> Are purchase orders required for the purchase of all goods and services? If not, explain. 				
<ul style="list-style-type: none"> Does the district's financial system encumber all purchase orders? If not, please explain. 				
<ul style="list-style-type: none"> Does the district's financial system encumber all salaries? If not, which salaries are not encumbered? 				
<ul style="list-style-type: none"> Does the district's financial system encumber all benefits? If not, which benefits are not encumbered? 				
<ul style="list-style-type: none"> Are all encumbrances liquidated at year end? 				
<ul style="list-style-type: none"> If all encumbrances are not liquidated at year end, how does the district determine that they are still valid? 				
<i>Construction</i>				
<ul style="list-style-type: none"> Does the district record the retainage payable as it is incurred (as invoices are received from the contractor)? 				
<ul style="list-style-type: none"> How does the district deal with significant cost overruns in a construction budget? 				
<ul style="list-style-type: none"> Are line-item reserves adequate? 				
<ul style="list-style-type: none"> What reserve percentage is used? 				
<ul style="list-style-type: none"> Who is responsible for project closeout and obtaining vendor warranties? 				

Click here to [download this checklist in Microsoft Word format](#)

Approving District Orders

Procedure 12

Revised 2/2018

I. OVERVIEW

- A. Most payments made from school district funds are from the cash account maintained at the county treasury.
- B. Education Code sections 42630 – 42652 govern how money must be paid from the funds of a school district. These code sections are explained below.
 1. Education Code Section 42630
 - a. Except as otherwise provided in this code, money shall be paid from the funds of any school district for the payment of the expenses of the district, only as provided in this article.
- C. The school district's vendor and payroll warrants must be prepared and signed at the county office of education; below are two exceptions:
 - Fiscally accountable or fiscally independent school district.
 - Districts that print their own payroll and vendor warrants; however, these must be sent to the county office of education for review, approval and signature.
 1. Education Code Section 42631
 - a. The school district must make all payments from the funds of a school district by written order of the governing board of the district.
 - b. The county superintendent of schools must prescribe the forms used to process orders, unless the warrants are processed by an online data processing system.
 2. Education Code Section 42632
 - At least a majority of the members of the governing board of the district, or a person or persons authorized by the governing board to sign orders in its name, must sign each order drawn on the funds of the school district.
 3. Education Code Section 42633
 - a. The governing board of each school district is responsible for filing or causing the staff to file the verified signature of each person, including members of the governing board, authorized to sign orders. Some school district governing boards file the verified signatures each fiscal year; others only update the verified signature list when there are changes.
 - b. The county superintendent must not approve orders for payment unless the signatures are on file in his or her office and he or she is satisfied that the signatures are of persons authorized to sign the orders.

(Note: this provision does not apply to fiscally accountable districts.)

Approving District Orders

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4. Education Code Section 42634

The orders drawn against the funds of the school district must be numbered and state:

- a. The fund or funds of the district against which the order is drawn.
- b. The amount of the payment to be made from each fund.
- c. For orders drawn for the payment of salary or wages, the rate of salary and the period of service for the employee.
- d. If the order is drawn for payments other than salaries or wages of school district employees (vendor payments), the district must accompany the order with an itemized bill showing each item and its price.
- e. If the county superintendent of schools determines that including an itemized bill with the order is impractical, the county superintendent can require the district to maintain the itemized bills at the school district instead of submitting them with the orders for payment. The school district must maintain the itemized bills for possible future audit.

5. Education Code Section 42635

- a. School district must transmit each order drawn against the funds of the district to the county superintendent of schools, and if approved and signed, the order will become a requisition of the county auditor.
- b. The county superintendent **may** prescribe alternative procedures for fiscally accountable districts.

6. Education Code Section 42636

- a. The county superintendent of schools **may** examine each order on school district funds transmitted to him or her, in the order in which it is received.
- b. If it appears that the order is properly drawn for the payment of legally authorized expenses against the proper funds of the district, and there are sufficient moneys in the fund or funds against which the order is drawn, the county superintendent will endorse the order as "examined and approved," and affix his or her signature.
- c. The county superintendent transmits the order to the county auditor in the order in which the order was received in his or her office.
- d. The county superintendent may prescribe alternative methods for districts that are fiscally accountable.
- e. Upon approval by the county auditor, the county superintendent of schools may allow electronic transfers of the orders, which is a common practice in most counties.

Approving District Orders

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7. Education Code Section 42637
 - a. If at any time during a fiscal year the county superintendent of schools concludes that the budget of any school district within his or her jurisdiction does not comply with the standards and criteria for fiscal stability developed pursuant to Section 33127 for that fiscal year, he or she shall notify the Superintendent of Public Instruction and the district in writing of that conclusion and may conduct a comprehensive review of the financial and budgetary conditions of the district. The superintendent shall report his or her findings and recommendations to the governing board of the district and the Superintendent of Public Instruction, and may include recommendations of methods by which the budgeted expenditures for the balance of the fiscal year may be brought into balance with the revenue of the district.
 - b. That report shall be made to the governing board at a public meeting of the governing board. The governing board shall, no later than 15 days after receipt of the report, notify the county superintendent of schools and the Superintendent of Public Instruction of its proposed actions on their recommendations.
8. Education Code Section 42638
 - a. If the county superintendent disapproves an order of the school district, it must be returned to the district's governing board with a statement of the reasons for disapproving the order.
 - b. If the county superintendent determines that there is evidence of fraud or misappropriation, the county superintendent must notify the governing board of the school district, the State Controller, the Superintendent of Public Instruction, and the local district attorney.
 - c. Education Code Section 42127.6 (h)(i) prohibits the county treasurer from honoring any warrant that the county superintendent or the Superintendent of Public Instruction has disapproved.
9. Education Code Section 42639
 - The county auditor **may** examine each order and requisition on school district funds transmitted to him or her by the county superintendent of schools.
10. Education Code Section 42641
 - a. This code section authorizes the county auditor and county treasurer to allow the governing board of any school district to issue payroll orders in lieu of single orders for the payment of salary and wages.
 - b. These payroll orders must be on forms prescribed by the county superintendent of schools and approved by the Superintendent of Public Instruction.
 - c. The payroll orders may only be drawn for the payment of salaries and wages of employees, and constitute requisitions on the county auditor and warrants on the county treasury when

Approving District Orders

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approved and signed by the county superintendent of schools and allowed and signed by the county auditor, respectively.

11. Education Code Section 42642

- Requires that payroll orders list the names of all employees in whose favor the order is drawn and state the amount of money due each.

12. Education Code Section 42643

- The county superintendent must keep, open to the inspection of the public, a register of warrants, showing the fund from which the payment was drawn, the number, the payee, and the purpose.

II. COUNTY OFFICE RESPONSIBILITIES

(Note: procedures for fiscally accountable and fiscally independent districts are included in Procedure 13)

A. Applicable Education Codes and County Office Responsibility

The sections of the Education Code that provide laws related to the county office responsibilities regarding district orders include some *legally required* procedures and some *permissive* procedures.

The following chart shows the provisions of the Education Code and whether they are **required** or **permissive**:

Procedure	Education Code Reference	Required	Permissive
The county superintendent must prescribe the forms used to process orders unless the warrants are processed by an online data processing system.	42631	X	
The county superintendent must not approve orders for payment unless the signatures are on file in his or her office and they are satisfied that the signatures are of persons authorized to sign the orders.	42633	X	
For orders for payments other than salaries or wages of school district employees, the district must include with the warrant an itemized bill showing the separate items and the price of each. If the county superintendent of schools determines that including an itemized bill is impractical, the county superintendent can require the district to maintain the itemized bills at the school district instead of submitting them with the orders for payment. The school district must maintain the itemized bill for audit.	42634		X
The county superintendent may examine each order on school district funds transmitted to them.	42636		X

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Procedure	Education Code Reference	Required	Permissive
If the county superintendent disapproves an order of the school district, it must be returned to the district's governing board with a statement of the reasons for disapproving the order.	42638	X	
If the county superintendent determines that there is evidence of fraud or misappropriation, the county superintendent must notify the governing board of the district, the State Controller, the Superintendent of Public Instruction, and the local district attorney.	42638	X	

B. Procedures for Fulfilling County Office Responsibilities

1. The Education Code sections referenced in this section refer to the requirements for the county superintendent in relation to the payment of orders from school districts. These orders include the payment of the monthly or semi-monthly district payrolls and the payment of the vendor warrants from the districts.
2. Based on the previous chart that summarizes the applicable Education Code sections, the county superintendent is required by law to perform certain duties related to district orders, while some of the laws are permissive.
3. By law, the county superintendent **is required to**:
 - a. Prescribe the forms used to process orders unless warrants are processed by an online data processing system.
 - i. In most of the school districts in California, warrants are now processed by an online data processing system; therefore, it is no longer necessary for the county superintendent to take any action to prescribe the forms.
 - ii. Additionally, some county offices issue payments to vendors in an electronic form (through the VISA network, ACH, etc.). All other Education Code requirements should be adhered to when using this option; only the final form of payment is different.
 - b. Maintain the signatures on file in his or her office of the persons authorized to sign orders and determine that the signatures on orders are of persons authorized to sign the orders.
 - c. Submit a statement to the district governing board of the reasons for disapproving any district orders.
 - d. Notify the governing board of the district, the State Controller, the Superintendent of Public Instruction, and the local district attorney if they determine that there is any evidence of fraud or misappropriation.
4. By law, the county superintendent **may also perform the following**:

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- a. For orders for payments other than salaries or wages, Education Code Section 42634 requires districts to accompany each order with an itemized bill. This section also authorizes the county superintendent to allow the districts to maintain the itemized bills at the school district instead of submitting them with the orders for payment.
 - b. Education Code Section 42636 states that the county superintendent **may** examine each order on school district funds.
5. For payment orders for **vendor warrants**, county offices of education fulfill their responsibilities in a number of different ways. The procedures county offices use vary significantly because these code sections are permissive; therefore, it is up to the county superintendent of schools to decide which process is best for their individual county.

The following chart summarizes the procedures used in county offices of education to review/audit their districts' vendor warrants:

County Office Process	Additional Information
County office staff review all vendor payments and supporting documentation (100% review).	<ul style="list-style-type: none"> • District staff are required to submit purchase requisitions, purchase orders, receiving reports and vendor invoices for review by county office staff. • An alternate form of the 100% review is to request that the school districts submit the invoice only (not all of the documentation used to support the payment).
County office staff review a sample of vendor payments and supporting documentation.	<ul style="list-style-type: none"> • County office staff select a sample of vendor warrants for review. This is either a statistical sample or sample selected based on the county office's judgment. • Based on the sample selected, the district staff submit copies of the supporting documentation for the county office staff to review.
County office staff review a sample of vendor payments at the district office.	<ul style="list-style-type: none"> • County office staff select a sample of vendor payments for review. This is either a statistical sample or a sample selected based on the county office's judgment. • Based on the sample selected, county office staff review the supporting documentation for the vendor warrants at the district office.
County office staff do not review any vendor warrants.	<ul style="list-style-type: none"> • The county office relies on the district business office and the district's auditors to ensure that the internal controls for vendor payments are adequate and that the district is processing the vendor payments in accordance with applicable laws, regulations and district policy.

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The following chart summarizes the pros and cons of various review/audit procedures used in different county offices of education:

Approach	Pros	Cons
100% Review	<ul style="list-style-type: none"> • May enable the county office to gain a complete understanding of the internal controls operating in the district for vendor payments. 	<ul style="list-style-type: none"> • Labor intensive. The county office will need to devote significant staff to review every vendor warrant in every district in the county. • Staff assigned to perform a 100% review may not have a thorough understanding of all laws and regulations governing district expenditures. This may result in the county office reviewing and approving expenditures that are in violation of laws, regulations or good business practices. • The district and county office may have a false sense of assurance about the district's expenditures.
Sample Review	<ul style="list-style-type: none"> • Efficient and cost effective. 	<ul style="list-style-type: none"> • The quality of the review depends on the experience and training of the staff performing the review. • The staff performing the review will need to gain an understanding of the internal controls for vendor payments while performing the review of a test sample of transactions.
No Review	<ul style="list-style-type: none"> • Requires the least amount of county office staff time. 	<ul style="list-style-type: none"> • If the district does not have competent staff and the audit does not detect the internal control weaknesses or the violations of laws and regulations, the county office may not have any indication that the district is not a going concern, or is having financial issues, until it is too late. This going concern could result from expenditures coded incorrectly, expenditures in violation of the law, etc.

6. For the payment of **payroll orders**, the procedures county offices follow vary, ranging from not performing any review on the payroll orders to a very detailed review that includes the following:
 - a. Comparing the prior month's payroll report to the current payroll order.
 - b. Requesting documentation on all changes from the prior month (i.e., new employees, deletion of an employee, change in salary, and change in payroll withholding).
 - c. Coordinating with the credentialing office to place pay holds on payroll warrants for certificated staff who do not have a valid credential on file during the pay period in question.

7. Although the county superintendent does not have fiscal oversight responsibility for community college districts [E.C. 1240 (1) (4)], the county superintendent is responsible for authorizing warrants to be issued. Education Code sections 85266 and 85266.5 provide the legal basis for community colleges to obtain fiscally accountable or fiscally independent status. Please refer to Procedure 13, Fiscally Independent and Fiscally Accountable Districts.

Fiscally Independent and Fiscally Accountable Districts

I. OVERVIEW

County Offices of Education (COEs) are responsible for examining each order on school district funds to determine whether it is properly drawn for the payment of legally authorized expenses against the correct funds of the school districts in their county. School districts may apply for either fiscal independence, in which case the district processes all warrants, except debt service, independent of the COE; or for fiscal accountability, in which case the district processes warrants such as vendor warrants and/or payroll warrants designated by the COE (but not debt service), independent of the COE.

Fiscal Independence (Ed Code 42647)	Fiscal Accountability (Ed Code 42650)
Allows district to process all warrants, except debt service payments, independent of the COE.	Allows district to process warrants in categories designated by the COE, such as vendor warrants and/or payroll warrants, except debt service payments, independent of the COE.
Approved by the Superintendent of Public Instruction (SPI).	Approved by the county superintendent of schools and the county auditor.
Upon receipt of a written application, the county superintendent shall cause a survey to be made of the district's accounting controls by an independent certified public accountant (CPA).	

II. FISCAL INDEPENDENCE

Education Code Section 42647 prescribes the process for the governing board of a unified school district, or a district with an average daily attendance more than 10,000, to issue warrants (by a person designated by the governing board and bonded as the district auditor or district disbursing officer) to examine all claims to determine whether they are legally allowed and ordered paid by the governing board.

The Approval Process

1. The governing board files a written application with the COE using the forms and processes prescribed by the COE.
2. Upon receipt of the application from the school district, the COE shall cause a survey to be made of the district's management and accounting controls by an independent CPA, in accordance with standards prescribed by the state controller¹. The annual financial audit of the district may serve as partial coverage of the scope of the survey, if that is acceptable to the COE. The applicant district shall bear the cost of the survey, and shall reimburse the COE.
3. The CPA reports their findings and recommendations to the COE, county auditor, and the applicant district.

¹ As of 2017, the state controller has not issued such standards. However, general guidance regarding internal controls is provided in the document found at this link: http://sco.ca.gov/Files-AUD/2015_internal_control_guidelines.pdf

Fiscally Independent and Fiscally Accountable Districts

Procedure 13

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4. The COE forwards the county superintendent's recommendations, the district's application, a report of the survey, and the recommendations of the county auditor to the SPI for approval or disapproval of the application.
 - a. If the SPI determines that controls are inadequate, he or she shall disapprove the application.
5. If approved by the SPI prior to January 1, the issuance of warrants shall be effective at the beginning of the next fiscal year. If disapproved, the SPI and the COE must state the steps to be taken by the school district to receive approval.

Ongoing District Requirements after Approval

1. The warrants shall be issued by a person designated as the district auditor or the district disbursing officer for the school district against funds in the county treasury in payment of all claims chargeable against the district.
2. The claims must have been legally examined, allowed and ordered by the governing board.
3. The district auditor shall issue warrants against funds in the county treasury for all debts and demands against the district.
4. The district's governing board must prescribe the form of the warrants, and the county auditor or county treasurer must approve the form of the warrants.
5. The district must pay the cost of printing the warrants.
6. The district is responsible for keeping all warrants, vouchers and supporting documents.
7. On the same day it issues warrants, the school district must forward to the county auditor, upon his or her request, and to the COE, a list of the warrants issued.
 - a. The form and content of the warrant listing shall be as prescribed by the governing board and approved by the county auditor.
8. The school district must furnish monthly to the COE and the county auditor, upon their request, a statement showing the amount budgeted, actual expenditures, encumbrances and unencumbered balances, for both the current fiscal year to date and for each required expenditure classification.
9. The person who a fiscally independent district's governing board authorizes to issue warrants shall execute an official bond in an amount fixed by the governing board. The COE or county auditor shall not be liable under the terms of the bond or otherwise for any warrant issued by a fiscally independent district.

Fiscally Independent and Fiscally Accountable Districts

Procedure 13

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Revocation

If at any time the COE determines that the accounting controls of the district have become inadequate, he or she may recommend to the SPI that the approval be revoked, to be effective on the first day of the following fiscal year. Education Code 42652 (a) further provides for revocation or suspension of fiscal independence by the SPI for any school district with a qualified or negative certification pursuant to Education Code Section 42131.

III. FISCAL ACCOUNTABILITY

Education Code Section 42650 provides the legal basis for a district to issue its own payroll and/or vendor warrants. With the approval of the COE and the county auditor, the governing board of a school district may cause warrants to be drawn on the county treasury against designated funds, except debt service. The limited approval for independent warrant processing, either payroll and/or vendor warrants, does not require the approval of the SPI.

Similar to the approval process described above for fiscal independence, applications must be filed with the appropriate entities by certain dates to obtain fiscal accountability.

The Approval Process

1. A district that applies for fiscal accountability status shall file its written application with the COE on or before September 1.
2. The required survey of accounting controls shall be filed on or before January 1, and the cost of the survey is to be borne by the applicant district.
3. When the application for fiscal accountability status has been approved by the COE and county auditor, the issuances of warrants by the district shall be effective at the beginning of the next fiscal year, provided that approval is made before March 1.
4. If disapproved, the COE shall state the specific steps that the district must take to receive approval. These changes must then be certified by an independent CPA.

Ongoing District Requirements after Approval

1. Upon approval, the district's bonded disbursing officer is authorized to issue warrants, using procedures prescribed by the county auditor, within categories designated by the COE.
2. The county auditor or county treasurer prescribes and approves the form of the warrants, and the county auditor will prescribe the procedures for districts to issue warrants, including specifying who is to sign the warrants.
3. On the same day the district issues warrants, the school district must forward to the county auditor, upon his or her request, and to the COE, a list of the warrants issued. The form and content of the warrant listing shall be as prescribed and approved by the county auditor or COE.

Fiscally Independent and Fiscally Accountable Districts

Procedure 13

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4. The school district must furnish monthly to the COE and the county auditor, upon their request, a statement showing the amount budgeted, actual expenditures, encumbrances and unencumbered balances, for both the current fiscal year to date and for each required expenditure classification.
5. The district is required to provide the county superintendent, in the form prescribed by them, with the data needed to make retirement reports and other reports required by law.
6. The district is responsible for keeping all warrants, vouchers, and supporting documents.

Revocation

If at any time the COE or the county auditor determines that the fiscal management or accounting controls of the district have become inadequate they may revoke approval for fiscal accountability status effective immediately. Further, Education Code 42652 (b) provides for the revocation or suspension of fiscal accountability status by the county superintendent of schools for any school district with a qualified or negative certification pursuant to Education Code Section 42131.

IV. COMMUNITY COLLEGES

Although the COE does not have fiscal oversight responsibility [Education Code Section 1240 (l)(4)] for community colleges, the COE is responsible for authorizing warrants to be issued. Education Code sections 85266 (Fiscally Accountable) and 85266.5 (Fiscally Independent) provide the legal basis for community colleges to obtain fiscally accountable or fiscally independent status. The approval process, timeline and ongoing requirements mirror the preceding steps outlined for K-12 school districts, except that the approval of the Board of Governors of the California Community Colleges/Chancellor's Office is required for fiscal independence. The COE will approve fiscal accountability.

V. SUMMARY OF COUNTY OFFICE OF EDUCATION RESPONSIBILITIES

Ongoing Requirements after Fiscal Independence or Fiscal Accountability Approval

Once a district is granted fiscal independence or fiscal accountability, the COE is not responsible for producing reports, statements or other data relating to or based on payments of the district's expenses. However, AB 1200, county office fiscal oversight, and AB 2756, county office approval of school district balanced budgets in accordance with criterion and standards established by the state Department of Education, continue to apply.

Fiscally Independent Districts

1. The COE has a number of responsibilities during approval of fiscal independence:
 - a. Determine the forms to be used for the application for fiscal independence.
 - b. Upon receipt of the application for fiscal independence, hire an independent auditor to perform a survey of the district's accounting controls.
 - c. Contact the Office of the State Controller to obtain the standards for the survey of the accounting controls.

Fiscally Independent and Fiscally Accountable Districts

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- d. Forward the completed application, survey report, and recommendations from the county auditor and the county superintendent to the SPI.
2. If the SPI disapproves the application, work with the SPI and the district to determine the steps the district needs to take to receive approval.
3. If the district's application is approved, ensure that the district implements the fiscal independence process on time, and not before the allowed date.
4. Some COEs require the district's auditors to issue a separate letter in the annual audit report stating that the district's controls for warrant processing are still adequate to maintain their fiscal independence status.
5. Some COEs require fiscally independent districts to annually complete the *FCMAT Accounting Controls Risk Analysis for Fiscally Accountable or Fiscally Independent School Districts* and submit a copy to the COE for review. <http://fcmat.org/wp-content/uploads/sites/4/2018/10/Accounting-Controls-Risk-Analysis-10-8-18-2.pdf>
6. If the COE determines that the accounting controls have become inadequate, it may recommend that the SPI revoke the approval for fiscal independence.

Fiscally Accountable Districts

1. The COE has the following responsibilities during approval:
 - a. Determine the forms to be used for the application.
 - b. Upon receipt of the application for fiscal accountability, hire an independent CPA to conduct a survey of the accounting controls.
 - c. Approve or disapprove the application.
 - i. If disapproved, notify the district of the steps needed to receive approval.
2. Conduct periodic reviews of the district's financial transactions and internal controls.
 - a. Some COEs require fiscally accountable districts to annually complete the *FCMAT Accounting Controls Risk Analysis for Fiscally Accountable or Fiscally Independent School Districts* and submit a copy to the COE for review. <http://fcmat.org/wp-content/uploads/sites/4/2018/10/Accounting-Controls-Risk-Analysis-10-8-18-2.pdf>
 - b. The COE may revoke the district's fiscal accountability status if at any time it determines that the controls are not adequate.
3. The county superintendent may prescribe alternate procedures in the following areas:
 - a. Transmitting orders – Education Code Section 42635

Fiscally Independent and Fiscally Accountable Districts

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- b. Examining district orders – Education Code Section 42636
- c. Maintaining registers of warrants – Education Code Section 42643

VI. RESOURCES

State Controller's Office Internal Control Guidelines for California Local Agencies

K-12 School District Application for Fiscal Independence

K-12 School District Board Resolution to request Fiscal Accountability

K-12 School District Board Resolution to Self-Revoke fiscal independence

California Community College Chancellor's Office, Fiscal Services Advisory on Fiscal Independence, including application form.

Sample Community College application packet for Fiscal Independence

Letter from County Auditor outlining deficiencies to be addressed by community college in request for fiscal independence

Bargaining Agreement Disclosure

I. OVERVIEW

A. The California County Superintendents (CCS) has stated the following:

The single most critical area to monitor is the economic impact of salary settlements, yet this area is probably the weakest in terms of State regulation. Even with current regulations, the only thing a county superintendent can do when evaluating the impact of a pending salary settlement is to publicly comment on their concerns prior to ratification by the district’s governing board. The only exception to the rule is when a fiscal advisor is already in place in the district. Then a county superintendent can impose the stay and rescind authority if the governing board approves a salary settlement that will hurt the district fiscally.

B. School district management teams meet with the various employee bargaining unit organizations (different for each district depending on their employee elections) each year to negotiate salary schedules, health and welfare benefits, work days and other changes in the terms of the district’s annual contracts with employees.

C. Because salaries and benefits usually make up 80% or more of the total expenditures in the general fund, any increases in these amounts can have a significant impact on the district’s ongoing fiscal solvency.

II. LEGAL REQUIREMENTS

A. The following are the key elements of the code sections related to salary settlements/collective bargaining:

Code Section	Major Provisions of the Code Section
Education Code 42142	<p>Within 45 days of adopting a collective bargaining agreement, the superintendent of the school district shall forward to the county superintendent of schools any revisions to the school district’s current year budget that are necessary to fulfill the terms of that agreement.</p> <p>The school district must include any additional costs that may result from the terms of the collective bargaining agreement in any interim fiscal reports or multiyear fiscal projections.</p>
Government Code 3540.2	<p>A school district that has a qualified or negative certification pursuant to Education Code Section 42131 must allow the county office of education at least 10 working days to review and comment on any proposed agreement between the exclusive representatives and the public school employer.</p> <p>The school district must provide the county superintendent with all information relevant to an understanding of the financial impact(s) of the agreement pursuant to Government Code Section 3543.2.</p>

Bargaining Agreement Disclosure

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Code Section	Major Provisions of the Code Section
Government Code 3540.2 (continued)	<p>The Superintendent of Public Instruction (SPI) shall develop a format to use in generating the financial information [most county offices will recommend a format based on the SPI guidance for use by the districts in their county].</p> <p>The county superintendent shall notify the school district, the county board of education, the district superintendent, the governing board of the school district, and each parent and teacher organization of the district within those 10 days if, in their opinion, the agreement would endanger the fiscal well-being of the school district.</p> <p>A county office of education, or a school district for which the county board of education serves as the governing board, that has a qualified or negative certification pursuant to Education Code Section 1240 must allow the SPI at least 10 working days to review and comment on any proposed agreement or contract made between the exclusive representative and the public school employer or designated representative of the employer.</p>
Government Code 3547.5	<p>Before entering into a written agreement with an exclusive representative covering matters within the scope of representation, the public school employer must disclose the major provisions of the agreement, including, but not limited to, the costs that would be incurred by the public school employer under the agreement for the current and subsequent fiscal years at a public meeting in a format prescribed by the SPI.</p> <p>The superintendent of the school district and the chief business official must certify in writing that the costs incurred by the school district under the agreement can be met by the district during the term of the agreement.</p> <p>The district must prepare the certification in a format similar to that of the reports required pursuant to Education Code Sections 42130 and 42131 and must itemize any budget revision necessary to meet the costs of the agreement in each year of its term.</p> <p>If the school district does not adopt all of the revisions to its budget needed in the current fiscal year to meet the costs of a collective bargaining agreement, the county superintendent of schools will issue a qualified or negative certification for the district on the next interim report.</p>
Government Code 53260	<p>Establishes a maximum cash settlement that a local agency employer may pay in the event of a contract termination.</p>
Government Code 53261	<p>Prohibits the cash settlement referred to in Government Code Section 53260 from including other noncash benefits except health benefits.</p>
Government Code 53262	<p>Requires the local agency to ratify contracts for upper level administrators in an open session of the governing board and that this be reflected in the governing body's minutes.</p>

III. IMPLEMENTING THE LEGAL REQUIREMENTS

- A. Government Code Sections 3540.2 and 3547.5 refer to a format for disclosing major collective bargaining agreements.

Bargaining Agreement Disclosure

Procedure 14

Revised 7/2022

1. The California Department of Education (CDE) issued Management Advisory 92-01, Public Disclosure of Collective Bargaining Agreements, on May 15, 1992. In this advisory, the CDE provided recommendations for procedures and a format.
- B. Sample formats for collective bargaining disclosures and summaries developed by county offices of education are included as linked documents for download at the end of this section; these meet the intent of the above listed Education Code and Government Code requirements. (Please note: some of the directions included in the samples relating to timelines for submission to the COE and requested backup documentation are specific to local requirements).
 1. The collective bargaining disclosure and/or summary should reflect both increases and decreases in salary and benefit costs. During times of reduced state, federal and local revenue sources, districts have had to bargain for reduced work days, furlough days, salary schedule reductions, health and welfare benefits restructuring, and/or freezes in step and column advancements for a selected time to ensure fiscal solvency. It is also important to analyze whether these adjustments will provide sufficient savings to continue to maintain fiscal solvency in the current and/or subsequent two fiscal years.
- C. County office staff should annually provide districts with information regarding the above-referenced disclosures, certifications and timelines for submission of data to the county superintendent of schools within 45 days of adopting a collective bargaining agreement, and outline any revisions to the district's current year budget that are needed as a result of the contract settlement, as well as the consequences of inaction.
 1. A sample of an annual bulletin to the districts regarding collective bargaining disclosure requirements under the above-referenced Education Code and Government Code sections is included in the linked documents following this narrative.
 2. Many COEs include a section reminding districts of this requirement in the annual budget approval letter and/or interim certification approval letter.
- D. Once the county office staff receive the disclosure document and copies of the collective bargaining contract settlement(s), they should review the financial impact on the district immediately by reviewing updated multiyear financial projections, if provided, against current financial ledgers, payroll activity reports/summaries, and any recent interim or budget multiyear projections using currently known budget assumptions to determine the accuracy of the anticipated adjustments in the disclosure documents.
 1. County office staff should also review the actual bargaining unit agreement to ensure that all potential costs and/or savings are identified in the disclosure document and updated multiyear projections. Questions should be asked of the district's chief business official (CBO) if the financial impact is unclear or if it doesn't identify how the district will continue to maintain fiscal solvency in all years.
 - a. Any time a contract is reopened with an impact on "any area of the existing contract", financial or nonfinancial, a disclosure or "sun-shining" of the proposed agreement must be

Bargaining Agreement Disclosure

Procedure 14

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made. If the only change is nonfinancial and in language only, the disclosure still must be made; however, the district may just describe the changes in the appropriate sections and indicate “N/A” in the financial sections.

2. Validate that the district is also correctly addressing any ongoing fiscal impacts, or restoring expenditure costs in subsequent fiscal years if the agreement is limited to one fiscal year, or showing compounding of expenditure costs in subsequent fiscal years if the increase is ongoing.
 3. Validate any potential impacts of restoration language that could be included in the agreement and the basis for restoration of identified salary or benefit reductions.
- E. If county office staff determine that the settlement will adversely affect the district’s financial position, they should immediately contact the district’s CBO to discuss the details of the concerns.
1. This could also result in correspondence sent to the district superintendent and governing board expressing the concerns the county office has identified.
- F. In some instances, the county superintendent may need to take action under Education Code Section 42127.6.
1. This code section allows the county superintendent to take action at any time during the fiscal year if the county office determines that a school district may be unable to meet its financial obligations for the current or subsequent two years.
- G. For districts with a qualified or negative interim report certification, the county office must review the proposed settlement prior to its ratification and notify in writing the district’s superintendent, the district’s governing board, and each parent and teacher organization of the district if, in their opinion, the agreement would endanger the district’s fiscal well-being.

IV. CONSIDERATIONS

Best practice is for the public disclosure to include all costs associated with the agreement. Often a collective bargaining agreement will contain a “me too” clause. This means that if a subsequent agreement is approved at a higher level of compensation for another collective bargaining group, the other collective bargaining group will receive the additional compensation. Unrepresented groups that receive an increase in compensation should be included in the disclosure as well or can be included in a separate disclosure document.

V. SAMPLE FORMS

Many county offices have developed electronic versions of the Public Disclosure of Collective Bargaining Agreements for use by their districts. Samples from some county offices are listed and linked to below:

Example 1 – [San Bernardino COE](#) (Excel file)

Example 2 – [El Dorado COE](#) (Excel file)

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Example 3 – Los Angeles COE:

- a. Excel disclosure template (Excel file)
- b. Disclosure summary (Word file)
- c. Informational Bulletin from COE to Districts (Adobe Acrobat pdf file)

Example 4 – Sample County Response to Public Disclosure of Collective Bargaining – .pdf • .docx

Apportionment Posting

Procedure 15

Revised 3/2021

I. OVERVIEW

- A. The majority of the funds local educational agencies (LEAs) receive come from the State of California, through the State Controller's Office (SCO).
- B. The funds issued by the SCO are the state apportionments, primarily the principal apportionment. This includes funding for the Local Control Funding Formula (LCFF) as well as other related programs such as the Education Protection Act (EPA) and funding for special education through the Assembly Bill (AB) 602 funding model. Other apportionments are distributed outside of the principal apportionment and may include pass-through funds from the federal government (e.g., Every Student Succeeds ACT (ESSA) Title I) as well as restricted and unrestricted state categorical program grants (formula-driven and reimbursement grants).
- C. The California Department of Education (CDE) will notify the county superintendent of schools / county office of education (COE) of the amounts due to the LEAs and notify the SCO authorizing the release of funds.

1. The CDE certifies the principal apportionment three times per year: at the Advance in July, P-1 (period one) in February, and P-2 (period two) in June. A recalculation, or true up, of the prior year (annual certification) is performed at P-1. The CDE provides monthly payment schedules for each certification of the principal apportionment along with a payment summary detailing funding per program by LEA. The COEs use the payment schedule and summary to allocate the monthly receipt of state aid for the principal apportionment to the LEAs in the county. The CDE maintains an email list to inform members of certifications and other issues pertinent to the principal apportionment and special education (PASE) funding streams, which includes EPA. To be included in the PASE email list, send a blank email message to join-pase-contacts@mlist.cde.ca.gov.

Education Protection Act funding is certified and distributed quarterly at the end of September, December, March and June using the latest available information from the principal apportionment certifications. A payment schedule by LEA is prepared with each distribution and is used to allocate the receipt of funds to the various LEAs in each county.

2. When the CDE provides instructions to the SCO for the release of all other funds outside of the principal apportionment and EPA funding streams, the CDE also emails a notification to the COE that includes the following elements:
 - a. Identification of the voucher(s).
 - b. When the instructions were sent to the SCO.
 - c. An estimated time frame when the funds should be released by the SCO.
 - d. Any disbursement schedules (usually as spreadsheet attachments), showing the individual district and county disbursement totals statewide.
 - e. A notice of apportionment or funding award letter for each COE.

Apportionment Posting

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- The CDE School Fiscal Services Division maintains a 'CDEFisc' email address for each county office. These addresses are used to distribute the apportionment notices electronically. COE business office staff responsible for this function will need to be provided access to the CDEFisc emails.
3. The CDE typically distributes notices three to six weeks before the SCO releases funds. COEs are asked to forward the notices to the appropriate LEAs. These notices can then be matched to apportionment letters emailed by the CDE's accounting office as funds are released by the SCO.
 4. The electronic distribution of the notice of apportionment letters from the CDE's accounting office has greatly improved communication. These letters provide the appropriate Standardized Account Code Structure (SACS) resource code and revenue object code that the LEA must use to post the funds to the accounting system. Certain apportionment letters, such as those for the ESSA Title IV programs, include a link to the apportionment overview web page, which includes the SACS resource and revenue codes.
 - a. COEs can find additional information on the SACS query page for the accounting treatment of these funds at <http://www2.cde.ca.gov/sacsquery/querybyresource.asp>.
 5. COEs can also find details on allocations and apportionments on the CDE's website at <http://www.cde.ca.gov/fg/aa/>.
- D. The SCO sends funds for LEAs and COEs through an electronic warrant process using the following methods:
1. Method 1
 - a. The SCO issues warrants to a number of banks located throughout the state.
 - b. These warrants are placed in a lockbox in Sacramento, and the banks send couriers to pick up the warrants.
 - c. The banks then wire the funds to the appropriate county treasurers.
 2. Method 2
 - a. The SCO issues warrants directly to the county treasurer.
- E. When the county treasurer receives the funds, the treasurer will often deposit the funds into a clearing account. Such an account is typically an agency fund on the books of the county treasurer, and can be a holding account or revolving fund in which a deposit is held until it is applied to the receiving district.
1. The county treasurer will usually notify the COE that they have received LEA funds and request instructions on where to post the funds.

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2. The county treasurer may email or fax the COE a copy of the remittance advice from the SCO and a treasurer-initiated deposit order.
 - a. Some COEs may also have access to view the treasurer's bank account to verify the apportioning of funds on holidays and at other times when the county treasurer's office is closed.
3. The COE will provide the county treasurer with instructions regarding where to post the funds, including to which LEAs and the specific LEA accounts. In some counties, the COE will make this entry directly into the treasurer's financial system.
4. The remittance advice from the SCO will identify the state voucher number issued by the CDE's accounting office, as well as the state program cost account (PCA) from which the funds have been drawn.
 - a. The COE can match the voucher number with the emailed notices for further information on the accounting treatment of the funds.
 - b. The PCA number can also be used in the SACS query to find additional information, as well as program contacts for the funds.
5. The principal apportionment funds are released in accordance with set formulas identified by Education Code. The CDE provides schedules of the estimated revenues three times per year. COEs must maintain distribution schedules based on these formulas to distribute the funds to the appropriate districts for which the dollars are apportioned. The SCO's warrant does not identify the district amount for these funds.

The CDE's main principal apportionment webpage, at <http://www.cde.ca.gov/fg/aa/pa/index.asp>, has links to apportionment information for various fiscal years. Also included on the page are funding exhibits that provide both summary and detailed spreadsheets that identify the monthly payments by LEA and COE.

For the Education Protection Act, those funds are distributed quarterly based on the latest certified data. A letter and accompanying certified schedules are released with each distribution and are available from the CDE at: <http://www.cde.ca.gov/fg/aa/pa/epa.asp>.

II. COUNTY OFFICE RESPONSIBILITIES

- A. Once the COE either posts the receipts to each LEA's fund(s) at the county treasurer or notifies the county treasurer of where to post the funds on behalf of each LEA, the COE will do one of the following:
 1. Record the funds directly to the district's financial system; or
 2. Send a notice to the district to post the amount(s) into the district's financial system.

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- a. In some counties, some districts may record all amounts into their own general ledger. In these instances, the county office does not make any entries into the district's books, even when the district and county office share the same financial system.
- B. The COE should provide the LEA with the state notice(s) of income, or inform the LEA how to obtain the supporting fund release information.
- C. If necessary, the COE shall pay or transfer any charter school funds to the applicable charter school. This is typically done for charters that are paid directly by the COE (referred to as "direct funded" charters). Payment can be made by check or wire transfer and varies by county.

III. EXAMPLES OF APPORTIONMENT POSTINGS

A. Principal Apportionment

1. Access the CDE's [principal apportionment web page](#) to locate current year funding exhibits. Select the applicable fiscal year and download the spreadsheets found under the heading "Funding Excel Files – [applicable reporting period]." These include the following files:
 - *Advance / P-1 / P-2 Apportionment Summary*, which provides the detail of programs included in the principal apportionment for each LEA;
 - *Payment Schedule Summary – County detail*, which lists the monthly payment for the principal apportionment to each county; and
 - *Payment Schedule Summary – LEA detail*, which provides the total principal apportionment and monthly payment summary by LEA.
2. Prepare a spreadsheet or schedule for the proper account classification entry and the associated cash values for county treasury deposit by LEA.
3. To allocate EPA apportionments received at the end of each quarter, use the spreadsheet and apportionment letter posted to the [EPA page](#) on the CDE's website.

B. Categorical Postings

1. Receive through the CDE email depository a copy of the apportionment letter indicating that warrants will be mailed to each county treasurer approximately three weeks from the date of the notice, along with the apportionment distribution schedule, which includes the SCO FISCAL Voucher Number(s) for each county included on the county summary tab of the apportionment schedule. The accompanying letter will identify the proper resource and object codes to be used in posting the cash receipt. Apportionment letters for ESSA Title IV programs include a link to the Apportionment Overview web page, which provides the SACS resource and object codes.
2. Prepare a bulletin or advisory to notify LEAs of the upcoming apportionment posting.

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3. Once funds are received, prepare the appropriate documents for the county treasurer to post funds to individual LEA accounts as identified, and notify the LEA to post the received amounts.

Education Revenue Augmentation Fund (ERAF)

Procedure 16

Revised 2/2023

As of February 2023, updates to this procedure are on hold pending the outcome of litigation.

I. OVERVIEW

A. The Educational Revenue Augmentation Fund (ERAF)

1. The ERAF is the fund used to collect the property taxes in each county that are shifted from cities, the county and special districts prior to their reallocation to TK-14 school agencies.
2. The county treasurer maintains the ERAF on behalf of the county auditor-controller.

B. The Legislation

1. In the early 1990s, the State of California passed legislation that authorized the shift of property taxes from local governments and other taxing authorities to TK-14 school agencies, with a corresponding reduction in the state support of TK-14 education.
2. The first shift affected the 1992-93 state budget.
3. The shift transferred more than \$3.7 billion in property tax revenues from cities, the county and special districts.
4. The state has made numerous changes to the Revenue and Taxation Code since the early 1990s to modify the calculations.
5. In 2004-05, three shifts of property taxes from school agencies to local government occurred, which affected the allocation of ERAF.
 - a. One tax shift is known as the Triple Flip, which began in March 2004, after voters approved a bond initiative known as the California Recovery Act.

This act authorized issuance of \$15 billion in bonds to finance the 2002-03 and 2003-04 state budget deficits.

The revenue stream for payment of these bonds was established by the redirection of tax revenues through the Triple Flip.

Under the Triple Flip, one quarter of the local governments' 1% share of sales taxes are redirected to the state as a dedicated revenue source for the bond repayment. To mitigate the loss of this revenue to the local governments, the legislation redirected property taxes in the ERAF to local government. The loss of ERAF property taxes to the school agencies is then compensated for with state aid.

The swap of sales taxes for property taxes was designed to end after the deficit financing bonds are paid off, which occurred in fiscal year 2014-15. However, the swap of sales taxes are expected to continue for at least a year after the bond payoff, although likely in greatly reduced amounts. This is because of a true-up of the sales tax amounts.

Education Revenue Augmentation Fund (ERAF)

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- b. Shortly after the 2004 gubernatorial recall, a second shift occurred when the state reduced vehicle license fees (VLF), thus reducing revenue received by local governments. To compensate for this reduction of revenue, the state shifted \$4.1 billion in property taxes from school districts to local governments. The VLF swap is an ongoing shift that increases annually based on the increase in assessed valuations.
 - c. The final shift occurred in November 2004, when Proposition 1A was approved. This proposition included a deal in which local governments agreed to a two-year temporary shift of property taxes back to school agencies in exchange for a guarantee to never again shift local government revenues to school agencies (except in a fiscal emergency). As a result, in 2006-07 the temporary tax shift to schools reverted back to local governments.
- C. Revenue and Taxation Code Sections 97 -97.68
 1. These code sections modify the calculations and allocations of property taxes made by the county and require that the property tax revenues not allocated to cities, the county, and special districts be deposited into the ERAF.
 2. The county auditor-controller is required to allocate the money in the ERAF to school districts, county offices of education (COEs), and community colleges.
 3. The county superintendent of schools is required to determine the amount the county auditor-controller will allocate to each school district and the COE.
 4. Basic aid districts are excluded from receiving funds from ERAF.
 5. The county auditor-controller is required to allocate the ERAF to the school districts and COE based on the information provided by the county superintendent of schools (Revenue and Taxation Code Section 97.2).
 - a. The amount allocated is in inverse proportion to the amounts of property tax revenue per average daily attendance (ADA) in each school district and the COE. That is, the more property taxes per ADA a district receives, the less ERAF per ADA it will receive.
 6. The county auditor-controller must not allocate any additional funds from ERAF to a school district or COE, causing those entities to become basic aid.
 7. The county auditor-controller is required to allocate the ERAF to the community colleges based on information provided by the California Community Colleges Chancellor's Office (CCCCO).
 8. If there are funds remaining in the ERAF after the allocations to school districts, COEs and community colleges, the county auditor-controller allocates these funds to the county superintendent of schools.
 - a. Funds allocated to the county superintendent are counted as property tax revenue for special education programs in augmentation of the amount calculated pursuant to Education Code Section 2572, to the extent that those property tax revenues offset state aid for COEs

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and school districts pursuant to Education Code Section 56836.08 subdivision (c). The allocation to a COE for special education (i.e. excess ERAF) is to be made as though none of the shifts enacted in 2004 occurred — see Revenue and Taxation Code Section 97.70 (f) (1).

9. If any revenues remain after the allocation for special education, the county auditor-controller will allocate the remaining revenues among the county, cities, and special districts in proportion to the amounts of ad valorem property tax revenues that were shifted from those agencies to the ERAF.
10. The required shifts in the property taxes that began in 2004-05 may exceed the amounts allocated to the ERAF account, resulting in negative ERAF. The California Department of Education (CDE) software for reporting property taxes requires that a negative ERAF be reported independently and not netted against secured taxes.
11. If the ERAF fund is insufficient to fund the VLF adjustment amount, the auditor-controller shall reduce the amount of ad valorem property tax revenue that is otherwise required to be allocated to non-basic aid districts and community college districts in the county for that fiscal year by an amount equal to the difference between the VLF adjustment amount and the amount of ad valorem property tax revenue that is otherwise required to be allocated to the ERAF in accordance with Revenue and Taxation Code Section 97.70 (a) (1) (B). These reductions are to be allocated among the various school and community college districts in proportion to their respective portions of local secured assessed valuations.
12. If the ERAF balance after adjustments is negative, a reverse ERAF allocation may be necessary. All ERAF monies should be depleted before implementing a reverse ERAF shift from non-basic aid schools. The sequence of ERAF transfers for Triple Flip and VLF swap adjustments should be as follows:
 - ERAF
 - Supplemental ERAF
 - Unitary ERAF
 - Home Owner Property Tax Relief (HOPTR) ERAF

Only after the ERAF resources listed above have been exhausted should a reversal occur.

13. The calculation of a district's basic aid status should be based on the current year Local Control Funding Formula (LCFF) and local property taxes prior to shifts in property taxes. A district's prior year status as a basic aid district is not relevant.

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II. DETAILED PROCEDURES

For Counties Without Basic Aid Districts

- A. Depending on the county, beginning in October, the county will provide an estimate of the ERAF funds for the fiscal year. In some counties the estimate is provided in December or January. In some counties this estimate is provided by the auditor-controller's office.
- B. The county will provide an additional estimate in April and the final amount at the end of the year (July).
- C. The COE staff enter the amount of the estimated ERAF for the year into a spreadsheet that allocates the ERAF among the districts, the community colleges, and the COE (Attachment A is a sample spreadsheet).
 1. The COE will receive a letter from the CCCCO that provides the amount of ERAF for the community colleges in the county. In some counties this estimate is provided to the districts.
 2. The average daily attendance (ADA) used in the spreadsheets is current year or estimated current year ADA.
 3. The COE prepares the ERAF spreadsheet at the first and second interim reporting (P-1 and P-2). This information is also provided to the districts.
- D. The calculation is returned to the county auditor-controller's office. The county auditor-controller uses the spreadsheet to allocate the ERAF as the taxes are collected.
 1. Required shifts in the property taxes, that began in 2004-05 and sizably increased in 2006-07, may exceed the amounts allocated to the ERAF account, resulting in negative ERAF (in this case, the ERAF account is zeroed out and secured taxes are reduced in order to make up the total amount that needs to be shifted that particular year). Negative ERAF should be reported independently and not netted against secured taxes.
 2. If the ERAF fund is insufficient to fund the vehicle license fee (VLF) adjustment amount, the auditor-controller shall reduce the amount of ad valorem property tax revenue that is otherwise required to be allocated to non-basic aid districts and community college districts in the county for that fiscal year by an amount equal to the difference between the VLF adjustment amount and the amount of ad valorem property tax revenue that is otherwise required to be allocated to the ERAF in accordance with Revenue and Taxation Code Section 97.70 (a) (1) (B). These reductions are to be allocated among the various school and community college districts in proportion to their respective portions of local secured assessed valuations.
 3. If the ERAF balance after adjustments is negative, a reverse ERAF allocation may be necessary. All ERAF monies should be depleted before implementing a reverse ERAF shift from non-basic aid schools. The sequence of ERAF transfers for Triple Flip and VLF swap adjustments should be as follows:

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- ERAF
- Supplemental ERAF
- Unitary ERAF
- Home Owner Property Tax Relief (HOPTR) ERAF

Only after the ERAF resources listed above have been exhausted should a reversal occur.

The calculation of a district's basic aid status should be based on the current year LCFF and local property taxes prior to shifts in property taxes. The district's prior year status as a basic aid district is not relevant.

- E. The county auditor-controller completes the estimated tax reports in November, April, and August (final).
 1. These tax reports are submitted to the COE.
 2. The COE is required to submit the tax reports to the California Department of Education by the following dates:
 - a. For the first principal apportionment – no later than November 15.
 - b. For the second principal apportionment – no later than April 15.
 - c. For the annual principal apportionment – no later than August 15.
 3. The COE submits the tax reports using the online software from the CDE.

For Counties With Basic Aid Districts

- A. Prior to each property tax reporting period, the county auditor-controller's office will provide an estimate of the property taxes to be collected for school districts, community colleges and the COE for the fiscal year (see sample report in Attachment B)
- B. The COE is required to submit the tax reports to the CDE by the following dates:
 - a. For the first principal apportionment (P-1) – no later than November 15.
 - b. For the second principal apportionment (P-2) – no later than April 15.
 - c. For the annual principal apportionment (P-Annual) – no later than August 15.
- C. Because basic aid districts are excluded from receiving funds from ERAF, the COE and community college(s) must determine the funding status (basic aid or non-basic aid) for each local educational agency (LEA) and provide this information to the county auditor-controller's office.

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1. The community college(s) will estimate its revenues less the property taxes provided by the county auditor-controller's office to determine its funding status (see sample calculation in Attachment C).
2. Funds allocated to the COE are also counted as property tax revenue for special education programs. The COE also provides the county auditor-controller's office with a separate spreadsheet to determine the maximum ERAF for special education (see sample calculation in Attachment D).
3. The COE prepares the ERAF analysis spreadsheet to determine the basic aid status (basic aid, or non-basic aid) of each district in the county.

To determine the funding status of a district, the COE adds the LCFF transition entitlement of the district and its charter school(s) (for charter school-sponsoring districts), less the total minimum state aid (MSA) for both the district and charter school. The net amount calculated is then compared to the total estimated property taxes for the district (prior to ERAF). If property taxes exceed the total LCFF funding (net of MSA), the district is considered basic aid (see sample calculation, Attachment E). Basic aid districts are not included in the ERAF allocation.

- D. These calculations (see samples in Attachments C, D and E) are submitted to the county auditor-controller's office. The county auditor-controller uses the spreadsheets to allocate the ERAF as the taxes are collected.

1. The required shifts in the property taxes (Triple Flip and VLF), which began in 2004-05 and have increased sizably since 2006-07, may exceed the amounts allocated to the ERAF account, resulting in a negative ERAF, or ERAF deficit (see sample calculation in Attachment F).

If this occurs, the county auditor-controller's office allocates the ERAF deficit to the non-basic aid districts based on the taxing agencies' unadjusted AB 8 factor (see sample calculation in Attachment G). After allocating the ERAF, the county auditor-controller's office prepares a property tax summary spreadsheet (see attachment H) and sends the report to the COE for input into the CDE software.

- E. The COE submits the tax reports using the online software from the CDE (see sample reports for basic aid and non-basic aid in attachments I and J, respectively). Note that ERAF applies to non-basic aid districts only and is reported independently in the software and not netted against secured taxes.

Sample Documents

Click on the title of any sample document below to view or download it.

[Attachment A: ERAF Capacity Calculation \(Excel\)](#)

[File with all of the following sample documents \(pdf\)](#)

[Attachment B: County controller's property tax and ERAF report \(P-Annual\)](#)

[Attachment C: Community college district revenue limit and maximum usable ERAF calculation](#)

[Attachment D: COE special education funding analysis for ERAF entitlement](#)

[Attachment E: COE analysis for ERAF entitlements \(P-Annual\)](#)

[Attachment F: Excess ERAF, sources available to fund Triple Flip and VLF](#)

[Attachment G: Allocation of fiscal year ERAF Deficit \(P-Annual\)](#)

[Attachment H: County controller's office fiscal year property tax and ERAF summary report \(P-Annual\)](#)

[Attachment I: COE tax report for basic aid district](#)

[Attachment J: COE tax report for non-basic aid district](#)

I. OVERVIEW

A. The California Revenue and Taxation, Health & Safety, and Government codes provide laws related to the assessment, collection and distribution of property taxes.

1. Division 1 of the California Revenue and Taxation Code includes the laws for property taxation.

B. Local educational agencies (LEAs) and community colleges receive a significant amount of revenue from property taxes.

C. Tax Rates

Revenue and Taxation Code Sections 2151 – 2152.5

1. Section 2151 requires the board of supervisors to fix county and district tax rates and to levy the state, county and district taxes as provided by law.

2. Sections 2152 and 2152.5 require the county auditor to ensure that the rates applicable to any assessment are correct and that the amounts to be paid as a tax on the properties listed are computed accurately.

D. County Auditor Allocations and Certifications

Revenue and Taxation Code Section 75.70

1. Requires the county auditor to allocate supplemental property taxes to each community college district, county superintendent of schools, and all elementary, high school, and unified school districts within the county.

2. Allocations of supplemental taxes to elementary, high school, and unified school districts are based on the average daily attendance (ADA) as certified by the Superintendent of Public Instruction (SPI). Average daily attendance shall be deemed zero for excess tax school entities and multicounty school districts where portions of school districts are located outside the county of control.

3. The SPI is required to certify the ADA to each county auditor no later than July 15 of each applicable year. This ADA is used for the advance apportionment of state aid and is also used to determine the allocations of supplemental taxes. LEAs certified as state funded at P-2 of the prior year will receive supplemental taxes in the subsequent year; LEAs certified as basic aid (also known as an excess tax entity) at P2 of the prior year will not receive supplemental taxes in the subsequent year.

4. On or before November 15 (P-1) and April 15 (P-2), the auditor of each county will furnish to the SPI the estimated amount of tax receipts pursuant to this section of each school district situated within his or her county (see downloadable sample county letter link at the end of this section). The actual tax receipts for the fiscal year must be submitted on or before August 15 (Annual).

The CDE's Principal Apportionment Tax Software or Principal Apportionment Data Collection (PADC) Software is used to report estimated (P-1 & P-2) and actual tax receipts (Annual) (see downloadable sample tax report link at the end of this section). The Tax Software is often used because it is released before the PADC Software; however, either can be used to submit property tax data. Also, the Miscellaneous Funds data entry screen, which needs to be reported at Annual, is only available in the PADC Software.

Revenue and Taxation Code Section 96.1

1. Section (b) states that any allocation of property tax revenue that was subjected to a prior completed audit by the Office of the State Controller, pursuant to the requirements of Government Code Section 12468, where all findings have been resolved, shall be deemed correct.

E. Excess Tax School Entity Defined

Revenue and Taxation Code Section 95

1. Defines an "excess tax school entity" as an educational agency for which the amount of the state funding entitlement determined under subdivision (e), (f), or (g) of Section 2575, or Section 84750.5 or 84751 of the Education Code, as appropriate, is zero, and as described in subdivision (o) of Section 42238.02 of the Education Code, as implemented by Section 42238.03 of the Education Code.

F. Administrative Costs

Revenue and Taxation Code Sections 95.2-95.3

1. Sections 95.2 and 95.3 provide the law on the computation of property tax administrative costs.
 - a. Excludes school districts, community colleges, the county superintendent, and Educational Revenue Augmentation Fund (ERAF) from paying property tax administrative costs.
 - b. Requires the state to reimburse the county for the portion of the school districts, community college, county superintendent, and ERAF share of administrative costs that is attributable to the county's costs of providing boards and hearing officers for the review of property tax assessment appeals.

G. County Assessor Duties

Revenue and Taxation Code Sections 401 – 407

1. Section 401 establishes the requirement for the county assessor to assess all property subject to general property taxation at its full value.

2. Section 401.3 requires the assessor to assess all property subject to general property taxation on the lien date as provided in Articles XIII and XIII A of the Constitution and any legislative authorization.
3. Section 404 requires that all taxable property, except state-assessed property, will be assessed by the assessing agency of the taxing agency where the property is situated.
4. Section 405 requires the assessor to assess all taxable property in their county, except state-assessed property, to the persons owning, claiming, possessing, or controlling it on the lien date.
5. Section 407 requires the county assessor to transmit a statistical statement to the board of supervisors annually, on the second Monday in July.

H. Secured Property Tax Roles / Tax Bills / Tax Collections

Revenue and Taxation Code Sections 2601 – 2636

1. Requires the auditor to deliver the secured roll to the tax collector on or before the fourth Monday in September.
2. The tax collector is responsible to collect all taxes.
3. Annually, on or before November 1, the tax collector must mail or electronically transmit a county tax bill or a copy thereof for every property on the secured roll.
4. The following information is included in each property tax bill:
 - a. The full value of locally assessed property.
 - b. The tax rate required by Article XIII A of the California Constitution.
 - c. The rate or dollar amount of taxes levied in excess of the 1% limitation to pay for voter-approved indebtedness incurred before July 1, 1978, or bonded indebtedness for the acquisition or improvement of real property approved by voters in their local school bond elections.
 - d. The amount of any special taxes and special assessments levied.
 - e. The amount of any tax rate reduction pursuant to Section 96.8.
 - f. The amount of any exemptions.
 - g. The total taxes due and payable on the property covered by the bill.
 - h. Instructions on tendering payment, including the name and mailing address of the tax collector.
 - i. The billing of any special purpose parcel tax.

- j. Information specifying all of the following:
 - i. That if the taxpayer disagrees with the assessed value as shown on the tax bill, the taxpayer has the right to an informal assessment review by contacting the assessor's office.
 - ii. That if the taxpayer and the assessor are unable to agree on a proper assessed value pursuant to an informal assessment review, the taxpayer has the right to file an application for reduction in assessment for the following year with the county board of equalization or the assessment appeals board, as applicable, and the time period during which the application will be accepted.
 - iii. The address of the clerk of the county board of equalization or assessment appeals board, as applicable, at which forms for an application for reduction in assessment may be obtained.
- 5. All taxes on personal property, and one-half of the taxes on real property, are due and payable on November 1; if unpaid, the taxes are delinquent on December 10. The second half of the taxes on real property is due and payable on February 1; if unpaid, the taxes are delinquent on April 10.
 - a. The entire tax on real property may be paid when the first installment is due and payable or anytime thereafter until the properties on the current roll become defaulted.
 - b. The second installment may be paid separately only if the first installment has been paid.
 - c. The tax collector must accept payment of current year taxes even though prior year delinquencies exist.
- 6. All taxes shall be paid at the tax collector's office unless the board of supervisors, upon recommendation of the tax collector and on or before the day when payments may be made, orders that taxes be collected in any other or additional location, in addition to a location within the county.
- 7. Not less than once every 12 months and on dates approved by the auditor, the tax collector shall account to the auditor for all moneys collected during the preceding reporting period.
- I. Unsecured Property Tax Roles / Tax Bills / Tax Collections
 - Revenue and Taxation Code Sections 2901 – 2928.1
 - 1. Taxes on unsecured property are due on the lien date.
 - 2. The tax collector shall collect taxes on unsecured property.
 - 3. In collecting taxes on unsecured property, the tax rate to be used is the rate for property of the same kind on the secured roll last fixed before the lien date for the taxes to be collected.

4. The assessor is responsible to deliver to the tax collector a written record of the assessment of the unsecured property.
5. The tax collector is responsible to mail or electronically transmit tax bills.
6. Taxes on the unsecured roll as of July 31, if unpaid, are delinquent on August 31.

J. Tax Distributions

Revenue and Taxation Code Sections 4653.4 - 4653.6

1. Taxes shall be distributed to each fund on the basis of the tax rate established for the current secured roll on which they are charged and in the same proportion that the tax rate for each fund bears to the total tax rate applicable.
2. Amounts paid as delinquent penalties shall be distributed to the county general fund.

Revenue and Taxation Code Sections 4655.2 - 4655.4

1. Taxes shall be distributed to each fund on the basis of the tax rate established for the current unsecured roll and in the same proportion that the tax rate for each fund bears to the total tax rate applicable.
2. Amounts paid as delinquent penalties or accrued legal interest paid on judgments for the recovery of unpaid property taxes rendered by the courts shall be distributed to the county general fund.

II. THE TEETER PLAN

A. Establishment of the "Alternative Method of Property Tax Distribution"

Revenue and Taxation Code Sections 4701 – 4717

1. In 1949, the state Legislature adopted Revenue and Taxation Code Section 4701, which authorized the "alternative method of property tax distribution."
 - a. This method was proposed by the Contra Costa Auditor Controller, whose last name was Teeter.
 - b. This method was used by Contra Costa County for more than 40 years.
 - c. Due to changes in statutes, and a state budget crisis, many more counties began using the method in the 1993-1994 fiscal year.
2. Section 4701 provides an alternative procedure for the distribution of property tax levies on the secured roll made by counties on their own behalf or as the tax-levying and tax-collecting agency for other political subdivisions.

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3. The object of this alternative procedure is to simplify the tax-levying and tax-apportioning process and to increase flexibility in the use of available cash resources.
 4. The alternative procedure allows the auditor-controller to allocate to agencies 100% of the secured property taxes billed but not yet paid.
 - a. Without the plan, delinquent taxes, penalties and interest are allocated when collected, by a separate allocation process.
 - b. The alternative procedure has other benefits:
 - i. It stabilizes property tax revenues.
 - ii. It simplifies the property tax revenue estimation and allocation process for the auditor.
 - iii. It generates higher property tax revenues during years of higher property tax delinquencies.
 - iv. It provides a one-time increase in property tax revenues to all taxing agencies in the year of implementation.
 - c. The alternative procedure could have the following disadvantages:
 - i. If the state Legislature decreased the penalties and interest rates on delinquent taxes, this could affect the amount of funds necessary to replenish the tax loss reserve.
 - ii. If there was a significant drop in property values, the county may be unable to collect delinquent taxes after initiating the sale of tax-defaulted property.
 - iii. If the board of supervisors rescinded the alternative tax distribution in a future fiscal year, there would be an adverse financial effect on agencies that spent the one-time tax distributions.
 5. The alternative procedure may be placed in effect in any county by a resolution of the board of supervisors of that county, adopted no later than July 15th of the first fiscal year to which it applies.
 - a. The procedure remains in effect unless the board orders its discontinuance or unless, prior to the commencement of any subsequent fiscal year, the board receives a petition for its discontinuance joined in by resolutions duly adopted by the governing boards of not less than two-thirds of the participating revenue districts in the county.
 - b. In that event, the board shall order discontinuance of the procedure effective at the commencement of the subsequent fiscal year.
- B. Teeter Plan Bond Law of 1994

Government Code Sections 54773 – 54783

1. These sections allow for a method to finance an alternative method of distribution of tax levies and collections of tax sale proceeds authorized pursuant to sections 4701 to 4717, inclusive, of the Revenue and Taxation Code.
2. The bonds issued, financed, or refinanced under this chapter do not have to comply with the requirements of any other state laws applicable to the issuance of bonds.
3. Section 54776 allows the county to issue its bonds in an amount necessary to provide sufficient funds for purposes of advancing moneys representing uncollected taxes in accordance with Section 4705 of the Revenue and Taxation Code.
4. The county will repay the bonds from tax revenues and any other legally available funds of the county.

III. REDEVELOPMENT

(The source for most of the historical information in this policy was the California Legislative Analyst's (LAO's) report entitled "The 2012-13 Budget: Unwinding Redevelopment," dated February 17, 2012.)

A. Establishment and Growth of Redevelopment Agencies (RDAs)

1. In 1945, the Legislature passed the Community Redevelopment Act authorizing local agencies to create RDAs to revitalize blighted urban areas. Laws related to community redevelopment are primarily located in Division 24, Part 1, sections 33000 and following of the California Health and Safety Code (HSC).
2. In 1952, voters approved Proposition 18, which established tax increment financing for blighted areas in need of urban renewal.
 - a. Under this process, once a city or county established an RDA project area, most of the increase in property tax revenue from that project area was to be distributed to the RDA instead of to other local agencies and could only be used to address the urban blight within that project area.
 - b. Because the urban growth within the RDA project area affected other public entities serving those areas (e.g., school districts, water districts, sewer districts, etc.), the increased tax increment revenue was to be shared between public entities and the city/county.
3. During the 1950s and 1960s, RDA project areas were generally small due to competing interests for property tax revenue and local governments' ability to raise taxes without voter approval. During this time, the state did not backfill tax revenue lost to local education agencies (LEAs) due to redevelopment.
4. School district revenue limits were established in 1972, thereby guaranteeing school districts a level of funding from combined state and local sources. If property taxes did not increase, the state backfilled the amount necessary to meet the revenue limit entitlement amount. This led to less motivation by some school districts to compete for the funds.

5. In 1976, AB 3674 was passed; this law required RDAs to spend 20 percent of tax increment revenues for affordable housing. These funds were deposited in the Low and Moderate Income Housing Fund and were to be used to maintain and increase affordable housing for qualified households.
6. In 1978, Proposition 13 passed, which significantly constrained local authority over the property tax and most other local revenue sources - except for redevelopment.
 - a. Redevelopment project areas began to significantly increase in size and were not always limited to blighted areas.
 - b. The increase in property tax revenue going to RDAs was decreasing funds needed for other local programs and increasing state costs to support TK-14 education.
7. In the 1980s, the state began taking action to constrain RDA growth and to offset the state's increased costs associated with RDAs.
 - a. AB 322 (1983) prohibited adoption of RDA project areas that included large amounts of vacant land.
 - b. Beginning in the 1990s, the state began taking actions in its annual budget to require RDAs to shift some of their revenues to schools to offset the state's increased costs associated with RDAs. The shifted funds typically were deposited into countywide accounts referred to as ERAF (Educational Revenue Augmentation Fund) or SERAF (Supplemental Educational Revenue Augmentation Fund).
 - c. SB 617 (1992) authorized revenue limit offsets for RDA payments, subject to certain exceptions for land acquisition, facility construction, reconstruction, remodeling or deferred maintenance.
 - d. AB 1290 (1993) defined blight, set time limits on project areas, eliminated the statutory authority to negotiate new pass-through agreements on a case-by-case basis, and created a statutory formula for sharing tax increment revenues based on an agency's proportionate share of the 1% property tax rate in the project area.
8. In May 2008, the State Controller's Office (SCO) issued a report titled "Distribution and Reporting of Local Property Tax Revenue," which raised concerns regarding RDAs, school districts and community college districts underreporting RDA revenues and thereby increasing state costs.
9. In September 2008, AB 1389 was passed; this bill established a new process for RDAs, counties and the state to report and document AB 1290 payments made to all affected taxing entities for 2003-04 through 2015.
10. Proposition 22, passed in November 2010, limited the state's ability to require RDAs to shift funds to schools or other agencies.

B. Dissolution of RDAs

1. In June 2011, two significant pieces of RDA-related legislation were enacted:
 - a. ABX1 26 imposed an immediate freeze on most RDA activity; dissolved RDAs effective October 1, 2011; and created a process for reducing and ending redevelopment financial affairs and distributing any net funds from assets or property taxes to other local taxing agencies.
 - b. ABX1 27 allowed RDAs to opt into a voluntary alternative program to avoid the dissolution included in ABX1 26. The program included annual payments to K-12 school districts to offset the fiscal effect of redevelopment.
 - c. ABX1 26 and ABX1 27 were challenged in court on constitutional grounds.
2. On December 29, 2011, the California Supreme Court 1) upheld ABX1 26, saying that the Legislature had authority to dissolve entities it had created; 2) found ABX1 27 unconstitutional, in that it violated Proposition 22's prohibition against the state "directly or indirectly" requiring an RDA to transfer funds to schools or to any other agency; and 3) established timelines for dissolution of RDAs.
3. On February 1, 2012, all RDAs in California were dissolved and the process for bringing to a cessation their financial affairs began.
 - a. The cessation process focused on two goals: 1) ensuring that existing financial obligations were met, and 2) minimizing any additional RDA obligations so that more funds are available to transfer for other governmental purposes.
 - b. The unwinding process has four key elements: 1) Local management and oversight by a successor agency, which is usually the city or county that established the RDA; 2) establishment of a seven-member oversight board to supervise the successor agency's work; 3) development of a list of enforceable obligations of the former RDA; and 4) review by the Department of Finance (DOF) and SCO of local dissolution activity and redistribution of funds.
 - i. The oversight board includes representatives from the affected local taxing agencies: TK-14 districts, the county, city, and special districts. The county board of education or county superintendent appoints one member to each oversight board.
4. The former RDA's housing functions and most of its housing assets have been transferred to a successor housing agency. The unencumbered balance in the former RDA's Low and Moderate Income Housing Fund is to be distributed to local taxing entities by the county auditor-controller.
5. The county auditor-controller administers each former RDA's Redevelopment Property Tax Trust Fund (RPTTF). This work involves quantifying the property taxes, formerly called tax increment, and then subtracting from that amount the following: pass-through payments, enforceable obligations payable that year, and allowable administrative costs. Any unencumbered agency

cash is also added to the amount available to determine the amount of funds available to distribute to taxing entities.

6. Over time, the dissolution of RDAs will increase the amount of general purpose property tax revenues that schools, community colleges, cities, counties and special districts will receive to offset state general fund education expenses.
7. AB 1484 became effective on June 27, 2012. Under ABX1 26 and AB 1484, districts and other affected taxing agencies receive three types of revenues from RDA projects from the county auditor-controller: pass-throughs, residual distributions, and asset liquidation revenues. AB 1484 also added subdivision (b) to Health and Safety Code (HSC) Section 34187 that requires pass-throughs to end when “all of the debt of a redevelopment agency has been retired or paid off.” When pass-through revenues end, the amounts previously apportioned to RDAs will be received by taxing entities as regular property taxes.

C. RDA Payments to Schools

1. Prior to the passage of AB 1290, many RDAs made pass-through payments to local agencies to partially offset these agencies’ property tax losses associated with redevelopment and to fund educational facilities. Although some TK-14 districts negotiated for pass-through payments, many did not, since the revenue limit funding backfilled the lost RDA tax revenue.
 - a. As an alternative to negotiated agreements, former HSC Section 33676(a) required districts to elect to be allocated 2% payments, which were the inflationary revenues resulting from growth in the base year value of real property within a project area. In 2001, a court decision held that the 2% payments were required regardless of whether a district had adopted a resolution electing to receive them.
 - b. The 2% payments only apply to RDA projects adopted between January 1, 1985 and December 31, 1993.
 - c. The amounts received by LEAs pursuant to pass-through agreements or 2% payments are not considered property taxes as long as they are used for educational facilities.
2. The passage of AB 1290 created new statutory pass-through entitlements in post-1994 projects (HSC 33607.5), pre-1994 projects that are amended under certain conditions (HSC 33607.7), and pre- or post-1994 projects for LEAs that are basic aid or 100% locally funded (HSC 33676(b)). These payments are considered property taxes.

The following table provides the percentages for AB 1290 payments to each type of non-basic aid LEA as well as applicable sections of the Health and Safety Code and Education Code:

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LEA	Health and Safety Code	Education Code	% Property Tax	% Non-Property Tax
School District	33607.5(a)(4)(A)	42238(h)(6) 42238.03(c)(6)	43.3%	56.7%
Community College District	33607.5(a)(4)(B)	84751(d)	47.5%	52.5%
County Office of Education/Special Education	33607.5(a)(4)(C)-(D)	2558(c) 2575(c)(3)	19%	81%

Source: FCMAT Alert, May 2007

With the passage of ABX1 26, the pass-through payments that may have been made directly to the districts from the RDAs are now made by the county auditor-controller.

IV. COUNTY OFFICE OF EDUCATION (COE) RESPONSIBILITIES

- A. The COE notifies the districts of the release of property taxes when notified by the county auditor. The county auditor may provide the information to the COE on spreadsheets (see downloadable sample spreadsheet link at the end of this section).
- B. The COE should work with the county auditor-controller to verify that RDA revenues received by districts are identified by type and project area.
- C. The COE should help districts identify the types of RDA revenue received to determine whether or not they are subject to an offset and to assist with appropriate account coding.
- D. The COE may also provide technical support to the successor agency oversight board members assigned by the county superintendent.
- E. Based on the information provided by the county auditor, the COE prepares and submits the tax data to the California Department of Education (CDE) on or before November 15 (P-1), April 15 (P-2), and August 15 (Annual) using the Principal Apportionment Tax Software or PADC Software. The COE provides each district with a copy of the property tax reports submitted to the state for each reporting period.

Whenever there is a material change in ERAF and property tax allocations, a revised tax file is submitted to the CDE as early as possible. Revised tax reports received on or before the first business day in October are included in the First Principal Apportionment certification and revisions received on or before the first business day in March are included in the Second Principal Apportionment certification. No revised report is necessary for any changes in P-1 tax estimates.

- G. At the end of the fiscal year, the COE reconciles the taxes distributed to the districts, including RDA funds, to the final property tax report provided by the county auditor to make sure the property tax

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revenues reflected in the district's books and unaudited actuals reports are accurate. Some COEs receive the tax ledgers monthly from the auditor-controller's office. These ledgers are input into a spreadsheet by the COE. The COE then reconciles them quarterly with the district ledgers to ensure correct posting of the taxes.

Sample Documents

Click on the title of any sample document below to view or download it.

[Sample County Letter](#)

[Sample Tax Report](#)

[Sample Spreadsheet, release of property taxes](#)

I. OVERVIEW

A. Two Retirement Systems

1. Local educational agencies (LEAs) have two retirement systems:

a. CalPERS – the California Public Employees' Retirement System

www.calpers.ca.gov

This retirement system provides retirement benefits to classified employees as well as to certificated employees with right of election privileges.

CalPERS has two retirement formulas (see CalPERS Circular [200-062-12](#) for details):

- 2% at 55 (Classic) Member prior to 1/1/13
- 2% at 62 (PEPRA) Member on or after 1/1/13

b. CalSTRS – The California State Teachers' Retirement System

www.calstrs.com

This retirement system provides retirement benefits to certificated employees as well as to classified employees with right of election privileges.

CalSTRS has two retirement formulas (see CalSTRS Directive [2012-07](#) for details):

- 2% at 60 (Classic) Prior to 1/1/13
- 2% at 62 (PEPRA) On or after 1/1/13

2. It is the employers' responsibility to determine whether their employees are eligible to participate in CalPERS or CalSTRS and to determine the correct retirement formula.

B. Contributions

1. Employers are required to deduct the member contributions from the creditable compensation of employees who are members of CalPERS or CalSTRS (E.C. [23000](#)).

2. Employers are required to remit to CalPERS or CalSTRS the member contributions and the employer contributions.

C. CalSTRS Requirements

1. Contributions (E.C. [23002](#))

- ##### a. The member and employer contributions are due to the CalSTRS office no later than five working days after the period covered by the monthly report that indicates the compensation earned.

- b. Contributions must be received by 3 p.m. Pacific Standard Time or they will be considered received the following working day.
- c. Payments are delinquent beginning on the sixth working day after the period covered, and interest begins to accrue on that day.
- d. The initial remittance is based on the initial report of the total members' and employers' contributions and must equal at least 95% of those combined amounts.
- e. The remaining 5% of contributions due is remitted to CalSTRS 15 working days following the period covered by the monthly report.
- f. The balance due is delinquent on the 16th working day thereafter, and interest begins to accrue on that day.
- g. Education Code Section 23003 authorizes the CalSTRS board to assess penalties if the contributions are not made in conformance with Section 23002 (see *CalSTRS Penalties and Interest for Late Remittance and Late and Unacceptable Reporting by Employers*).
- h. Education Code 23001.5 (a) (currently scheduled to be implemented July 1, 2020)

All contributions due to the system by an employer under this section shall be paid by an electronic funds transfer method through an automated clearinghouse as prescribed by the CalSTRS board.

2. Reports

- a. Education Code Section 23004 states:

The county superintendent of schools or the employing agency shall, or school district or community college district may, with approval of the board, submit a report monthly to the system containing information as the board may require in administration of the plan. The monthly report shall be submitted electronically in an encrypted format provided by the system that ensures the security of the transmitted member data.

- i. Direct Reporter – California Code of Regulations (CCR) 27702

A district may apply to be a direct report to the system. The Teachers' Retirement Board may approve or may deny a district as a direct report based on the criteria in subdivisions (b) and (c).

- ii. Documentation Required to become a Direct Report (CCR 27703)
- iii. Termination of Direct Reporting Relationship (CCR 27004)
- iv. Review of Termination of Direct Reporting Relationship (CCR 27005)

- b. Education Code Section 23005 states:

Monthly reports are due to CalSTRS 30 calendar days immediately following the month in which the compensation being reported under this part was earned, and are delinquent 15 calendar days immediately thereafter.

- c. CalSTRS defines the fields that are included in the report, which shall comply with CalSTRS' F496 File Layout.
 - d. Education Code Section 23006 authorizes the CalSTRS board to assess penalties if the reports are late or in an unacceptable form. See CalSTRS Penalties and Interest for Late Remittances and Late and Unacceptable Reporting by Employers for details.
 - i. Education Code Section 23007 authorizes the Office of the State Controller, upon order of the CalSTRS board, to withhold subsequent payments from the State School Fund to the county, for deposit into the county school service fund, if the employer fails to make payment of any assessment.
 - ii. Upon request of the county superintendent of schools to the county auditor, the county auditor shall withhold payments to a school district for deposit in the district's general fund until the contributions and the report are received in acceptable form by CalSTRS.
 - e. Education Code Section 23008 authorizes the county superintendent, district superintendent, chancellor/president of a community college district, or other employing agency that submitted the report to CalSTRS to make changes to the monthly report.
 - i. These changes to the report are made because of overpayments or underpayments of required contributions.
 - ii. The entity must make these changes within 60 days after discovery of the error or notification from CalSTRS.
 - iii. If the employee overpaid CalSTRS, the agency must refund the overpayment within the same 60-day time period
 - iv. CalSTRS has the authority to assess penalties for late or improper adjustments to the monthly reports. See CalSTRS Penalties and Interest for Late Remittances and Late and Unacceptable Reporting by Employers for details.
3. Membership
- a. Full-time Basis – Education Code Section 22501
 - b. Part-time Basis – Education Code Section 22502
 - c. Substitute Position – Education Code Section 22503
 - d. Part-time Hourly or Daily – Education Code Section 22504
 - e. Exchange Teachers or Sojourn Teachers – Education Code Section 22601

- f. Permissive Election - Education Code Section 22515
- g. Form ES0372, Retirement System Election
- 4. Creditable Service
 - a. See Education Code Section 22119.5
- 5. Creditable Compensation
 - a. Class of Employees – CCR 27300
 - b. Creditable Compensation
 - 2% at 60 Members – Education Code Section 22119.2
 - 2% at 62 Members – Education Code Section 22119.3
 - c. Salary – CCR 27400
 - d. Remuneration that is paid in addition to salary (special comp) – CCR 27401
 - e. Outgrowth Activities – Education Code Section 22115
 - f. Compensation that is paid a limited number of times – CCR 27602
- 6. Post-Retirement
 - a. Retired Member Activities
 - i. Retired member activities means one or more activities identified in subdivision (b), (c), or (d) of Section 22119.5, or subdivision (b), (c), or (d) of Section 26113.
 - b. Separation from Service
 - i. No earnings allowed during the first 180 calendar days after the most recent retirement of a member retired for service – Education Code sections 24215.5 and 26812.
 - ii. Separation from Service Requirement Exemption (SR 1897)
 - Education Code Section 24214.5(b)
 - Employer Information Circular 16-3 Volume 32 issue 3
 - c. Annual Post-Retirement Earnings Limit
 - i. Earn up to the annual post-retirement earnings limit without penalty
 - ii. Earnings limit published in an employer directive each spring
 - iii. Education Code Section 24214

d. Employer Obligations

Upon retaining the service of a retired member, employers are required to do both of the following (E.C. 22461):

- i. Advise the retired member of the earnings limitation.
- ii. Report the retired member's earnings monthly to CalSTRS.

e. Classified Position Restrictions

- i. Retired CalSTRS annuitants are precluded from employment in classified positions except in the two circumstances listed below (E.C. 45134).
 1. An aide is needed in a class with a high pupil-to-teacher ratio.
 2. An aide is needed to provide one-on-one instruction in remedial classes or for underprivileged students.

7. Sick Leave

- a. Basic Sick Leave – Education Code Section 22170.5(b)
- b. Excess Sick Leave – Education Code Section 22170.5(c)

Warning – CalSTRS allows at retirement only the current employer's sick leave amount. Watch carryover from other districts. You may be penalized.

- c. Order of Usage – Education Code Section 22724(a)
- d. Unused sick leave is reported on the Express Benefit Report (SR 0554E)
- e. Conversion to Service Credit – Education Code Section 22717

D. CalPERS Requirements

1. Government Code Section 20610 requires every county superintendent of schools to enter into a contract with CalPERS and to include the following:
 - a. All qualifying classified employees of the county superintendent of schools whose compensation is paid from the county school service fund, except employees electing pursuant to Section 1313 of the Education Code to continue membership in a county system.
 - b. All the employees of school districts and community college districts existing on July 1, 1949, or thereafter formed (note: there are some exclusions from this provision).
 - c. For purposes of this part, these school district employees are considered employees of the county superintendent of schools having jurisdiction over the school district by which they are employed.

2. Government Code Section 20221 requires each school employer and the chief administrative officer of a contracting agency, or any other person whom its governing board may designate, to furnish to CalPERS information on the change in status of members.
3. Government Code Section 20222.5 authorizes the CalPERS board to obtain information needed during an audit.
4. Payment of Contributions – Government Code Section 20617
 - a. Requires the county superintendent of schools to draw a requisition at the close of each month from the county school service fund and the funds of the respective school districts for amounts equal to the total of the employers' contributions and the contributions deducted from the compensation of employees paid from those funds.
 - b. The county superintendent must deposit these amounts in the county treasury to the credit of the contract retirement fund. This fund is often accounted for as a payroll clearing fund in the books of the county office of education.
 - c. Thereafter, warrants are drawn on this fund to remit the employees' and employers' contributions to CalPERS.
5. Payment of Contributions
 - a. CalPERS requires a payment of 90% of the total of the employees' and employers' contributions within 15 calendar days after the close of a service period.
 - b. The remaining amount is paid within 30 calendar days after the close of a service period.
6. Electronic Funds Transfer (EFT) Payments – Government Code Section 20538

Effective July 1, 2017 CalPERS requires contracting agencies to pay all amounts due to the retirement system for pension retirement contributions through an electronic funds transfer method. See Circular Letter 200-006-17.
7. CalPERS Membership – Government Code Section 20283
 - a. It is the employer's responsibility to determine if its employees are eligible for CalPERS membership.
 - b. If an employer fails to enroll an eligible employee into CalPERS membership within 90 days of qualifying, when the employer knows or can reasonably be expected to have known of that eligibility, the employer will be required to pay all arrears, costs for member contributions, and administrative costs of \$500 per member. The employer shall not pass on to an employee any costs assessed due to untimely enrollment.
8. Full-Time Employment – Government Code Section 20636.1 (b)(1)

For all noncertificated school members, full-time employment is considered 40 hours per week. This means that all hours up to 40 per week must be reported to CalPERS for noncertificated school members at the straight time rate, and only those hours in excess of 40 are considered overtime.

9. Two or More Positions – Government Code Section 20635

If a member concurrently renders service in two or more positions, one or more of which is full time, service in the part-time position shall constitute overtime. If two or more positions are permanent and full time, the position with the highest pay rate or base pay shall be reported.

10. Publicly Available Pay Schedules

Pay rate shall be limited to the amount listed on a pay schedule that meets all of the requirements of CCR 570.5:

- Has been approved and adopted by the employer's governing body in accordance with requirements of applicable public meeting laws
- Identifies the position title for every employee position
- Shows the pay rate for each position
- Indicates the time base for each pay rate
- Indicates an effective date and date of any revisions
- Is posted at the office of employer or is immediately accessible and available for public review
- Must be retained by employer for five years
- Does not reference another document

11. Retirement Contribution Projection for Active Members

In April 2018, CalPERS began projecting retirement contributions for active appointments missing payroll (see CalPERS Circular Letter [200-013-18](#)).

12. Earned Period Reports

- a. Earned period reports must be submitted by each business partner on or after 30 calendar days following the last day of the earned period to which the respective report refers.
- b. CalPERS will assess an administrative fee of \$200.00 for every earned period report that is delinquent.
- c. Each business partner has 60 calendar days from the date "myCalPERS" generates an error message on the payroll record to correct and post the suspended payroll file. Any unposted

payroll records or errors that have not been corrected after 60 calendar days will generate a monthly \$200.00 administrative fee until all records and errors are correct and posted.

13. Retirees (CalPERS Circular 200-048-18)

a. Failure to enroll a retiree in CalPERS – Government Code Section 21220

Authorizes CalPERS to charge \$200 fee per month for the failure to enroll a retiree in CalPERS within 30 days of hire and \$200 fee per month for the failure to report a retiree's hours worked to CalPERS within 30 days of the last day of the pay period in which the retiree worked.

b. 180-day waiting period – Government Code Section 7522.56

Provides that a retiree is eligible for post-retirement employment 180 days following his or her retirement date.

c. Bona Fide Separation in Service

All service retirees must meet the bona fide separation in service requirement of Government Code Section 21220.5 if the retiree is under normal retirement age at retirement, even if an exception to the 180-day waiting period applies.

d. Fiscal Year Hourly Limitation

A retired annuitant may be employed up to a maximum of 960 hours per fiscal year for all CalPERS employers.

e. Retiree Compensation

The compensation paid to retirees can neither be less than the minimum nor exceed the maximum monthly base salary paid to other employees who perform comparable duties, divided by 173.333 hours per month to equal an hourly rate. Retirees cannot receive any benefit, incentive, compensation in lieu of benefits, or other form of compensation in addition to the hourly pay rate.

f. Limited Duration Appointment

Retirees cannot be hired into vacant permanent or regular staff positions except as an interim appointment under Government Code 21221(h) (as discussed below), regardless of whether the positions are part-time or full-time. Retirees should be hired into retired annuitant-designated positions only.

g. Retiree Skills

The retiree's work history should include previous experience with, and the skill set needed for the desired work.

h. Unemployment Insurance Payments

Government Code Section 7522.56 states that a retiree cannot be appointed as a retired annuitant if he or she received unemployment insurance payments for retired annuitant work for any public employer within the 12 months prior to the appointment date.

14. Reportable/Non-Reportable Compensation

Pay rate and special compensation must be in written pay schedules, ordinances, or similar documents that are available for public review.

15. Compensation – Government Code Section 20630

Compensation is broadly defined as payment to employees for services performed during normal working hours or for time during which the employee is excused from work because of holidays, sick leave, industrial disability (payments under Labor Code sections 4800 and 4850, or E.C. 44043 or 87042), vacation, compensatory time off, or leave of absence. The employer shall identify and report compensation for the pay period in which the compensation was earned regardless of when paid, and the compensation shall not exceed compensation earnable.

16. Special Compensation – California Code of Regulations 571 (a)(b)

Special compensation shall be limited to that which is received by a member pursuant to a labor policy or agreement with similarly situated members of a group or class of employment, and which is reported in addition to and separately from pay rate. Special compensation is delineated specifically and exclusively in the California Code of Regulations Section 571 (a) and (b). Subsection 'b' specifies the standards to which all special compensation items must adhere.

17. Out-of-Class Reporting

Per CalPERS Circular Letter 200-021-18, the Government Code Section 20480 of the Public Employees' Retirement Law (PERL) defines an "out-of-class appointment" as an appointment to an upgraded position or higher classification for a limited duration by an employer or governing board or body when a position is vacant. For purposes of this section, a "vacant position" refers to a position that is vacant during recruitment for a permanent appointment. A vacant position does not refer to a position that is temporarily available due to another employee's leave of absence.

a. The employer is responsible for the following:

- Tracking out-of-class hours worked in each vacant position during the fiscal year.
- Reporting hours worked in vacant position(s) to CalPERS by July 30.
- Making timely payments for penalties generated in accordance to Government Code Section 20480.

- Ensuring the out-of-class appointment is made pursuant to a collective bargaining agreement or a publicly available pay schedule.
 - b. Notification letters will be mailed to the employer by CalPERS.
 - Annual Notice – Will be sent in June informing employers to verify and report out-of-class appointments by July 30 for the prior fiscal year.
 - Second Notice (failure to comply) – Will be sent in August informing non-compliant employers (those that have not reported out-of-class appointments) that CalPERS has yet to receive information and that penalties and/or administrative fees may be assessed.
 - c. Reporting of out-of-class hours must be submitted by the employer in “myCalPERS.”
 - d. Failure to report out-of-class hours may result in:
 - Penalties as outlined in Government Code Section 20480.
 - Notification to the Office of Audit Services to initiate an audit of the employer’s records.
- E. CalSTRS Reporting
1. At the beginning of each month, a computer report is generated that shows all retirement data from the previous month’s payroll.
 2. The county office reviews the information entered in each field of the report to determine whether the information is reasonable based on the directions from CalSTRS.
 3. The retirement file must be submitted electronically to CalSTRS and be checked for four different integrity and rule types: integrity checks, business rules, variance rules, and warnings.
 - a. Integrity check, business rule and variance rule errors must be corrected before the file is transmitted to CalSTRS; warnings are not required to be corrected (see [SEW 496 File Specification](#) for details).
 4. CalSTRS F496 Remittance

The county office prepares the initial remittance(s) and the final remittance to CalSTRS and submits it through the CalSTRS Remittance Advice and [Govone.com](#) website.
 5. CalSTRS Accounts Receivable Payment (for those submitting through the Fox Pro Program)

The county office prepares the payment and submits it to CalSTRS using the CalSTRS Fox Pro program and the [Govone.com](#) website.
 6. CalSTRS Penalty and Interest Invoices

The county office prepares and submits the payment through the CalSTRS Remittance Advice and [Govone.com](#) website.

7. CalSTRS Excess Contributions

The county office deposits the warrant and subsequently records and notifies each district of their portion of the refund.

8. CalSTRS Address File

9. Submit CalSTRS RWL applications prior to the beginning of the new fiscal year.

10. Process CalSTRS dispute cases on behalf of the districts.

11. Reconcile CalSTRS variances and payments to the county .

12. Process miscellaneous forms and documents pursuant to a CalSTRS request.

13. Act as the main point of contact between CalSTRS and the districts.

F. CalPERS Reporting

1. At the beginning of each month, a computer report is generated that shows all payrolls from the previous month.

2. The county office reviews the information entered in each field of the report to determine if the information is reasonable based on the directions from CalPERS.

a. The file must also go through an errors and exceptions check in "my|CalPERS."

b. Payroll record errors must be corrected before the final file is posted to "my|CalPERS."

c. Payroll record exceptions should be reviewed and corrected if needed, but clearing them is not required to post the final file to "my|CalPERS."

d. The retirement file is submitted to CalPERS via the copy forward method or file upload method in "my|CalPERS."

3. CalPERS – Remittance

The county office prepares the initial remittance and final remittance to CalPERS.

4. Effective July 1, 2017, pension retirement contributions must be submitted electronically (see Circular Letter 200-006-17).

5. CalPERS Appointment Reconciliation

6. CalPERS Undeliverable Address Reports – update addresses in "my|CalPERS."

7. Reconcile "my|CalPERS" billing and payment accounts to the county.

8. Process miscellaneous forms and documents pursuant to a CalPERS request.
9. Act as the main point of contact between CalPERS and the districts.

G. County Office Responsibilities – CalSTRS & CalPERS

Because retirement oversight responsibility processes can vary by county, below are some common practices in county offices. Some of these functions can also be carried out at the district level.

1. The county office of education will periodically receive training from CalPERS and CalSTRS on reporting payroll and creditable earnings.
2. CalPERS and CalSTRS periodically issue publications to assist county offices in proper reporting techniques, which is then disseminated to school districts.
3. The county office of education may also provide training to districts to ensure earnings and other information is properly entered and correctly reported.
4. Each month, the county office of education will determine how much money is owed to CalSTRS and CalPERS and remit these amounts to the appropriate agency.
5. Each month, the county office of education will prepare and remit reports to CalSTRS and CalPERS that indicate the creditable earnings for member employees, the amounts paid on behalf of members, and the amounts paid by members.
6. Consult with each district to ensure enrollment of eligible employees into CalPERS at appointment (G.C. 20281).
7. Monitor positions excluded by CalPERS (G.C. 20322).

III. CHARTER SCHOOLS

- A. Education Code Section 47611 provides guidance regarding charter schools that make CalSTRS and CalPERS available to their employees.
- B. Education Code Section 47611.3 requires the chartering authority to create the reports needed for CalSTRS and CalPERS.
 1. The county superintendent of schools, employing agency or school district that reports to CalSTRS or CalPERS must submit the required reports on behalf of the charter school.
 2. These agencies may charge the charter school for the actual costs of the reporting services.
- C. Below are links to the retirement systems' online resources to further assist with charter schools.
 1. CalSTRS ([Retirement Benefits to Charter Schools](#))

2. CalPERS (New Applicant Questionnaire for Schools Requesting to Participate in the CalPERS Plan) Circular 200-024-15

D. A sample document used by a county office of education for charter schools is shown at the end of this section.

IV. LEGAL CITATIONS

A. Education Code

- Title 1, Division 1, Part 13

B. Government Code

- Title 2, Division 5, Part 3

PERS and STRS • Charter Schools

Sample Document

Charter School STRS Reporting Requirements

_____ requires the following for _____
County Charter Schools' STRS reporting:

These requirements and/or associated fees and charges may be changed at any time subject to the sole discretion of _____.

TESTING REQUIREMENTS:

Prior to _____ setting a date for STRS processing the following conditions must have been met:

The charter must submit:

- A. The required board adopted resolution (See Attachment A.)
- B. The Charter School Self-Assessment Checklist for Participation in STRS (See Attachment B.)
- C. An acceptable test electronic data submission in accordance with the STRS file format prescribed in Attachment C.
- D. An original signed copy of this document.

CONTRIBUTIONS:

1. A check payable to _____
in the amount of total STRS contributions (employee/employer) must be received by the third working day of the month following the pay period.

REPORTING REQUIREMENTS:

1. The following required documentation is due by the third working day of the month following the pay period:
 - a. STRS report via electronic data submission and a hard copy of the report. The electronic data must be readable and submitted in the required format. Attach a spreadsheet stating total STRS earnings, creditable earnings, employee contributions, employer contributions, "buy backs" (if non-sheltered) and any arrears.
 - b. Monthly Payroll Register.
 - c. Copies of all teacher/management contracts.
 - d. Compensation/salary schedule.
2. The charter school is responsible for correcting all exceptions reported on the Monthly Contribution Report Exception Corrections (Notification), which must be included on the next electronic data submitted.
3. STRS may impose penalties for a reporting timeline violation or whenever the county-wide reported line

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errors exceed 4.5% or the ID errors exceed 2.0%. Any penalties incurred due to a charter school violation of required timelines or allowable error percentages will be deducted from the next state apportionment.

4. At least thirty (30) days prior to the last working day of the month the charter must request approval by STRS to report as credible salary any one-time payments (refer to STRS manual).
5. Two times a year (September and April), STRS requires a member address submission. The charter school will be notified when the address data submission is due to the county office. The data will be merged and one submission will be forwarded to STRS.
6. The charter school is required to work directly with the sponsoring employer or county office.

STRS FORMS:

1. STRS retirement, refund, death, and disability forms must be completed by the charter school and submitted to the county office for signature.
2. MR-87 forms must be submitted to the county office for processing.
3. The charter school must order all STRS refunds, retirement packets, booklets and forms directly from STRS.

FEES:

1. Electronic data submission fee is \$88.00 per data file submitted. Payment must be submitted with each data submission.
2. MR-87 submission fee is \$5.00 per MR-87 submitted. Payment must be submitted with MR-87.
3. Other charges – COE will invoice charter school. Payments not received within 30 days of invoice will be deducted from next State Apportionment.

Programming Support – \$100 per hour

Technical Support – \$ 90 per hour

Acknowledgement:

_____ Charter School hereby agrees to all of the foregoing terms and conditions of STRS reporting in _____ County.

Date _____ Signature _____
Authorized Charter School Representative

Attendance Accounting

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I. OVERVIEW

A. The Role of Attendance Accounting

Local educational agencies (LEAs) keep records of pupils' daily attendance and absences for two main reasons:

1. To ensure the proper allocation of state funds.
2. To document compliance with state compulsory attendance laws.

B. Average Daily Attendance

The basic measure of attendance in California's school system is known as average daily attendance, commonly referred to as ADA.

1. ADA is computed as the number of student days of creditable attendance divided by the number of days school was in session. For certain programs, fixed divisors are established in law.
2. For each unit of verified ADA, as of a specified date, LEAs receive an amount of apportionment funding from the state.

C. Recordkeeping

1. LEAs maintain their attendance records:
 - a. Using software designed specifically to track daily attendance and compute periodic totals
or
 - b. Using the *State School Register*, which is a manual record book that teachers use to record daily attendance
2. School districts and county offices of education are required to have their attendance systems approved by the California Department of Education (CDE) if they use any system other than the *State School Register* in a self-contained K-8 classroom. Charter schools are not required to receive approval from the CDE for their attendance accounting forms and procedures.

D. Reporting

1. The school year begins on the first day of July and ends on the last day of June (Education Code (E.C.) Section 37200).
2. A school month is 20 days or four weeks of five days each, including legal holidays but excluding weekend makeup classes. For the purposes of counting attendance only in providing for a school calendar, a school district may exclude the winter vacation period, or any portion thereof, in the definition of a school month (E.C. 37201).

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3. Education Code Section 41601
 - a. LEAs are required to report to the state superintendent of public instruction (SPI) their ADA for all full school months during the fiscal year, using the following three periodic reports:
 - i. A report for the period between July 1 and December 31, inclusive. This is known as the first period report for the first principal apportionment or P-1.
 - ii. A report for the period between July 1 and April 15, inclusive. This is known as the second period report for the second principal apportionment or P-2.
 - iii. A report for the period between July 1 and June 30. This is known as the annual period.
 - b. LEAs report attendance through the last full school month on or before the identified dates.
4. Education Code Section 41601 requires LEAs to prepare each attendance report in accordance with instructions on forms prescribed and furnished by the SPI.

E. Holidays

1. Education Code sections 37220 through 37222 prescribe the holidays for public schools.
2. The governing board of a school district, by adopting a resolution, may revise the date on which the district's schools close in observance of any holiday identified in Education Code Section 37220, except for Veterans Day. Education Code Section 37220 does not apply to charter schools.

F. Emergencies and Apportionment Credit

1. When emergency conditions force schools to close, or when an emergency materially decreases attendance at schools that remain open, districts can apply to the SPI to receive normal apportionment credit and to be credited as complying with instructional time requirements for longer day and year incentive funding.
2. Education Code Section 41422 allows an LEA to file a Request for Allowance of Attendance Due to Emergency Conditions (Form J-13A) if it was unable to keep its schools open during a fiscal year for the full 180 days for school districts and county offices of education, or 175 days for charter schools, or is required to operate sessions of shorter length than otherwise prescribed in law because of any of the following:
 - a. Fire, flood, earthquake, or epidemic.
 - b. Any order of any military officer of the United States or of the state to meet an emergency created by war, of any civil officer of the United States, of the state, of any county, city and county, or city authorized to issue that order to meet any emergency created by war.
 - c. Other extraordinary conditions.

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- d. Inability to secure or retain a teacher.
- e. Illness of a teacher.

These facts must be shown to the satisfaction of the SPI by affidavits from members of the LEA's governing board, the governing board of the county office of education, or the governing board or body of the charter school and the county superintendent of schools.

A school district, county office of education, or charter school may still receive credit for instructional days and minutes that were scheduled for in-person instruction, as demonstrated by the governing board- or body-approved calendar in place before the event, on days on which the school district, county office of education, or charter school was prevented from holding school due to the conditions indicated in Education Code Section 41422(c)(1), provided that instruction was offered to all eligible pupils through independent study pursuant to Article 5.5 (commencing with Section 51745) of Chapter 5 of Part 28 of Division 4 and implementing regulations adopted thereunder.

The superintendent of a school district, the county superintendent of schools, or the administrator of a charter school shall certify to the SPI that their LEA offered all eligible pupils instruction through independent study pursuant to Education Code Section 41422(c)(2)(A)

3. Education Code Section 46390 allows a district to file a *Request for Allowance of Attendance Due to Emergency Conditions* (Form J-13A) in the following cases:
 - a. When a school district with more than one school is closed for a part of a term by order of a city or county board of health or of the State Board of Health
 - b. Because of fire, flood, impassable roads, epidemic, or other emergency
 - c. Because of an order provided for in Education Code Section 41422
4. Education Code Section 46391 allows a district to file a *Request for Allowance of Attendance Due to Emergency Conditions* (Form J-13A) in the following circumstances:
 - a. Whenever any attendance records of any district have been lost or destroyed, making it impossible to produce an accurate report on ADA for any fiscal year, which must be shown to the satisfaction of the SPI by affidavits from the members of the school district's governing board and the county superintendent of schools. In this case, the SPI will estimate the attendance for the district in accordance with Education Code Section 46391. The estimated average daily attendance shall be deemed to be the actual average daily attendance for that fiscal year for the making of apportionments to the school district from the State School Fund.
5. Education Code Section 46392 allows a school district, county office of education (COE), or charter school to file a *Request for Allowance of Attendance Due to Emergency Conditions* (Form J-13A) whenever the ADA has been materially decreased during any fiscal year because of any of the following:

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- a. Fire
- b. Flood
- c. Impassable roads
- d. Epidemic
- e. Earthquake
- f. The imminence of a major safety hazard as determined by local law enforcement
- g. A strike involving transportation services to pupils provided by a nonschool entity
- h. An order provided for in Education Code Section 41422.
- i. In the event of a state of emergency declared by the governor in a county, any decrease in ADA in the county below the approximate total ADA that would have been credited to a school district, COE, or charter school had the emergency not occurred is deemed material.

The law requires the facts in items a-h above to be established to the satisfaction of the SPI by affidavits from the members of the governing board of the school district, COE, or charter school and from the county superintendent of schools.

6. Education Code Section 46393 requires all LEAs to submit two documents related to independent study with **all** Form J-13A submittals, regardless of the reason for the school closure or material decrease in attendance. For all J-13A requests filed for a qualifying event that occurs after September 1, 2021, a Certification Form for Independent Study along with a certified plan for which independent study will be offered to pupils must be included with the LEA's initial J-13A submittal for a specific fiscal year. Form J-13A submission documents are available on the CDE website at <https://www.cde.ca.gov/fg/aa/pa/j13aforms.asp>.
 - a. The certified plan for independent study must comply with the following:
 - i. Independent study is offered to any student impacted by any of the conditions listed in Education Code Section 46392 within ten days of the first day of a school closure or material decrease in attendance. Students who are individuals with exceptional needs shall receive the services identified in their individualized education programs (IEPs) pursuant to Education Code Section 56345(a)(9) and may participate in an independent study program.
 - ii. Require reopening for in-person instruction as soon as possible unless prohibited under the direction of the local or state health officer.
 - iii. Include information regarding establishing independent study master agreements in a reasonable amount of time.

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7. California Code of Regulations (CCR) Title 5, Section 428 establishes that a decrease in ADA is material for the purposes of Education Code Section 46392 when at least 10% of the students who would normally attend school do not attend on any one day. Any decrease in attendance at a necessary small school is material for the same purpose.

II. COUNTY OFFICE RESPONSIBILITIES

A. Reporting Attendance

1. Beginning with the 2021-22 fiscal year, the CDE provided a new web-based application to school districts, COEs, and charter schools to collect, consolidate, and edit local attendance data required by the CDE for determining the apportionment for K-12 programs. The application collects both attendance and other data required for the principal apportionment.
2. The web-based application link can be found at the CDE's website at <http://www.cde.ca.gov/fg/sf/pa/>. For fiscal year 2020–21 and prior, LEAs report data in the Principal Apportionment Data Collection (PADC) desktop software, which can be downloaded at the CDE website listed above.
3. Principal Apportionment Data Collection Web Application
 - a. This application is used to report school districts' and charter schools' attendance data to the county office of education (COE).
 - b. Certification of Data

The PADC certification process facilitates the approval of data by all entities and signals the completion of reporting so records can be transferred to the CDE for processing. Certification consists of an acknowledgement that data conforms to all applicable rules and regulations, and captures the date of certification and the *Centralized Authentication System* (CAS) username of the individual making the certification. Once the COE certifies the data in the PADC web-based application, there are no additional steps for transmitting the data to the CDE.

The electronic certification by the PADC administrator for each LEA and county auditor is used in lieu of paper certifications; however, the Certification Detail page can be printed and retained or included in local certification procedures.

The data is certified electronically by the district, COE, or charter school administrator.

- ii. Each data set is identified with a certification number.
 - iii. For charter schools, the chartering entity's administrator certifies the data electronically.
 - iv. Once the COE has reviewed the data submission, the COE administrator certifies the data electronically.
- c. If the submission needs to be corrected, the COE will decertify the data set and the LEA will resubmit.

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- d. The COE staff electronically certify and submit attendance and other principal apportionment data to the CDE. The CDE establishes the due dates. These dates may change slightly from year to year but are approximately as follows:
 - i. The P-1 report is due to the state no later than January 15.
 - ii. The P-2 report, including class size penalties, is due to the state no later than May 1.
 - iii. The annual report is due to the state no later than July 15.
 - iv. Audit adjustments to California Longitudinal Pupil Achievement Data System (CALPADS) data are due to state no later than October 1.
 - v. The necessary small school selection/certification is included in the reporting for P-1 and P-2.
 - e. County offices of education use this web application to enter the data from all school districts and charter schools for which they are responsible, as well as to enter their own attendance data.
- B. Attendance Analysis
1. County offices of education are not required to perform any specific analysis of the attendance data before it is submitted to the CDE.
 2. The types of analysis that COEs perform may include the following:
 - a. A comparison of the total P-1, P-2, and annual attendance to the total attendance reported for the same period in the prior year.
 - b. Comparison of CALPADS Fall 1 data to P-1 and P-2 using historical ratios.
 - c. A review of any categories of attendance with no ADA reported, or any ADA in categories not previously reported, to determine whether the information is reasonable.
 3. Some COEs have a staff member assigned to review the attendance information each month for all districts in the county. This person may also provide training and visit districts and/or schools to answer questions and review attendance documents.
- C. Emergency Waivers
1. School districts request approval for apportionment credit for school closure or a material decrease in ADA by completing Form J-13A, *Request for Allowance of Attendance Due to Emergency Conditions*.
 2. Information regarding the submission of Form J-13A, FAQs, and submission documents are available on the CDE website at <https://www.cde.ca.gov/fg/aa/pa/j13a.asp>.

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3. When district staff have completed the information on the form, a majority of the governing board members sign the *Affidavit of Governing Board Members* on the form.
4. The completed form is then submitted to the COE. The county superintendent completes the *Affidavit of County Superintendent of Schools* section and forwards the completed form to the CDE.

Local Control Funding Formula

Procedure 20

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I. OVERVIEW

A. Introduction

The Local Control Funding Formula (LCFF) was adopted by the State of California in June 2013 to replace the previous kindergarten to grade 12 (K-12) finance system of revenue limit funds and categorical programs. This was the largest change to California school finance in almost 40 years. The LCFF was designed to be simple and transparent while allowing maximum flexibility in allocating resources to meet local needs. As under the revenue limit formula, the LCFF is funded by a combination of local property taxes, the Education Protection Account (EPA), and general-purpose state aid. LCFF funding constitutes the majority of unrestricted revenue in a school district's budget. The new formula began in 2013-14 and was fully funded in 2018-19, bringing all school districts and charter schools to their LCFF target level.

B. Funding Provisions

1. Average Daily Attendance (ADA)

Funding for school districts and charter schools is provided based on average daily attendance (ADA) rather than enrollment. An amount of funding is provided per unit of ADA but may also include add-on amounts. Beginning in 2022-23, school districts will be funded on the greater of current year, prior year, or the average of the most recent three prior years' second period (P-2) ADA. Annual ADA for extended year special education is also included in the greater of current, prior, or three prior-year average, comparison. A few programs, such as nonpublic school and community day school, are funded based on current year annual ADA. Charter schools are funded based on current year ADA. Pursuant to Assembly Bill 181, classroom-based charter schools are eligible to receive 2021-22 ADA loss mitigation funding, which will adjust eligible charter schools' 2021-22 ADA by the 2021-22 loss mitigation factor (2019-20 ADA yield divided by 2021-22 ADA yield). Additionally, in 2022-23 only, classroom-based charter schools will receive a one-time apportionment if the school's 2020-21 ADA exceeds the 2021-22 adjusted ADA.

The Principal Apportionment Data Collection (PADC) User Manual is available on the California Department of Education's (CDE's) principal apportionment data collection software webpage at <https://www.cde.ca.gov/fg/sf/pa/> and includes charts that define which attendance period is used for funding purposes for each attendance type. The charts are in the overview section under "How Data Will Be Used."

2. LCFF Entitlement Calculation

Base Grant

Under LCFF, all districts and charter schools receive uniform base grants, by grade span, for grades TK/K-3, 4-6, 7-8, and 9-12. An additional grade span adjustment to the base is provided for grades K-3 (10.4% of the base amount) and grades 9-12 (2.6% of the base amount). The target base rates will be updated each year for cost-of-living adjustments.

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Necessary Small Schools

Districts with qualifying schools that serve a small population of students and are geographically isolated are provided a necessary small schools (NSS) allowance in lieu of the base grant and grade span adjustment. Some schools that previously qualified as an NSS may no longer qualify under new LCFF requirements.

Supplemental Grant

Additional funding is provided for disadvantaged students:

- a. Those classified as English learners.
- b. Those who meet income or categorical eligibility criteria for participation in the National School Lunch Program, which includes migrant and homeless youth.
- c. Those who are foster youth.
- d. Those who are in any combination of the categories in a, b and c above.

All students are counted only once, even if they are in more than one category. This is known as the unduplicated pupil count.

The sum of the unduplicated pupil counts for the current and two prior years is divided by the sum of enrollment for the current and two prior years to determine the unduplicated pupil percentage (UPP) for the current year. The supplemental grant is equal to 20% of the adjusted grade span base grant multiplied by the UPP.

Concentration Grant

If a district's or charter school's UPP exceeds 55%, the district or charter school will receive a concentration grant. The concentration grant is equal to 65% of the adjusted grade span base grant multiplied by the amount by which the UPP exceeds 55%. For charter schools, the UPP for concentration grants is capped at the lesser of the charter school's UPP or the highest UPP of school districts in which the charter school is physically located.

Add-on Funding

Additional funding is added to the entitlement for transportation, transitional kindergarten (TK), and the Targeted Instructional Improvement Grant (TIIG).

Under LCFF, funding for transportation and for the TIIG is maintained as a permanent add-on. The amount of funding received is based on historical factors. Beginning with fiscal year 2023-24, transportation add-ons will receive annual cost-of-living adjustments.

School districts and charter schools will receive an add-on to the LCFF entitlement equal to the TK add-on rate multiplied by the district's or charter school's current year TK ADA.

3. Economic Recovery Target

Some districts or charter schools would have received more funding under the old revenue limit funding model than under the LCFF at the time LCFF was implemented. In this case, they

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are eligible for an economic recovery target (ERT) payment if the per-ADA funding under the previous revenue limit funding (undeficit and projected to 2020-21) was less than the 90th percentile of all school districts.

C. Funding Sources

The LCFF is funded from a combination of local tax revenue, EPA, and state aid.

Local Property Taxes

Local property taxes consist primarily of a district's share of the maximum 1% property tax assessed on the secured and unsecured tax rolls, but could include any of the following additional property taxes:

- a. Homeowners' exemptions
- b. Timber yield taxes
- c. Other subventions
- d. Prior years' taxes
- e. Supplemental taxes
- f. Penalties and interest from delinquent taxes
- g. Education Revenue Augmentation Fund (ERAF)
- h. Remaining distributions from former redevelopment agencies (RDAs)
- i. In-lieu of property tax transfers to charter schools

Education Protection Account

The Education Protection Account (EPA) provides state aid funding pursuant to Proposition 30, which was approved by voters in November 2012 and which increased the sales tax by 0.5% through June 30, 2021 and increased the income tax rate on the highest 1% of earners through December 31, 2018. Proposition 55, passed in November 2016, allowed the sales tax increase to expire in 2016 while extending the increase in income tax rates to December 1, 2030. The EPA is based on a local educational agency's (LEA's) proportionate share of adjusted revenue limit or charter school general-purpose entitlement and is a minimum of \$200 per ADA. Revenue and charter school general-purpose entitlements are calculated for purposes of allocating EPA funding.

General Purpose State Aid

State aid is calculated by subtracting property taxes and EPA from the LCFF entitlement. If applicable, the state aid is increased to reach the LCFF minimum state aid level.

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Additional State Aid for Minimum State Aid

LEAs will receive minimum state aid (MSA) funding of no less than the total received in 2012-13 from revenue limits, adjusted for changes in ADA and property taxes, and 2012-13 categorical funding subsumed in the LCFF. If applicable, the LCFF state aid is increased to reach the minimum level of state aid. For schools that previously qualified as an NSS but no longer qualify under the current LCFF requirements, the amount of NSS funding received in 2012-13 will be included in the district's MSA calculation. Beginning in 2014-15, if a charter school's total transfer in lieu of property taxes plus MSA exceeds its LCFF entitlement, the charter school's MSA will be reduced by the excess amount.

D. Basic Aid or Community-Funded

1. Determining Basic Aid Status

The definition of basic aid or community-funded has not changed with the introduction of the LCFF. Under the revenue limit model, local property taxes were applied against a district's entitlement to determine if any amount remained to be funded with state aid. If a district's property taxes equaled or exceeded the entitlement, the district was considered community-funded and was eligible for basic aid of \$120 per student. The basic aid entitlement may be funded from state aid for the LCFF as well as other state revenue sources such as Assembly Bill (AB) 602, Expanded Learning Opportunities Program (ELOP), Mandate Block Grant, and other one-time funding sources.

Under the LCFF, the same method is applied: property taxes are the first source of funding, with state aid making up any difference. The LCFF differs in that it provides an element of minimum state aid for community-funded districts, which must be subtracted from the LCFF entitlement before applying local property taxes. If local property taxes equal or exceed the remaining entitlement, the district is considered community-funded (basic aid).

2. Minimum State Aid

The LCFF includes a provision that no district or charter school shall receive less state aid, adjusted for changes in ADA, than was received in 2012-13. For community-funded districts, this provision means they receive minimum state aid equal to the amount received in 2012-13 for the categorical programs that have been subsumed into the LCFF, less the fair share reduction.

The fair share reduction was recalculated by the CDE for 2014-15 and will remain fixed. Beginning in 2014-15, the fair share reduction was limited to a maximum of the total categorical funding subsumed into the LCFF.

3. Miscellaneous Basic Aid Revenues

The adoption of the LCFF did not eliminate any of the programs that previously provided general-purpose state aid outside of the revenue limit formula. The LCFF does, however, change the manner in which the state aid entitlement is calculated for these miscellaneous basic aid revenues.

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The Basic Aid District of Choice and Basic Aid Court-Ordered Voluntary Pupil Transfer programs are interdistrict attendance programs that provide state aid to basic aid (excess tax) school districts that are serving students from non-basic aid districts.

The School District Basic Aid Supplement program provides basic aid (excess tax) school districts with supplemental funding for the loss of local property taxes due to charter schools that provide instruction to nonresident (out-of-district) students.

The basic aid supplement funding amount is limited by the percentage of nonresident ADA in the charter multiplied by the in-lieu of tax transfer for nonresident ADA, reduced by the district's state aid for LCFF. The basic aid supplement statute also provides funding for districts that no longer have basic aid status because of a charter school; this funding may be less than the 70% provided for other basic aid districts.

The following basic aid miscellaneous revenues all provide state aid equal to a percentage of the district of residence's LCFF base grant (excluding supplemental and concentration grants):

- a. Basic Aid District of Choice: 25% of the base grant.
- b. Basic Aid Court-Ordered Voluntary Pupil Transfer: 70% of the base grant.
- c. Basic Aid Supplement Calculation: 70% of the base grant

If a student's district of residence is basic aid, the district of attendance will not receive an apportionment for Basic Aid District of Choice for that student.

E. Data Sources

1. Principal Apportionment Data Collection

The PADC web application is provided by the CDE and is used to report data that is used to calculate LCFF funding and funding for other programs such as special education (AB 602), including:

- Attendance data for school districts, charter schools, and county schools and programs
- Amount of ADA that shifted between a district and its charter school(s) from the prior year to the current year
- School district and county tax data
- Charter school physical location
- Necessary small school funding, ADA, and number of full-time equivalent (FTE) teachers
- Corrections to California Longitudinal Pupil Achievement Data System (CALPADS) data

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The CDE PADC web application and accompanying PADC user manual are available on the CDE website in the Finance and Grants section under Software and Forms at <https://www.cde.ca.gov/fg/sf/pa/>.

2. California Longitudinal Pupil Achievement Data System

CALPADS is the state's longitudinal data system used to maintain individual-level data including data on student demographics, courses, discipline, assessments, staff assignments, and other items. The unduplicated student count used in LCFF calculations is derived from information reported in CALPADS as part of the Fall 1 submission, based on the count of students on the first Wednesday in October. The deadline for the Fall 1 certification is in December, and there is one amendment window, usually from December through January.

LCFF data elements collected through CALPADS include:

- Enrollment
- Unduplicated pupil counts:
 - Pupils categorically or income-eligible for free or reduced-price meals, including migrant and homeless pupils
 - English learners
 - Foster youth

3. Statute

Several data elements used in LCFF entitlement calculations are specified by statute and include:

- Base grant amounts
- Cost-of-living adjustment (COLA)
- Grade span adjustment percentages
- Supplemental and concentration percentages

The CDE publishes LCFF funding rates and historical LCFF gap and COLA information on its Funding Rates and Information webpage at <https://www.cde.ca.gov/fg/aa/pa/ratesandinfo.asp>.

4. Previously Certified Apportionment Data

Some of the calculations, such as minimum state aid, EPA, and add-ons, use 2012-13 revenue limit and categorical program entitlement amounts as of the 2012-13 annual certification (February 20, 2014).

F. Calculations

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1. LEA Projections

School districts, charter schools and county offices of education (COEs) calculate LCFF estimates to use in budget projections. The LCFF Calculator located on the FCMAT website at <https://www.fcmat.org/lcff> is the tool recommended for calculating and assessing a district's sensitivity to risk factors. The calculator provides input fields for various scenarios, allowing districts to create multiple models when building multiyear projections. FCMAT also provides a separate County Office LCFF Calculator, available at <https://www.fcmat.org/lcff-county>, specifically for COE use because their LCFF funding model differs from that of districts and charter schools.

2. California Department of Education Certifications

The CDE calculates the LCFF amounts for LEAs in a series of apportionment calculations that adjust the flow of state funds throughout the year as information becomes known.

Advance Principal Apportionment

Certified by July 20. Based primarily based on prior fiscal year funding and establishes monthly state aid payments for July through January.

First Principal Apportionment

Certified by February 20. Based on the first period (P-1) data reported in November through January and establishes monthly state aid payments for February through May.

Second Principal Apportionment

Certified by June 25. Based on second period (P-2) data reported in April and May and determines the final state aid payment for the year in June.

Annual Principal Apportionment

Certified by February 20 of the subsequent year. Based on annual data reported in July through November for the prior year. Determines the state aid payments for prior year adjustments based on the difference between the annual and P-2 amounts to be paid in February through May.

Recertified Principal Apportionment (R-1, R-2, and R-3)

Each year's principal apportionment is recalculated three times: R-1 is certified by June 25 of the subsequent year, R-2 by February 20 of the second subsequent year, and R-3 by June 25 of the second subsequent year. State aid differences are sent as prior year adjustments on the same timeline as the other principal apportionment payments.

G. Use of LCFF Funding

1. Local Control and Accountability Plan

LEAs must prepare a Local Control and Accountability Plan (LCAP), developed through a community process, which describes how they intend to meet annual goals for students and

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address state and local priorities. The LCAP aligns goals with the annual budget and guides the use of LCFF funding.

2. Spending Requirements for Supplemental and Concentration Grants

Based on the unduplicated count of low-income, English learner, and foster youth students, the LCFF provides additional funding in the form of supplemental and concentration grants. LEAs must demonstrate in their LCAP how they will increase or improve services to these students in proportion to the increase in funds. The State Board of Education (SBE) approved regulations that detail how to calculate the minimum level of increased or improved services as a percentage, known as the minimum proportionality percentage (MPP). The FCMAT LCFF Calculator includes a tool to help LEAs calculate the supplemental and concentration grants and the MPP.

H. Compliance Requirements

1. TK–3 Class Size Averages — **applicable to school districts only**

The base grant for the TK-3 grade span is increased by 10.4% of the base amount; as a condition of receiving this increase, districts are required to do one of the following:

1. Have an average class size of 24 or less at each school site.
2. Collectively bargain an alternative class size ratio for this grade span.

The intent of this increase is to cover the costs associated with smaller class sizes in grades TK-3 to an average student-to-teacher ratio of no more than 24-to-1 (or a locally bargained alternative ratio) at each school.

Charter schools are not subject to this condition of apportionment.

2. TK — applicable to school districts and charter schools

Starting in 2022-23, there are several required changes to TK. These changes include the following for any classroom with TK students:

- Maintain average class sizes of no more than 24 students at each school. Exceptions to the class size requirement cannot be collectively bargained.
- Maintain average classroom ratios of one adult for every 12 students (expires 6/30/23; see below).

These requirements apply to any classroom with TK students, except for special day classes (Education Code Sections 4800 (g)(1)(A) and 48000.1(b)(2)).

Additional future requirements starting in 2023-24 include:

- Teacher qualification requirements

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Penalties are applied if an auditor finds the requirements are not met. Charter schools are subject to this requirement.

Note: The current budget proposal for 2023-24 includes a requirement to further lower the student to adult ratio to one adult for every 10 students.

3. Necessary Small Schools

To receive the NSS allowance, all necessary small schools must meet one of the eligibility requirements, under Education Code Section 42283 (elementary) or 42285 (high school) in the current or prior fiscal year. Under LCFF, the definition of the nearest other public elementary or high school, for NSS eligibility based on distance, is amended to include charter schools.

4. Transportation

Of the funds received for home-to-school transportation as part of the LCFF entitlement, a school district is required to expend no less than the amount it expended for home-to-school transportation in the 2012-13 fiscal year or the amount of revenue received in 2012-13, whichever is less. The maintenance of effort requirement applies only to spending up to the amount of the transportation entitlement received in 2012-13; contributions to transportation programs above the amount of the entitlement are not subject to the maintenance of effort requirement.

Beginning in 2022-23 and for each fiscal year thereafter, school districts and county offices of education will be reimbursed for pupil transportation services with an amount equal to 60% of the prior year reported home-to-school transportation expenditures within function 3600, excluding capital outlay or nonagency expenditures. This reimbursed transportation allowance will be reduced by any applicable transportation LCFF add-on amount for the school district or county office of education. As a condition of receiving the reimbursed transportation allowance, the school district or county office of education shall develop a plan describing the transportation services it will offer to its pupils, and how it will prioritize planned transportation services for pupils in TK, K, and any of grades 1 to 6, inclusive, and pupils who are low income. The plan shall be adopted by the governing board on or before April 1, 2023 and updated annually by April 1.

II. COUNTY OFFICE RESPONSIBILITIES

A. Principal Apportionment Data Collection

1. Certified Data

County offices of education are responsible for reviewing, certifying, and transmitting to the CDE any data used to calculate funding for the LCFF as part of the PADC web application submission. Each COE will receive certified principal apportionment data from LEAs and the county auditor/controller (local taxes), review this data, complete additional data entry as appropriate, and certify the data. The amount of review that COE staff perform on the collected data may vary by county. A calendar of principal apportionment deadlines is available annually from the CDE and is posted on the CDE website at <https://www.cde.ca.gov/re/ca/fc/>.

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2. Data Certification

The PADC certification process facilitates the approval of data by all entities and signals the completion of reporting so that records can be transferred to CDE for processing. Certification consists of an acknowledgement that data conforms to all applicable rules and regulations, and captures the date of certification and the Centralized Authentication System (CAS) username of the individual making the certification. Once the COE certifies the data in the PADC web-based application, there are no additional steps for transmitting the data to the CDE.

The electronic certification by the PADC administrator for each LEA and county auditor is used in lieu of paper certifications; however, the Certification Detail page can be printed and retained or included in local certification procedures.

B. LCFF Spending Plans

County offices of education are responsible for oversight and approval of district LCAPs, using four criteria for LCAP approval:

1. Adherence to the SBE template.
2. Sufficient expenditures in the budget to implement actions in the LCAP, based on projected costs included in the plan.
3. Adherence to the SBE expenditure regulations for funds apportioned on the basis of the number and concentration of unduplicated pupils.
4. Calculation and implementation of carryover — indicates the total planned and estimated actual percentage of improved services, identifies the required carryover percentage and dollar amount as applicable, and describes how the use of these funds satisfies the requirements for contributing to increased or improved services.

III. RESOURCES

FCMAT maintains the LCFF Calculator to help calculate LCFF entitlements, NSS funding determination, grade span adjustment compliance, and supplemental and concentration grants and associated MPP for use in the LCAP. The calculator is an Excel spreadsheet that can be downloaded at <https://www.fcmat.org/lcff>.

FCMAT also maintains an LCFF email list and an online help desk. Both resources are accessible from the link above.

The CDE's Principal Apportionment web page (<http://www.cde.ca.gov/fg/aa/pa/index.asp>) provides complete funding information by fiscal year, including the following:

- Certified funding exhibits and Excel files that contain actual entitlement calculations and state aid funding.

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- Exhibit reference guides that provide calculation details and guidelines for reviewing the exhibits for type of LEA.
- Principal apportionment payment schedules with individual LEA detail and summary by county.
- Education Protection Account information including entitlements, payment schedules, and frequently asked questions.
- Principal apportionment funding rates by fiscal year with historical and prospective LCFF gap factors and COLA.
- Answers to frequently asked questions.
- Subscription instructions for the Principal Apportionment Section (PASE) email list, which the CDE uses to update interested parties on upcoming deadlines and principal apportionment certifications.

The CDE also provides resources related to the LCFF at <http://www.cde.ca.gov/fg/aa/lc/>, including the LCFF Funding Snapshot, which provides a visual display of a district's or charter school's LCFF funding for fiscal years 2013-14 through 2018-19. Beginning with fiscal year 2019-20, statewide LCFF summary data is now available on the LCFF Summary Data webpage at <https://www.cde.ca.gov/fg/aa/pa/lcffsumdata.asp>. For budgeting and cash flow purposes, the principal apportionment summary, payment schedule and funding exhibits should be used.

I. OVERVIEW

A. IDEA

1. The federal Individuals with Disabilities Education Act (IDEA, Public Law 105-17) governs special education. This is the legislation that provides that all students who are eligible for special education must be provided with a free appropriate public education (FAPE) in the least restrictive environment.
2. All special education programs must adhere to the procedural safeguards and standards in IDEA.

B. SELPAs

1. In California, local educational agencies join together in Special Education Local Plan Areas (SELPAs) to achieve sufficient size and scope to effectively provide the full continuum of placement and program options called for in federal law.
 - a. The service area covered by the local plan is known as the special education local plan area.
 - b. The SELPA is responsible for administering local plans and the allocation of funds (E.C. 56195). This includes planning and coordinating services for all children with disabilities, from birth to age 22.
 - c. The SELPA is responsible for ensuring that each district in the local plan area develops and implements content and performance standards appropriate for pupils who require special education services that are aligned to state standards and guidelines.
2. There are 58 counties in California and more than 132 SELPAs.
 - a. Every district in the state is in a SELPA.
 - b. In some counties, the county office of education (COE) also serves as the administrative unit (AU) for the SELPA. In other counties, there may be more than 10 SELPAs in the county. Each SELPA must have an AU, which is the legal entity that receives funds and is responsible for ensuring that every eligible child receives appropriate services.
 - c. SELPA governance structures vary in form and may include the following:
 - i. Multidistrict SELPAs
 - ii. Multidistrict/county office SELPAs
 - iii. Single-district SELPAs
 - iv. Multidistrict/multicounty SELPAs
 - v. Countywide SELPAs with joint powers agreements (JPAs)

- vi. All charter school local educational agency (LEA) SELPA(s)
 - d. The COE may serve as both the AU of the SELPA and the primary or even sole operator of special education programs serving SELPA members' students.
 - e. A single-district SELPA must have 30,000 or more pupils in grades kindergarten through 12.
 - f. Each SELPA has a policy-making body that is designated in the local plan. The body makes policy decisions, approves the SELPA budget, and establishes the guidelines for decisions such as adding or amending programs in the continuum of services and transfers of regionalized programs between operators.
- C. AB 602
- 1. On October 10, 1997, the Special Education Reform Act, Assembly Bill (AB) 602 was signed into law.
 - 2. AB 602 reformed California's funding formula for special education.
 - 3. Education Code Sections 56836-56845 govern the computation of the apportionments to local plan areas for special education programs operated by, and services provided by, districts, COEs and SELPAs.
 - 4. AB 602 requires that SELPAs submit an annual service and budget plan to the state.
 - a. The service plan outlines how educational agencies will provide services that ensure all students receive appropriate instruction.
 - b. For multidistrict SELPAs, the budget plan is a collection of the budgets of member LEAs that supports the services described in the service plan.
- D. The Administrative Unit (AU)
- 1. Each SELPA must have an administrative unit.
 - a. The administrative unit (AU) is the legal entity that receives funds and is responsible for ensuring that every eligible student receives services.
 - b. The member districts determine which entity will serve as the AU when the SELPA is formed.
 - 2. Education Code Sections 56836.01-56836.05 prescribe the responsibilities of the administrator of each SELPA. The duties include the following:
 - a. Ensuring program availability for all children with disabilities.
 - b. Ensuring that a system exists at the regional level for identification, assessment and placement of disabled students, also known as "child find."

- c. Supporting a community advisory committee.
 - d. The fiscal administration of the annual budget plan and annual allocation plan for multidistrict SELPAs.
 - e. The allocation of state and federal funds provided to the SELPA.
 - f. Performing the required reporting and accounting.
3. The AU may be a school district or a COE but is most commonly a COE.
 4. An AU may serve more than one SELPA, such as when a COE serves as the AU for multiple SELPAs in their county.

II. COUNTY OFFICE RESPONSIBILITIES

A. Education Code Section 56140 requires the COE to do the following:

1. Initiate and submit to the Superintendent of Public Instruction (SPI) a countywide plan for special education that demonstrates the coordination of all local plans submitted pursuant to Education Code Section 56205 and which ensures that all individuals with exceptional needs residing within the county will have access to appropriate special education programs and related services.
 - a. The county office is not required to submit a countywide plan when all the districts in the county elect to submit a single local plan.
2. Within 45 days, approve or disapprove any proposed local plan submitted by a district or group of districts within the county or counties. The COE approval will be based on the capacity of the district or districts to ensure that special education programs and services are provided to all individuals with exceptional needs.
 - a. If approved, the COE will submit the plan with comments and recommendations to the SPI.
 - b. If disapproved, the COE will return the plan with comments and recommendations to the district.
 - i. The district may appeal to the SPI to overrule the COE's disapproval.
 - ii. The SPI will make a decision on an appeal within 30 days of receipt of the appeal.
 - c. Local educational agencies are not authorized to implement the plan without approval of the COE or a decision by the SPI to overrule the disapproval of the COE.
3. Participate in the state on-site review of the district's implementation of an approved local plan.

Special Education

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4. Join with districts in the county that elect to submit a plan or plans pursuant to subdivision (c) of Education Code Section 56195.1. Any plan may include more than one county, and districts located in more than one county.
- B. Education Code Section 56195.5 provides that:
1. Each COE has authority over the special education program it directly maintains, consistent with the local plan submitted pursuant to Education Code Section 56195.1.
 2. Any COE may provide for the education of individual pupils in special education programs maintained by other districts or counties.
- C. Education Code Section 48850(b) requires that every COE make available to agencies that place children in licensed children's institutions information on educational options for children residing in licensed children's institutions within the jurisdiction of the county office.

Special Education Maintenance of Effort

Procedure 21-B

Revised 2/2021

I. OVERVIEW

- A. Under federal law, an LEA is eligible for assistance under Part B of the Individuals with Disabilities Education Act (IDEA) if it submits a plan that provides assurances to the state educational agency that it meets specified funding conditions, one of which is *maintenance of effort* (MOE) (ref. 20 U.S.C. Section 1413).
- B. The MOE requirements regarding the use of Part B funds are as follows:
 - The funds shall be used only to pay the excess costs of providing special education and related services to children with disabilities.
 - The funds shall be used to supplement state, local, and other federal funds and not to supplant such funds.
 - The funds shall not be used, except in specified cases, to reduce the level of expenditures for the education of children with disabilities, on an aggregate or per capita basis, made by the LEA below the level of those expenditures for the preceding fiscal year [ref. 34 Code of Federal Regulations (CFR) Section 300.203].

Final LEA MOE regulations were published in the Federal Register on April 28, 2015 and became effective on July 1, 2015. The major changes in the final regulations include: (1) clarification of the eligibility standard; (2) clarification of the compliance standard; (3) explanation of the subsequent years rule; and (4) specification of the consequences if an LEA fails to maintain effort.

The subsequent years rule prescribes the level of effort an LEA must meet in the year after it fails to maintain effort at the level that would have been required in the absence of that failure. The rule does not use the LEA's actual reduced level of expenditures for the fiscal year in which it failed to meet the compliance standard.

The Subsequent Year Tracking Sheet (SYT) is used to determine the comparison fiscal year for all four MOE tests. The comparison fiscal year is determined by the most recent fiscal year in which the LEA last passed each individual test. Each of the four tests for MOE may have a different comparison fiscal year.

The compliance standard in the Code of Federal Regulations Section 300.203(b) prohibits an LEA from reducing the level of expenditures for the education of children with disabilities made by the LEA from local, or state and local, funds below the level of those expenditures from the same source for the comparison fiscal year according to the SYT sheet for each individual test. In other words, an LEA must maintain (or increase) the amount of local, or state and local, funds it spends for the education of children with disabilities when compared to the comparison fiscal year in at least one of the four tests. The compliance standard is measured in the SACS software year-to-year actual vs. actual MOE calculation (SEMA) form.

The eligibility standard in the Code of Federal Regulations Section 300.203(a) requires that, in order to find an LEA eligible for an IDEA Part B subgrant for the upcoming fiscal year, the state

Special Education Maintenance of Effort

Procedure 21-B

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educational agency, or SEA [which in California is the California Department of Education (CDE)], must determine that the LEA has budgeted for the education of children with disabilities at least the same amount of local, or state and local, funds, as it actually spent for the education of children with disabilities during the comparison fiscal year for at least one of the four tests according to the SYT sheet. In addition, the LEA must be able to pass the eligibility standard on the same measure as used to pass the compliance standard. The eligibility standard is measured in the Standardized Account Code Structure (SACS) software budget versus actual MOE calculation (SEMB) form.

Failure to meet the MOE compliance standard (SEMA):

If an LEA fails to meet the MOE compliance standard, the SEA is liable to repay the funds to the federal government and the LEA is therefore liable to repay funds to the CDE using non-federal funds, in an amount equal to the amount by which the LEA failed to maintain its level of expenditures in that fiscal year.

Failure to meet the MOE eligibility standard (SEMB):

If the SEA determines that an LEA is not eligible under Part B of the IDEA, the SEA (CDE) must provide the LEA with reasonable notice that it has determined the LEA not eligible for an IDEA Part B subgrant and provide the LEA an opportunity for a hearing, pursuant to Code of Federal Regulations Section 300.221. In addition, pursuant to Code of Federal Regulations Section 300.227(a), if the SEA determines that the LEA has not provided the information needed to establish the eligibility to receive a Part B subgrant for that fiscal year, the SEA must use the payments that would have otherwise been available to the LEA to provide special education and related services directly to children with disabilities residing in the area served by that LEA. Pursuant to Code of Federal Regulations Section 300.227(b), the SEA may provide special education and related services under paragraph (a) of this section in the manner and at the locations the SEA considers appropriate.

- C. Under federal regulations, an LEA or SELPA may reduce the level of MOE expenditures by not more than 50% of any increases in IDEA Part B Section 611 funding, minus the amount of Part B funds used for early intervening services [IDEA of 2004, Section 613(a)(2)(C)]. The LEA must use local funds equal to the reduction to carry out activities that could be supported with funds under the Elementary and Secondary Education Act (ESEA), regardless of whether the LEA is using ESEA funds for those activities.
- D. Exempt Reductions: Under 34 Code of Federal Regulations Section 300.204, an LEA may reduce the level of expenditures where such reduction is attributable to any of the following:
- The voluntary departure, by retirement or otherwise, or departure for just cause, of special education or related services personnel.
 - A decrease in the enrollment of children with disabilities.
 - The termination of the obligation of the agency to provide a program of special education to a particular child with a disability that is an exceptionally costly program, as determined by the SEA, because the child:

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- Has left the jurisdiction of the agency;
- Has reached the age at which the obligation of the agency to provide a free and appropriate public education (FAPE) to the child has terminated; or
- No longer needs the program of special education.
- The termination of costly expenditures for long-term purchases, such as the acquisition of equipment or the construction of school facilities (must have a per-unit cost of \$5,000 or more).
- The assumption of cost by the high-cost fund operated by the SEA under 34 CFR Section 300.704(c).

Exempt reductions must be documented in the exempt reduction schedule provided by the CDE's special education division.

- E. The CDE requires two tests annually to determine if an LEA receiving Part B funds meets the MOE requirements for the level of expenditures. Note that the special education maintenance of effort reports (SEMB) are part of the unaudited actuals data set in the SACS software.
1. The first test is performed using the SEMA form in the unaudited actuals SACS software and compares the actual special education expenditures for the unaudited actuals with the comparison year's actual special education expenditures. This test is performed at the LEA level.
 - a. If an LEA does not meet the MOE requirement, the CDE will invoice the SELPA in the fiscal year following the fiscal year in which the MOE requirement is not met. The invoice amount will be equal to either the amount by which the state and local spending was reduced, or the IDEA Part B subgrant in that fiscal year, whichever is less, and must be paid using non-federal funds.
 2. The second test is performed using the SEMB form and compares the budgeted special education expenditures with the comparison year's actual special education expenditures as determined by the SEMA report. This test is performed using the unaudited actuals SACS software and establishes eligibility to receive the grant award. The test is performed at the LEA level.
 - a. The CDE determines whether the SELPA is eligible to receive IDEA Part B funds.
 - b. The SELPA administrative units (AUs) for multiagency SELPAs must in turn determine if participating LEAs have passed the budget-to-actual test.
 - c. Any LEA that does not pass the test is not eligible to receive an allocation of AB 602 or IDEA funds.
 3. The compliance and eligibility (SEMA and SEMB) standards must be measured using all four of the following methods. Maintenance of effort is met by passing one of the four methods.

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However, any test that fails will retain the previous level of effort. The comparison year and the actual expenditures remain the same until the LEA is able to pass the test.

- a. Local funds only
- b. The combination of state and local funds
- c. Local funds only on a per capita basis (total local expenditures divided by pupils served)
- d. The combination of state and local funds on a per capita basis

II. DATA USED FOR MEASURING MAINTENANCE OF EFFORT

- A. The definition of state and local special education expenditures using the state standardized account codes includes all expenditures, except certain expenditures coded in the 7xxx object code series, paid from state and local resources and charged to goals 5001 through 5770 in funds 01, 09 and 62, plus the total contributions from unrestricted revenues, object 8980, credited to federal resources, plus the special education program's share of unallocated costs.
 1. For purposes of the MOE comparison, object 714x (Other Tuition), commonly used for payments of excess costs to another LEA, is excluded, as are object 7110 (Tuition to Another District) and any costs coded to objects 7200-7299 (Transfers to Agencies).
 2. For purposes of the MOE comparison, the California State Accounting Manual (CSAM) identifies federal resources that are considered state-funded as part of this comparison.
 - a. The only federal resource treated as state-funded in the state's MOE comparison for 2014-15 is resource 3385. As of this writing there are no changes for the 2015-16 year and beyond.
 3. In addition to the actual expenditures coded in the LEA's financial reports, state and local expenditures include costs allocated to special education on the program cost report schedule of allocation factors (PCRAF) that is filed as part of the SACS year-end unaudited actuals. The factors entered in the PCRAF allocate expenditures in the program cost report (PCR) that are added to the SEMA report.
 - a. The allocation of PCR is not used in the budget-to-actual comparisons because of the inability to project the cost in the budget process.
- B. The portion of special education expenditures considered paid from local sources consists only of expenditures identified as the following:
 1. Resources 0000-1999 and 8000-9999.
 2. Special education goals (5000-5999) for objects 1000-6999, 7130, 7310, 7350 and 7430-7439.
 3. Contributions from unrestricted revenues (object 8980) credited to federal resources.

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4. Contributions from unrestricted revenues (object 8980) to state special education program resources (3385, 6500-6540 and 7240).
 5. Contributions from unrestricted revenues (object 8980) to resources 2000-2999 and 6010-7810 (except 6500-6540 and 7240) using any special education goal (5000-5999).
- C. The student count used for the per capita comparison is the October CALPADS unduplicated pupil count of special education students filed annually by each SELPA.
- D. The amount used to determine any allowable reduction in expenditures should also be known when measuring the MOE, and is based on 50% of the increase in federal Part B funding from the prior to current year.

III. MAINTENANCE OF EFFORT TESTS

An LEA should start by referring to the SYT sheet from the prior fiscal year to determine the comparison year for each of the four tests on the SEMA.

A. Combined State and Local Expenditures Method (SEMA, Section 3, Part A)

1. This test compares combined state and local expenditures from the comparison year (entered manually) to the current year on an aggregate basis.
 - a. If the difference between the current year and comparison year is positive, the LEA has passed the MOE test. As a result, the comparison year is now the current year for the SEMB and future SEMA tests.
2. The per-capita calculation is completed by dividing the total state and local expenditures by the October CALPADS special education unduplicated count for the current year and the relevant unduplicated special education pupil count for the comparison year (entered manually).
 - a. If the difference between the current year and comparison year is positive, the LEA has passed the MOE test. As a result, the comparison year is now the current year for the SEMB and future SEMA tests.
3. When completing the SEMB form, the Program Cost Report Allocation (PCRA) should be entered as a negative adjustment to the comparison year data in both the aggregate and per capita tests in the State and Local Expenditures section. Additionally, any exempt reductions taken in prior years in which the LEA nonetheless still failed to pass the test should be carried forward and entered as a negative adjustment until the test is passed and the base comparison amount is recalculated.

B. Local Expenditures Only Method (SEMA, Section 3, Part B)

1. This test compares local expenditures from the comparison year (entered manually) to the current year on an aggregate basis.

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- a. If the difference between the current year and comparison year is positive, the LEA has passed the MOE test. As a result, the current year becomes the comparison year for the SEMB and future SEMA tests.
2. The per-capita calculation is completed by dividing the total local expenditures by the October CALPADS special education unduplicated count for the current year and relevant unduplicated special education pupil count for the comparison year (entered manually).
 - a. If the difference between the current year and comparison year is positive, the LEA has passed the MOE test. As a result, the current year becomes the comparison year for the SEMB and future SEMA tests.
3. Any exempt reductions taken in prior years in which the LEA nonetheless failed to pass the test should be carried forward to enter as a negative adjustment until the test is passed and the base comparison amount is recalculated.
- C. Both the state and local and the local only expenditure comparisons are performed after adjusting for possible exempt reductions through one of the allowable expenditure reductions (SEMA, Section 1), or through an increase in federal funds from the prior year (SEMA, Section 2) as described above.
- D. To meet the MOE requirement, an LEA must pass at least one of the four tests. Each test that is passed on the SEMA makes the current year become the comparison year for both the SEMB and the subsequent fiscal year's SEMA. Tests that are not passed on the SEMA will retain the same comparison year in both the SEMB and subsequent fiscal year's SEMA.

IV. STATE REPORTING REQUIREMENTS

- A. Multidistrict SELPAs (including SELPA JPAs and charter-only SELPAs)
 1. The SELPA must compile and submit the SEMA, SEMB and SYT schedules for each LEA in addition to the SELPA AU, and ensure every LEA passes at least one of the four tests. The SELPA should also ensure that every LEA is able to pass the eligibility test (SEMB) on the same basis (state and local, or local only, aggregate or per capita) as was used to pass the compliance test (SEMA).
 - a. The subsequent year rule worksheets must be certified by an authorized agent of the LEA.
 2. Each SELPA must submit a "SELPA Exps CY" sheet contained in the SACS software for both the SEMA and SEMB, which includes the expenditures for SEMA and budgets for SEMB for all of its member LEAs and for the SELPA AU.
 3. Any exempt reductions must be supported by an associated schedule and must accompany the submission to the CDE. This includes the submission of Table 8, which provides data on MOE reductions taken by LEAs under the IDEA guidelines. This should be prepopulated with prior year allocations and the current year total award by the CDE. The schedule should be submitted with the MOE reports.

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4. Reports must be submitted by physical mail to the CDE, or electronically to SPEDFISCALPROGRPTS@cde.ca.gov, or both.
- B. Single-district SELPAs
1. Must submit the SEMA, SEMB and SYT schedules by physical mail to the CDE, or electronically to SPEDFISCALPROGRPTS@cde.ca.gov, or both.
- C. The maintenance of effort, including the SEMA, SEMB and SYT forms, must be provided as follows by the dates listed:
1. From the LEA to the SELPA by October 15th for review.
 2. To the CDE by November 15th from the SELPA.

V. MONITORING THE MOE

- A. To assist LEAs and SELPAs in monitoring their MOE compliance during the year, the SACS software also includes an MOE reporting feature for interim reporting periods. The report, titled “SEMAI-Special Education MOE-Projected vs. Actual MOE Calculation,” compares the current year projected special education expenditures with the prior year actual expenditures to determine if the required level of fiscal effort is projected to be met at the end of the year.
- B. This report is not required to be submitted to the CDE.

VI. CHARTER SCHOOL MOE REPORTING

- A. Charter schools are subject to special education MOE requirements. Charter schools will submit form SEMB or similar reports either to their SELPA AU or to their authorizing LEA. The reporting will depend on the following factors, pursuant to Education Code Section 47641:
- Whether the charter school is participating as an LEA in a special education plan approved by the State Board of Education.
 - Whether the charter school is a public school of the LEA that granted the charter.
 - Whether the charter school’s financial data and student data is included in the authorizing LEA’s unaudited actual SACS reports or reported separately, and whether a charter school that is reporting separately from the authorizing LEA is using SACS or the Alternative Form for reporting its financial data.
1. If the charter school is part of the authorizing LEA and its financial data and student data is included in the authorizing LEA’s unaudited actuals SACS submission to CDE:
 - No SEMB is needed from the charter school.

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2. If the charter school is part of the authorizing LEA and is reporting its financial data to the CDE, separate from its authorizing LEA:
 - The charter school prepares form SEMB or similar reports, depending on whether it is using the SACS software or the Alternative Form, and submits the report(s) to its authorizing LEA. The authorizing LEA provides both its own and the charter school's SEMB reports to the SELPA AU.
3. If the charter school is participating as an LEA in the SELPA and is reporting its financial data to the CDE in SACS, separate from its authorizing LEA:
 - The charter school prepares the SEMB reports within the SACS software and submits them to its SELPA AU.
4. If the charter school is participating as an LEA in the SELPA and is reporting using the Alternative Form, separate from its authorizing LEA:
 - The charter school manually prepares hard copies of, or reports similar to, the SEMB and submits to the SELPA AU.
5. If the charter school is participating as an LEA in the SELPA and its data is included in the authorizing LEA's unaudited actuals SACS submission to the CDE:
 - The charter school (or the district, since the charter school is part of the district for financial reporting purposes and is included in the district's unaudited actuals) manually prepares hard copies of the SEMB for the charter school.
 - The district deletes the charter school expenditures from the LEA's SEMB report using the adjustment columns/lines in the SEMB worksheets and provides an explanation accordingly.

VII. SIGNIFICANT DISPROPORTIONALITY

- A. If an LEA is found disproportionate in a specific indicator for three consecutive years, it falls into *significantly disproportionate status*.
 1. A significantly disproportionate status requires the LEA to set aside 15% of its local assistance, resource 3310, and preschool grant, resource 3315, for coordinated early intervening services (CEIS) to address the indicator in which the LEA is disproportionate.
 2. A contribution of 15% of the total award must be shifted from resource 3310 to resource 3312 for local assistance, and from resource 3315 to resource 3318 for the preschool grant. Expenditures for CEIS must be reported in resource 3312 for local assistance and in resource 3318 for the preschool grant within the SACS software.
 3. These funds are to be used to address the indicator in which the LEA has been found significantly disproportionate. Funds are to be spent on CEIS activities in general education

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programs. This means the funds should not be spent on students with IEPs or charged to special education goals.

4. Expenditures are required to be reported to the CDE via the special education grant expenditure reports for each of the resources in the CEIS section.

Sample Document

Click on the title of the sample document below to view or download it.

[MOE Calculation Exemption Reductions Template \(Excel file\)](#)

I. OVERVIEW

A. Instructional Supervision, Attendance Supervision, Health Supervision, and Guidance Services

Education Code (EC) 1730 through 1762 authorize the county superintendent, with the approval of the county board of education, to provide various services to small districts in their county.

1. Instructional Supervision

- a. Education Code 1730 authorizes the county superintendent of schools, with the approval of the county board of education, to employ supervisors to supervise instruction in the elementary school districts under their jurisdiction if a district is not providing adequate supervision. This applies to elementary school districts that had less than 901 units of average daily attendance (ADA) and the elementary schools of unified school districts that had less than 1,501 units of ADA during the preceding fiscal year.
- b. Education Code 1731 authorizes the county superintendent, with the approval of the county board of education, to enter into an agreement with the governing board of any elementary school district under their jurisdiction for the supervision of instruction in the district. This code section authorizes the county to provide for the payment of the services in the agreement and authorizes the county superintendent to transfer funds from the district to the county to pay for costs specified in the agreement.
- c. Education Code 1732 states that the services described in EC 1730 and 1731 shall be performed by persons who hold a valid credential.

2. Supervision of Attendance

- a. Education Code 1740 authorizes the county superintendent to employ personnel to supervise the attendance of pupils in the elementary school districts under their jurisdiction if the districts are not served by any direct supervisor of attendance. This applies to elementary school districts that had less than 901 units of ADA, high school districts that had less than 301 units of ADA, and unified school districts that had less than 1,501 units of ADA during the preceding fiscal year.
- b. Education Code 1741 authorizes the county superintendent to provide for the supervision of the attendance of pupils in school districts under their jurisdiction other than specified in EC 1740.
- c. This section authorizes the county to provide for the payment of the services in the agreement and authorizes the county superintendent to transfer funds from the district to the county to pay for costs specified in the agreement.
- d. Education Code 1742 states that the services described in EC 1740 and 1741 shall be performed by persons who hold a valid credential.

3. Health Supervision

- a. Education Code 1750 authorizes the county superintendent, with the approval of the county board of education, to employ one or more supervisors of health to provide health services to pupils in the school districts under their jurisdiction. This applies to elementary school districts that had less than 901 units of ADA, high school districts that had less than 301 units of ADA, and unified school districts that had less than 1,501 units of ADA during the preceding fiscal year.
- b. Education Code 1752 authorizes the county superintendent, with the approval of the county board of education, to enter into an agreement with the governing board of any school district under their jurisdiction for the provision of any or all health services to the district. This section authorizes the county to provide for the payment of the services in the agreement and authorizes the county superintendent to transfer funds from the district to the county to pay for costs specified in the agreement.

4. Guidance Services

- a. Education Code 1760 authorizes the county superintendent, with the approval of the county board of education, to employ personnel to provide guidance services to pupils in the school districts under their jurisdiction if the district does not furnish adequate guidance services. This applies to elementary school districts that had less than 901 units of ADA, high school districts that had less than 301 units of ADA, and unified school districts that had less than 1,501 units of ADA during the preceding fiscal year.
- b. Education Code 1761 authorizes the county superintendent, with the approval of the county board of education, to enter into an agreement with the governing board of any district under their jurisdiction to provide guidance services. This section authorizes the county to provide for the payment of the services in the agreement and authorizes the county superintendent to transfer funds from the district to the county to pay for costs specified in the agreement.
- c. Education Code 1762 states that the services described in EC 1760 and 1761 shall be performed by persons who hold a valid credential.

B. Direct Service Districts

Various sections of the Education Code describe services that a county superintendent may provide directly to districts of a certain size. These smaller districts are sometimes called direct service districts. These districts are defined as:

1. Elementary school districts with less than 901 units of ADA.
2. Unified school districts with less than 1,501 units of ADA.
3. High school districts with less than 301 units of ADA.

C. Direct Service Funding and Local Control Funding Formula (LCFF)

Services to Districts

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Before the LCFF, counties were given additional revenue limit funds if they had direct service districts. There is no such allowance under the LCFF for smaller districts.

1. Education Code 2574 states that the state superintendent of public instruction (SPI) annually shall calculate a county local control funding formula for each county superintendent of schools as follows:
 - a. Compute a county office of education operations grant equal to the sum of each of the following amounts:
 - i. A base amount per county office of education.
 - ii. An amount multiplied by the number of school districts for which the county superintendent of schools has jurisdiction pursuant to EC 1253.
 - iii. An amount multiplied by the number of units of countywide average daily attendance.
2. The LCFF includes a total amount of compensation, with no additional funding to counties that have small, direct service districts.
3. Education Code 14054(a) refers to supervision of instruction and supervision of health, attendance and guidance services pursuant to EC 1730 to 1762. As noted previously, EC 1730, 1740, 1750 and 1760 authorize the county superintendent to provide certain services to the direct service districts in their county. The county superintendent may use the funding from the LCFF to provide these services.

II. SERVICES TO DISTRICTS

It is up to the county superintendent's discretion to provide or not provide any or all of the services listed in Section I and listed in EC 14054(a) under *County School Service Computation of Allowances and Budgetary Requirements*. The types of services that California county superintendents of schools provide to their districts vary by county.

I. OVERVIEW

School district and county office financing can be accomplished using a variety of different debt instruments; however, county offices of education (COEs) do not have access to voter-approved debt instruments. When determining the best type of financing, many factors need to be considered including cost, timeline, market conditions, community support, and the complexity of the debt instrument. Although issuing debt can be an appropriate method of financing specific projects, prudent fiscal management and consistent monitoring of debt is required to preserve a district's creditworthiness, budget, and fiscal solvency.

Types of debt financing include the following:

A. Non-Voter-Approved

1. Revenue Bonds
2. Tax Revenue Anticipation Notes (TRANS). Please refer to Procedure 10, Cash, for procedures related to TRANS
3. Certificates of Participation (COPs)
4. Lease purchases secured by real property
5. Qualified zone academy bonds (QZABs) or other similar funding mechanisms such as qualified school construction bonds (QSCBs)
6. Any other debt instrument secured by real property and not subject to voter approval

B. Voter-approved (not available to COEs)

1. General obligation bonds
2. School facilities improvement district (SFID)
3. Mello-Roos/Community Facility District (CFD)
4. Parcel taxes

II. NON-VOTER-APPROVED DEBT

A. Revenue Bonds (E.C. 17150)

1. Upon approval by the governing board of a school district to proceed with the issuance of revenue bonds, the school district shall notify the county superintendent of schools and the county auditor.

2. The superintendent of the school district shall provide the repayment schedules for that debt obligation and evidence of the school district's ability to repay that obligation to the county auditor, the county superintendent, the governing board, and the public.
 3. Within 15 days of receipt of the information, the county superintendent of schools and the county auditor may comment publicly to the governing board of the school district regarding the school district's ability to repay that debt obligation.
 4. The notification requirements are similar when a county board of education (county board) approves issuance of revenue bonds. In this case, the county superintendent or superintendent of a school district for which the county board serves as governing board shall notify the state superintendent of public instruction (SPI) of the anticipated issuance and shall provide the repayment schedules and evidence of the ability to repay the debt. Within 15 days of receipt of the information the SPI may comment publicly to the county board regarding the ability of the COE or school district to repay that debt obligation.
- B. Non-Voter-Approved Debt Secured by Real Property (E.C. 17150.1)
1. According to Education Code Section 17150.1, a school district is required to disclose all issuances of non-voter-approved debt secured by real property to the county superintendent and the county auditor at least 30 days prior to the district's governing board's approval of any such issuances, including the following:
 - a. Certificates of participation (COPs)
 - b. Lease purchases secured by real property
 - c. Qualified zone academy bonds (QZABs) or other similar funding mechanisms (such as qualified school construction bonds [QSCBs])
 - d. Any other debt instrument secured by real property and not subject to voter approval
 2. School districts are required to furnish the county superintendent and the county auditor with information regarding the debt issuance, including the following:
 - a. Repayment schedules
 - b. Evidence of ability to repay
 - c. Information needed to assess the anticipated effect of the debt issuance, including the cost of issuance
 3. Within 15 days of receipt of the information, the county superintendent of schools and the county auditor may comment publicly to a district's governing board regarding the district's capacity to repay the debt obligation, based on the information provided.

4. County boards of education have a similar disclosure obligation, and the SPI has a similar ability to comment publicly. COEs are required to notify the SPI at least 30 days prior to the county board's approval of the issuance of COPs or other non-voter-approved debt instruments secured by real property and to provide the items listed in subsection II.B.2.a. – II.B.2.c. above. Within 15 days of receipt of the information, the SPI may comment publicly to the county board regarding the COE's capacity to repay the debt obligation.
5. The proceeds from COPs and other non-voter-approved debt secured by real property cannot be used for a district's general operations, regardless of the district's budget certification (E.C. 42133.5).

C. County Office Responsibilities

1. Whenever possible, the COE should work in collaboration with the county auditor to ensure that both entities are requesting the same information from local school districts.
 - a. The COE is encouraged to work with the county auditor's office to create a 'Disclosure of Non-Voter-Approved Debt' form that is acceptable to both offices for the district's reporting requirements.
 - b. A debt issuance disclosure workbook (Excel format) is also available on FCMAT's Web site at: <http://fcmat.org/wp-content/uploads/sites/4/2015/04/DisclosureofNVADebt.xls>. The workbook asks for the following information, based on the district's current estimates:
 - i. Project description, including cost and financing needs and timing
 - ii. Repayment schedule and funding sources, including interim financing and a contingency plan if the repayment sources do not materialize or the final agreement costs more than originally anticipated
 - iii. List of all parties involved in the transaction
 - iv. Loan information (amount to be financed, term, cost of issuance, interest rate, amortization schedule, preliminary official statement, etc.)
 - v. Multiyear projections that show the impact of the proposed debt obligation in subsequent years, including the impact on unrestricted reserves

- D. School districts with qualified or negative budgets may not issue non-voter-approved debt in that year or the succeeding fiscal year unless the county superintendent determines that repayment of the debt is probable. COEs with qualified or negative budgets may not issue non-voter-approved debt in that year or the succeeding fiscal year unless the SPI determines that repayment of the debt is probable (E.C. 42133).

III. VOTER-APPROVED DEBT – DEBT SERVICE FUNDS

- A. The California School Accounting Manual (CSAM) identifies three debt service funds that local educational agencies (LEAs) are required to use under certain circumstances.

1. Tax Override Fund
 2. Bond Interest and Redemption Fund
 3. Debt Service Fund for Blended Component Units
- B. Tax Override Fund: The tax override fund is used to account for the repayment of voted indebtedness levies (other than bond interest and redemption fund repayments) that are financed from ad valorem tax levies.
1. Taxes are levied and recorded in this fund for the following purposes:
 - a. State school building loan repayments (E.C. 16090).
 - b. Payments to the original district for the acquisition of property (E.C. 35576).
 - c. Compensatory education housing repayments (E.C. 16214).
 - d. Lease-purchase payments (E. C. Section 17409).
 - e. Construction of exceptional children's facilities repayments (E.C. 16196).
 2. The county board of supervisors computes, levies and collects taxes on property within the district boundaries to cover annual debt payments.
 - a. As the tax levies are collected, they are deposited in the tax override fund.
 - b. When the payments come due, they are paid from the taxes that have been collected and deposited into the tax override fund.
- C. Bond Interest and Redemption Fund: The bond interest and redemption fund is used for the repayment of bonds issued for an LEA (E.C. 15125-15262).
1. The principal and interest payments are paid by the county treasurer from the taxes levied by the county board of supervisors and deposited into the bond interest and redemption fund.
 2. Education Code Section 15140 (c) requires the governing board of the school district or community college district to transmit the resolution authorizing the sale of the bonds and the debt service schedule to the county auditor and county treasurer in sufficient time to permit the county to establish tax rates and necessary funds or accounts for the bonds.
- D. Debt Service Fund for Blended Component Units: This fund is used to account for the accumulation of resources for the payment of principal and interest on bonds issued by Mello-Roos community facilities districts and similar entities that are considered blended component units of the LEA under generally accepted accounting principles.

The Mello-Roos Community Facilities Act of 1982 (Government Code Section 53311 et seq.) allows any county, city, special district, school district, or joint powers authority to establish, upon approval of two-thirds of the voters in the district, a community facilities district (CFD) to sell tax-exempt bonds to finance public improvements and services.

E. COE Responsibilities

1. The tax levies deposited into the tax override fund and the bond interest and redemption fund are used to make the debt service payments on general obligation bonds and other obligations.
2. The county board of supervisors is responsible to levy the tax based on debt service schedules from the district or other repayment schedules.
3. The county auditor will maintain the books for the bond interest and redemption fund during the year.
4. In some counties, the county auditor records the year-end balances on the SACS forms and the COE enters this information into the SACS software on behalf of the districts.

In other counties, the county auditor provides an end-of-year financial report to the COE. The COE then enters the information into the SACS software for the districts or provides the financial report to the districts to enter the data. Still other COEs have directly linked the county bond interest and redemption funds to the COE financial system.

5. The COE should caution the districts to confirm that the payments made from the bond interest and redemption fund agree with the debt service amounts on the amortization schedules.
6. The district usually maintains the books for the tax override fund.

IV. DEBT MANAGEMENT POLICIES AND PROCEDURES

- A. Government Code 8855(i) requires any issuer of public debt to provide a *Report of Proposed Debt Issuance* to the California Debt Investment and Advisory Commission no later than 30 days before the sale of such debt.
- B. Effective January 1, 2017 (per Senate Bill 1029 approved September 12, 2016), the *Report of Proposed Debt Issuance* requires certification that the issuer has adopted a local policy regarding the use of debt and that the proposed debt issuance is consistent with the policy. The local debt policy must include the following five items:
 1. The purposes for which the debt proceeds may be used.
 2. The types of debt that may be issued.
 3. The debt's relationship to and integration with the issuer's capital improvement program or budget, if applicable.

4. Policy goals related to the issuer's planning goals and objectives.
 5. The internal control procedures that the issuer has implemented or will implement to ensure that the proceeds of the proposed debt issuance will be directed to the intended use.
- C. In addition, Senate Bill (SB) 1029 states:

The Legislature hereby finds and declares all of the following:

State and local agencies should adopt comprehensive written debt management policies pursuant to the recommendation of the Government Finance Officers Association, a professional organization of over 18,000 public officials united to enhance and promote the professional management of governmental financial resources. These policies should reflect local, state, and federal laws and regulations.

1. Local educational agencies may want to review existing policies in the 3000, 7000 and 9000 series for existing references to debt or bonds that might be replaced with adoption of a single comprehensive policy.
2. FCMAT has updated its Sample Debt Management Policy to conform to the requirements of both SB 1029 and the Government Finance Officers Association's published best practice on debt management policy.
 - a. FCMAT Alert and Sample Policy: <http://fcmat.org/wp-content/uploads/sites/4/2017/01/FCMAT-Alert-and-Sample-Debt-Management-Policy-1-19-2017.pdf>
 - b. GFOA Best Practice: <http://www.gfoa.org/debt-management-policy>

LEGAL CITATIONS

Education Code sections 15125-15262, 16090, 16196, 16214, 17150 – 17150.1, 17409, 35576, 42133.5

Government Codes 8855(i), 53311 et seq.

Reimbursements to COEs

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I. BACKGROUND

- A. The annual Budget Act provides funds to reimburse county offices of education (COEs) for expenses incurred in carrying out certain financial oversight responsibilities.
- B. The Fiscal Crisis and Management Assistance Team (FCMAT) is the entity designated to administer the reimbursements, subject to approval by the Department of Finance (DOF) and the Superintendent of Public Instruction (SPI).

II. CATEGORIES FOR REIMBURSEMENT

- A. The California Department of Education (CDE) has identified seven categories under which COEs may file for reimbursement:
 - 1. Audit – Extraordinary Costs — Education Code 1241.5(b) and (c)
 - 2. Disapproved Budget by COE — Education Code 42127(d)
 - 3. Disapproved Budget by SPI (following budget review committee or waiver) — Education Code 42127.3(b)(4)
 - 4. Disapproved Budget by SPI (following budget review committee or waiver) — Education Code 42127.3(b)(6)
 - 5. Qualified Certification — Education Code 42127.6(a)(1)(A)
 - 6. Qualified Certification — Education Code 42127.6(a)(1)(B)
 - 7. Negative Certification — Education Code 42127.6(e)(5)

Additional information on each category, as well as the percentages that may be reimbursed, is listed in the following table.

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Reimbursable Categories for County Office of Education Claims Pursuant to AB 139 and AB 2756

Category	Education Code Section	Circumstance	Allowable Actions	SPI Approval Needed	% COE Must Pay Up Front	FCMAT Reimbursement Rate to COE	% LEA Must Pay
1	1241.5(b) and (c)	Audit-- Extraordinary Costs (AB 139)	Audit due to fraud, misappropriation of funds, illegal practices, etc.	N	100%	100%	N/A
2	42127(d)	Disapproved Budget by COE	Appoint fiscal advisor to assist in developing a revised budget.	N	100%	* 25% ***	75%
3	42127.3(b) (4)	Disapproved Budget by SPI (following BRC or waiver)	Employ additional analytical assistance or expertise to validate financial information if district staff do not have the expertise or the district lacks staff.	Y	25%	100% of COE's share	75%
4	42127.3(b) (6)	Disapproved Budget by SPI (following BRC or waiver)	Employ a certified public accounting (CPA) firm to investigate financial problems.	Y	25%	100% of COE's share	75%
5	42127.6(a) (1)(A)	Qualified Certification	Assign fiscal expert to advise district on its financial problems.	N*	100%	* 25% ***	75%
6	42127.6(a) (1)(B)	Qualified Certification	Employ additional assistance or expertise, including CPA firm, to assist COE in conducting financial and budgetary study, including review of internal controls.	Y	25%	100% of COE's share	100%
7	42127.6(e) (5)	Negative Certification	Appoint fiscal advisor to act on behalf of COE.	N**	25%	100% of COE's share	75%

* If COE enters into a contract, it is subject to the approval of the SPI.

** Actions taken must be "in consultation with" the SPI.

*** Only 25% reimbursement allowed pursuant to language in the Budget Act.

Reimbursements to COEs

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III. REIMBURSEMENT FORMS

- A. The reimbursement request forms COEs must submit are available on the FCMAT website at www.fcmat.org, under the “Publications & Reports” tab, “Other Fiscal Documents” option, then select the “Reimbursements to County Offices of Education” link.
- Claims for reimbursement should be submitted to FCMAT quarterly.
 - All claims for the prior fiscal year must be submitted no later than August 15 of the subsequent fiscal year.
 - FCMAT is responsible for reviewing and approving the claims and submitting them to the DOF and the SPI for final approval and reimbursement.
 - Because annual funding is limited and specific allocation amounts are designated for the different categories, all claims will be considered on a first-come, first-served basis.
- B. As outlined in the above chart, the COE must obtain prior approval from the SPI or the SPI’s designee for claims for contracting and paying for short-term analytical assistance. This includes the following:
- Employing and paying for short-term analytical assistance or expertise to validate financial information if the district staff do not have the expertise, or if the COE hires staff (Education Code 42127.3(b)(4)).
 - Using a CPA firm to investigate financial problems (Education Code 42127.3(b)(6)).
 - Hiring a fiscal expert to advise a district on its financial problems (Education Code 42127.6 (a)(1) (A)). *Note: If the COE enters into a contract, it is subject to the approval of the SPI.*
 - Requesting additional assistance or expertise, including using a CPA firm, to assist the COE in conducting a financial and budgetary study (Education Code 42127.6(a)(1)(B)).

IV. REIMBURSEMENT PACKAGE CONTENTS

The COE must submit TWO sets of the following items to FCMAT:

1. Reimbursement request form.
 - Each form must have an original signature.
2. Description of the circumstances which led to the COE involvement.
 - Each claim must be accompanied by such a description in a separate narrative or memo.
3. Documentation of SPI approval (if required).
 - Include any correspondence (e.g., letters or memos) between the COE and the SPI.

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4. Documentation of any signed contracts entered into by the COE.
 - Include a signed copy (or copies) of the original contract(s) between the COE and the vendor.
5. Documentation of the actual costs billed to the COE that are subject to reimbursement. This should include the rate of pay, number of days or hours worked, detail of expenses, and proof of payment.
 - Include copies of the invoice(s) the COE received from the vendor.
 - Include copies of the cleared check(s) or warrant(s) demonstrating that the COE paid the vendor.
6. The audit report, if applicable.
 - If submitting a claim for an AB 139 extraordinary audit, a copy of the audit report is required.
7. Copies of any correspondence between the COE and the LEA.

District Reorganization

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I. OVERVIEW

The California Department of Education (CDE) states, “Most people see school districts as stable or even permanent governmental entities. School district boundaries, however, do change. Territory is transferred from one school district to another, districts are divided or combined with their neighbors, and some districts are terminated.”

Resources for school district reorganizations can be found at the end of this procedure; however, because school district reorganizations are extremely complex, county superintendent’s staff should consult with legal counsel whenever school district reorganization issues arise.

A. School districts are not permanent governments.

1. School district boundaries may change.
2. School districts may transfer territory from one school district to another.
3. School districts may combine with other districts or divide.

B. Early Organization

1. School district organization began with the provisions for school support established by the framers of the California Constitution in 1849.
2. By 1932 there were more than 3,500 school districts in the state.
3. In the 1930s, new laws made it possible to combine elementary and high school districts into a single district under one board of education; these were defined as unified school districts.

There have been significant and numerous changes in the laws related to school district organization since the 1930s.

Since 1932, the number of school districts has declined to fewer than 950.

Most of this decline occurred between 1932 and the 1960s.

C. Definition of Reorganization

An “action to reorganize districts” means either of the following:

1. An action to form a new school district, which is accomplished through any of, or any combination of, the following:
 - a. Dissolving two or more existing school districts of the same kind and forming one or more new school districts of that same kind from the entire territory of the original districts.
 - b. Forming one or more new school districts of the same kind from all or parts of one or more existing school districts of that same kind.

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- c. Unifying school districts, including the consolidation of all or part of one or more high school districts with all or part of one or more component elementary school districts into one or more new unified school districts.
 - d. Deunifying a school district, including the conversion of all or part of a unified school district into one or more new high school districts, each with two or more new component elementary districts.
2. An action to transfer territory, including the transfer of all or part of an existing school district to another existing school district. (EC 35511)

Lapsation is another type of school district reorganization — it is an action to dissolve a school district and annex the entire territory of that district to one or more adjoining school districts (EC 35780.1). Lapsation is not included in EC 35511 as an “action to reorganize districts,” because it is subject to a separate process (pursuant to EC 35780 and following). Although lapsation differs procedurally from other reorganizations (those defined in EC 35511), it is subject to the same general statutory provisions as those reorganizations.

Certain changes to school district boundaries are not considered reorganizations of districts. These changes are merely corrections and relocations of boundary lines that conflict, or are described incorrectly, or are indefinite, or conflict with lines of assessment because of the resubdivision of land or other property change. In these cases, the board of supervisors may correct and relocate the boundaries to follow definite, established property lines. These changes must conform as nearly as practicable to the general location of the former boundaries and must be made in such a manner that most of the affected parcel or property determines the district in which the parcel or property will be located (EC 2600).

D. Basic types of reorganization

There are four common types of reorganization:

1. Territory transfers:

Transfer of a portion, or portions, or all of one district to another district.

2. Formations of new school districts:

Typically, these are unifications that involve (1) reorganizing entire elementary and high school districts or portions of them into unified districts serving transitional kindergarten through grade 12, or (2) splitting an existing unified district into two or more new unified school districts. Although unification is the most frequent new district formation, new elementary or high school districts also may be formed from combinations of existing districts.

3. Unifications with components:

Unifications in which one of the feeder elementary school districts is completely within a high school district and is excluded from action to unify the portion of the high school district in which

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it is contained. The governing board of the elementary school district must receive approval for exclusion from the agency approving the unification (either the county committee on school district organization or the State Board of Education (SBE)).

4. Lapsations of districts:

When the number of registered electors in a district is less than six or the average daily attendance of pupils is less than six for grades one through eight or less than 11 for grades nine through 12, the county committee on school district organization shall lapse the district and annex its entire territory to one or more adjoining districts. The county board of education may defer the lapsation of a school district for one year by adopting a resolution to do so that is approved by a majority of the school district's governing board and that receives written concurrence from the county superintendent of schools.

Lapsation may also occur when no school facilities or sites remain to use for any school in the district.

A school district may also be lapsed if a majority of its governing board members, with the written concurrence of the county superintendent of schools, adopt a resolution to do so.

E. Reorganization Proposals

There are seven types of reorganization proposals:

1. Territory transfers initiated by owners of uninhabited territory, by a 25% petition, or by a district governing board. A 25% petition process is used when the owners of uninhabited territory, or the district's governing board, or 25% of the registered voters in the affected area petition to transfer territory or unify, or when a number of registered voters equal to at least eight percent of the number of votes cast in the last gubernatorial election petition to reorganize a district with more than 200,000 ADA into two or more districts.
2. Territory transfers initiated by a 10% petition, certain local agencies (e.g., county board of supervisors, city council, local agency formation commission), or county committee. A 10% petition process is used when county committees, certain local agencies, or 10% of the registered voters in an entire school district wish to transfer territory or unify, or when five percent of the registered voters petition to reorganize a district with more than 200,000 ADA into two or more districts.
3. Unifications initiated by owners, a 25% petition, district governing boards, or an eight percent petition in districts with more than 200,000 ADA.
4. Unifications initiated by a 10% petition, certain local agencies, a county committee, or a five percent petition in districts with more than 200,000 ADA.
5. Reorganizations (unifications or territory transfers) initiated by the county committee or under the direction of the SBE.

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6. Unifications under circumstances that allow approval by the county committee.
7. Lapsations of school districts by a county committee.

F. Reorganization Involving Two or More Counties

1. In any action to reorganize school districts that are located in more than one county, the same procedures are required and shall take place in both counties. Hearings may be conducted in each county or jointly in either county, whichever appears most convenient and practical. Any action regarding the reorganization may be taken during or after a joint hearing. If separate hearings are held, action may be taken only after findings of the hearings in each county have been transmitted to the other counties (EC 35520 through 35524).
2. If county committee's plans and recommendations for district reorganization (pursuant to EC 35720 and following) involve territory under the jurisdiction of the superintendent of an adjacent county, the county committee of the adjacent county is requested to concur with the plans and recommendations. Regardless of concurrence, or after 60 days' notice of nonconcurrence, the same plans and recommendations must be submitted to the SBE for a decision (EC 35723 and 35724).

II. THE COUNTY COMMITTEE ON SCHOOL DISTRICT ORGANIZATION

- A. In each county, except a county that is also a city and county (e.g., San Francisco), there is a county committee on school district organization.
- B. The county committee on school district organization has a major role in the review and approval of proposals to change school district organization in the county.
- C. The county committee:
 1. Is the local coordinator, analyst, facilitator and arbitrator for the reorganization of school districts. The committee also may initiate proposals to reorganize school districts.
 2. Responds to petitions, conducts public hearings, develops and releases information, formulates plans, and analyzes proposals throughout the approval process of a reorganization.
 3. Gives final approval or disapproval for petitions for transfers of territory and certain unification proposals for which state approval is not required. This is subject only to appeal to the SBE. In some situations, elections are required.
 4. Has other responsibilities, as established in the Education Code, related to committee membership, trustee areas, and methods of electing governing boards.
- D. Education Code 4020 allows the duties of the county committee to be transferred to the county board of education.

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- In 35 counties in California, the county board of education serves as the county committee on school district organization.
- E. The county committee's role in lapsed school districts is defined in EC 35780-35787. To lapse means to dissolve a school district and annex the entire territory of that district to one or more adjoining school districts.
 - An action to lapse a school district is subject to specified general statutory provisions of Chapter 3, commencing with EC 35500.

III. RESOURCES

- A. Detailed information on school district reorganization is available in the CDE's *School District Organization Handbook* which can be found at <https://www.cde.ca.gov/re/lr/do/>.

This handbook is a comprehensive reference on school district reorganization and describes the step-by-step process of forming or abolishing school districts, consolidating school districts, transferring territory from one district to another, and unifying school districts. The handbook also includes checklists to help county superintendent of schools' staff and county committees track the required tasks associated with district reorganization.

The guidance in the handbook is not binding on local educational agencies (LEAs) or other entities. Except for statutes, regulations, and court decisions it references, the handbook is advisory (see EC 33308.5).

- B. A tool is available to help LEAs calculate blended LCFF funding rates for reorganizing school districts. To request a copy of the instructions and Excel file please contact pase@cde.ca.gov.

I. OVERVIEW

A. The County

1. The state is divided into 58 counties.
2. A county is the largest political division of the state having corporate powers.
3. The county may:
 - a. Sue and be sued.
 - b. Purchase, receive by gift or bequest, and hold land within its limits, or elsewhere when permitted by law.
 - c. Make contracts and purchase and hold personal property necessary to the exercise of its powers.
 - d. Manage, sell, lease, or otherwise dispose of its property, as the interests of its inhabitants require.
 - e. Levy and collect taxes authorized by law.
4. The county may exercise its powers only through the board of supervisors or through agents and officers acting under the authority of the board or authority conferred by law.

B. County Officers

1. Government Code Section 24000 establishes the officers in the county.
2. These officers include, but are not limited to, the following:
 - a. A controller.
 - b. An auditor, who shall be ex-officio controller.
 - c. A treasurer.
 - d. A license collector.
 - e. A tax collector, who shall be ex-officio license collector.
 - f. An assessor.
3. Government Code Section 24009:

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- a. Except as provided in subdivision (b), the county officers to be elected by the people are the treasurer, county clerk, auditor, sheriff, tax collector, district attorney, recorder, assessor, public administrator, and coroner.
 - b. Government Code Section 24009(b) states, "Any county office that is required to be elective may become an appointive office pursuant to this subdivision. Any county office changed from elective to appointive in accordance with this subdivision may be changed back from appointive to elective in the same manner."
 4. Government Code Section 24300 allows the board of supervisors to, by ordinance, consolidate duties of certain county offices.
- C. The Board of Supervisors
1. Government Code Section 25000 states that each county shall have a board of supervisors consisting of five members.
 - a. Not more than three members shall be elected at the same general election.
 - b. The term of office of each member is four years.
 2. Government Code Section 25209.1 states that the board of supervisors of any county or city and county may upon the recommendation of the county auditor authorize the county treasurer to make a temporary transfer from the funds in their custody to any school district in the county or city and county.
 - a. The temporary transfer shall not exceed an amount computed to be equal to 50% of the school district's entitlement for payment of Public Law 81-874 funds for the immediately preceding fiscal year.
 - b. School districts may repay such temporary transfers of funds without any interest to the county on or before June 1 of the fiscal year in which the funds were transferred.
 3. Government Code Section 29100 requires the board of supervisors, on or before October 3 of each year, to adopt by resolution the rates of taxes on each secured roll, not to exceed the 1% limitation specified in Article XIII A of the Constitution and sections 93 and 100 of the Revenue and Taxation Code.
 - a. For voter-approved indebtedness, the board shall adopt the rates on the secured roll by determining the percentage of full value of property on the secured roll legally subject to support the annual debt requirement.
 4. Government Code Section 29101 states that after adopting the rates, the board shall levy the taxes on the taxable property of the county. Each rate is upon the full-assessed valuation of property and only upon property that is legally subject to such tax.

D. The County Auditor or County Auditor-Controller

1. Government Code sections 26880–26886 describe the duties of the county auditor or county auditor-controller.
2. This position is the chief accounting officer of the county.
3. Government Code Section 26920 requires the county auditor to perform, or cause to be performed, a review of the treasurer’s statement of assets in the county treasury at least once in each quarter.
 - a. The treasurer is required to prepare a statement showing the amount and type of assets in the county treasury as of the date of the review.
 - b. The review shall include:
 - i. Counting the cash in the county treasury.
 - ii. Verifying that the records of the county treasurer and auditor are reconciled pursuant to Government Code Section 26905.
4. Government Code Section 29043 requires the auditor to provide the estimates for bonded debt service requirements. They shall also provide or furnish to the responsible authority, as applicable, the estimates for bonded debt service requirements of school districts.

E. The County Treasurer

1. Government Code Section 27000 requires the county treasurer to receive and keep safely all money belonging to the county and all other money directed by law to be paid to him or her and apply and pay it out, rendering the account as required by law.
2. Government Code Section 27000.1 authorizes the board of supervisors to delegate to the county treasurer the authority to invest or reinvest the funds of the county and the funds of other depositors in the county treasury.
 - a. The county treasurer thereafter assumes full responsibility for those transactions until the board of supervisors either revokes its delegation of authority or decides not to renew the annual delegation.
3. Government Code Section 27000.3 establishes that the board of supervisors is the agent of the county, serves as the fiduciary, and is subject to the prudent investor standard, unless the board of supervisors has delegated authority to the county treasurer.
4. Government Code Section 27000.5 states that when investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, the primary objective of the county treasurer, or the board of supervisors, as the case may be, is to safeguard the principal of the funds under the treasurer’s or the board’s control.

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- a. The second objective is to meet the liquidity needs of the depositor.
 - b. The third objective is to achieve a return on the funds under their control.
5. Government Code Section 27005 requires the treasurer to disburse the county money and all other money placed in their custody only on county warrants, checks, or electronic fund transfers issued by the county auditor, except for the making of legal investments.
 6. Government Code Section 27006 requires the treasurer to disburse money in the treasury on county warrants only when they are based on orders of the board of supervisors, upon order of the superior court, or as otherwise provided by law. In the payment of the warrants the treasurer may issue an order, check, or draft drawn upon proper funds that are on deposit in any bank.
 7. Government Code Section 27011 states that any county officer who knowingly accepts or allows any deposit in the county treasury of money from any private and unofficial source is guilty of a misdemeanor, punishable by imprisonment in the county jail for not less than six months nor more than one year, or by a fine of not less than five hundred dollars (\$500) and not more than five thousand (\$5,000), or by both fine and imprisonment, and shall forfeit their office.
 8. Government Code Section 27013 states that any treasurer, or other authorized county officer who invests, deposits or otherwise handles funds for public agencies for the purpose of earning interest or other income on such funds as permitted by law, may deduct from such interest or income, before distribution thereof, the actual administrative cost of such investing, depositing or handling of funds and of distribution of such interest or income. Such cost reimbursement shall be paid into the county general fund.
 9. Government Code Section 27136 requires any local agency, public agency, public entity, or public official that has funds on deposit in the county treasury pool and that seeks to withdraw funds to invest or deposit those funds outside the county treasury pool, to first submit the request for withdrawal to the county treasurer before withdrawing funds from the county treasury pool.
 - a. The county treasurer shall evaluate each proposed withdrawal for its consistency with the criteria adopted pursuant to subdivision (h) of Section 27133. Prior to approving a withdrawal, the county treasurer shall find that the proposed withdrawal will not adversely affect the interests of the other depositors in the county treasury pool.
 10. Government Code Section 53630.1 states that the Legislature finds that the solvency and creditworthiness of each individual local agency can impact the solvency and creditworthiness of the state and other local agencies within the state. Therefore, to protect the solvency and creditworthiness of the state and all of its political subdivisions, the Legislature declares that the deposit and investment of public funds by local officials and local agencies is an issue of statewide concern.
 11. Government Code Section 53637 states that the money a local agency has authority to invest shall be deposited in any bank, savings association or federal association, state or federal credit

union, or federally insured industrial loan company, with the objective of realizing maximum return, consistent with prudent financial management, except that money shall not be deposited in any state or federal credit union if a member of the legislative body of a local agency, or any person with investment decision making authority of the administrative office, manager's office, budget office, auditor-controller's office, or treasurer's office of the local agency, also serves on the board of directors, or any committee appointed by the board of directors, or the credit committee or supervisory committee, of the state or federal credit union.

12. Government Code Section 53649 states that the treasurer is responsible for the safekeeping of money in their custody and shall enter into any contract with a depository relating to any deposit which in his or her judgment is to the public advantage.

The depository, and the agent of depository to the extent the agent of depository has been notified of deposits and the amount thereof, are responsible for securing moneys deposited pursuant to such a contract in accordance with Section 53652.

One copy of each contract shall be filed with the auditor, controller, secretary, or corresponding officer of the local agency. The contract shall:

- a. Fix the duration of deposits, if appropriate.
- b. Fix the interest rate, if any.
- c. Provide conditions for withdrawal and repayment.
- d. Provide for placement of pooled securities in a named agent of depository in accordance with Section 53656.
- e. Grant authority for agent or depository to place securities for safekeeping in accordance with Section 53659.
- f. Set forth in accordance with Section 53665 the conditions upon which the administrator shall order pooled securities converted into money for the benefit of the local agency, and the procedure thereof.
- g. Provide for compliance in all respects with the provisions of this article and other applicable provisions of law.
- h. Provide, upon notice to the treasurer from the administrator, that a treasurer may withdraw deposits in the event a depository fails to pay the assessments, fines, or penalties assessed by the administrator or may withdraw authorization for the placement of pooled securities in an agent of depository in the event the agent of depository fails to pay the fines or penalties assessed by the administrator.

F. County Treasury Oversight Committee

1. Government Code Section 27130 addresses the establishment of a county treasury oversight committee.
 - a. In this section, the Legislature finds and declares that the creation of the oversight committee will promote the public interest by involving depositors in managing their funds and by enhancing the security and investment return on their funds by providing a more stable and predictable balance for investment by establishing criteria for the withdrawal of funds.
2. Government Code Section 27131 authorizes the board of supervisors in each county or city and county to establish a county treasury oversight committee if the county or city and county is investing surplus funds.
 - a. The board of supervisors, in consultation with the county treasurer, shall determine the exact size of the committee, which shall consist of from three to 11 members.
 - b. Members are nominated by the treasurer and confirmed by the board of supervisors.
3. Government Code Section 27132 establishes that the committee shall consist of members appointed from the following:
 - a. The county treasurer.
 - b. The county auditor, auditor-controller, or finance director.
 - c. A representative appointed by the county board of supervisors.
 - d. The county superintendent of schools or their designee.
 - e. A representative selected by a majority of the presiding officers of the governing bodies of the school districts and community colleges in the county.
 - f. A representative selected by a majority of the presiding officers of the legislative bodies of the special districts in the county that are required or authorized to deposit funds in the county treasury.
 - g. Up to five members of the public.
4. These committee meetings are open to the public and subject to the Ralph M. Brown Act.
5. Government Code Section 27133 requires any county that establishes a county treasury oversight committee subject to this article to annually prepare an investment policy that the county treasury oversight committee will review. This investment policy will include all of the following:

- a. A list of the securities or other instruments in which the county treasury may invest, according to law, including the maximum allowable percentage by type of security.
 - b. The maximum term of any security purchased by the county treasury.
 - c. The criteria for selecting security brokers and dealers from, to, or through whom the county treasury may purchase or sell securities or other investments.
 - d. Limits on the receipt of honoraria, gifts, and gratuities from advisors, brokers, dealers, bankers, or other persons with whom the county treasury conducts business by any member of the county treasury oversight committee.
 - e. A requirement that the county treasurer provide the county treasury oversight committee with an investment report as required by the board of supervisors.
 - f. The manner of calculating and apportioning the costs, authorized by Section 27013, of investing, depositing, banking, auditing, reporting, or otherwise handling or managing funds.
 - g. The terms and conditions under which local agencies and other entities that are not required to deposit their funds in the county treasury may deposit their funds for investment purposes.
 - h. Criteria for considering requests to withdraw funds from the county treasury, pursuant to Section 27136. The criteria shall include an assessment of the effect of a proposed withdrawal on the stability and predictability of the investments in the county treasury.
6. Government Code Section 27134 requires the county treasury oversight committee to cause an annual audit to be conducted to determine the county treasury's compliance with this article. The audit may include issues relating to the structure of the investment portfolio and risk.
- G. Interest Earnings
1. Government Code Section 53647(a) states that interest on all money deposited belongs to, and shall be paid quarterly into the general fund of, the local agency represented by the officer making the deposit, unless otherwise directed by law.
 - a. Notwithstanding the provisions of subdivision (a), and except as otherwise directed by law, Section 53647(b) allows the governing body of the local agency represented by the officer making the deposit to direct the interest to be paid into the fund that contains the principal on which the interest accrued.
 2. Government Code Section 53684:
 - a. Allows the treasurer of any local agency, or other official responsible for the funds of the local agency, to invest funds not needed for immediate use.
 - b. Section (b) requires the county treasurer to, at least quarterly, apportion any interest derived from the investment of funds pursuant to this section in an amount proportionate to the

average daily balance of the amounts deposited by the local agency and to the total average daily balance of deposits in the investment pool. In apportioning and distributing that interest or increment, the county treasurer may use the cash method, the accrual method, or any other method in accordance with generally accepted accounting principles.

Prior to distributing that interest or increment, the county treasurer may deduct the actual costs incurred by the county in administering this section in proportion to the average daily balance of the amounts deposited by the local agency and to the total average daily balances of the investment pool.

- c. Section (c) requires the county treasurer to disclose to each local agency that invests funds pursuant to this section the method of accounting used, and to notify each local agency of any proposed changes in the accounting method at least 30 days before the proposed changes take effect.
3. Government Code Section 53686 requires the county treasurer or other responsible official to provide a copy of any audits (related to the investment of local agency funds and other funds by the county treasurer) to the treasurer or other official responsible for the funds of any local agency that has funds on deposit in the county treasury.

II. COUNTY OFFICE OF EDUCATION RESPONSIBILITIES

- A. There is nothing in the law that establishes the terms of the business relationship between the county and the county office of education (COE).
- B. In many ways, the COE acts to protect the interests of the other local educational agencies (LEAs) in the county.
- C. As an additional service to districts, the COE may consider taking on an oversight role in ensuring that the relationship between the county and the COE meets certain standard business practices.

For example:

1. Most business relationships are based on a written agreement that identifies the terms of the agreement and includes standards for determining performance.
 - a. Many COEs do not have a written agreement with their county that defines how the interest is calculated and which funds earn interest.
 - b. To ensure that the interests of the LEAs are protected, the COE may want to obtain written representations from the county government each year that define which funds earn interest, how the interest is calculated, and how the interest is allocated to the entities.
 - c. The COE may want to consider hiring a certified public accounting (CPA) firm on behalf of all LEAs to periodically determine whether the interest calculations and allocations are in agreement with the terms of the written representations from the county.

2. Government Code Section 27133 requires the county treasurer in any county that establishes a treasury oversight committee to annually prepare an investment policy that will be reviewed and monitored by the county treasury oversight committee. The policy is to include the manner of calculating and apportioning the costs of investing, depositing, and banking, auditing, reporting, or otherwise handling or managing funds.
 - a. For those counties that charge these costs to the LEAs, the COE should consider reviewing the investment policy to determine whether it is reasonable.
 - b. The COE may want to consider hiring a CPA firm on behalf of all LEAs to periodically determine whether costs charged to the LEAs are determined in accordance with the county's investment policy.
3. Government Code Section 27134 requires the county treasury oversight committee to cause an annual audit to be conducted to determine the county treasury's compliance with the law related to the investment policy. The audit may include issues relating to the structure of the investment portfolio and risk.
 - a. On behalf of the LEAs, the COE may want to obtain copies of all relevant audit reports performed under this code section, as well as the county's annual audit.
 - b. On behalf of the LEAs, the COE staff could review the annual audits to determine if any issues identified in the audit report affect the LEAs.

III. LEGAL CITATIONS

Government Code

Sections 23000 – 23027

- Laws about the powers of the county; provides the names of the counties within the state.

Sections 24000 – 24012

- Establishes the officers of the county and the qualifications for the offices.

Sections 24300 – 24308

- Establishes positions that the board of supervisors may consolidate.

Sections 25000 – 25008, 25040 – 25042, 25200 – 25209.6

- The duties of the board of supervisors.

Sections 26880 – 26886

- The duties of the county auditor and auditor-controller.

Sections 26920 – 26922

- At least once each quarter, the county auditor shall perform a review of the treasurer's statements of assets in the county treasury.

Sections 27000 – 27013

- The duties of the county treasurer.

Sections 27080 – 27082

- The laws related to specific types of deposits into the county treasury.

Sections 27100 – 27101

- The fiduciary relationship of the county treasurer.

Sections 27130 – 27137

- The county treasury oversight committee.

Sections 29040 – 29045

- Responsibilities to provide debt service information for school districts.

Sections 29100 – 29109

- The procedures for determining the tax levies.

Sections 29800 – 29808

- The laws applicable to warrants issued by the county auditor.

Sections 29820 – 29828

- The procedures for paying warrants and registered warrants.

Sections 53600 – 53609

- Standards for persons investing public funds.

Sections 53630 – 53686

- Defines terms, responsibilities of county treasurer, laws on deposits with county treasurer, and eligible securities.

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I. OVERVIEW

- A. Each school district is required to provide a general fund cash flow projection as part of its first and second interim financial reports and end-of-year projection (third interim). School districts can use Form CASH in the Standardized Account Code Structure (SACS) Web financial reporting system or use their own cash flow format.
- B. Cash flow projections can be provided at other reporting periods, such as at budget adoption.
- C. Cash flow projections can be developed for other funds as necessary, including capital funds, cafeteria fund, and child development fund.

Other funds are frequently used as alternative sources of liquidity by acting as sources for interfund borrowing, so ensuring current cash projections for other funds is important.

- D. Cash flow projections can also be used as a fiscal management tool to accomplish the following:
 - 1. Ensure that a school district can meet its financial obligations.
 - 2. Maximize investment opportunities and interest revenue.
 - 3. Identify timelines for cash receipts.
 - 4. Identify the possible need for short-term borrowing.
 - 5. Provide information for collective bargaining.
- E. The budget is very different from cash because of the timing of cash inflows and outflows. The ending cash balance is also different from the ending fund balance.

II. COUNTY SUPERINTENDENT OF SCHOOLS' RESPONSIBILITIES

- A. County superintendents of schools should consider reviewing general fund cash flow projections at each review cycle (budget adoption, first interim, second interim, and end-of-year (third interim) projection).
- B. County superintendents may choose to coordinate a tax revenue anticipation notes (TRANS) pool to reduce school districts' borrowing costs.
- C. County superintendents may loan cash to a school district with the approval of the county board of education (EC 42621 and 42622).
- D. Some COEs develop monthly general fund cash flow projections for their school districts as part of the Assembly Bill (AB) 1200 fiscal oversight process. These cash flows can be sent to districts to be revised with district-specific information.

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III. DETAILED PROCEDURES

This section discusses how a COE or district can set up a cash flow model. The components of cash inflows and outflows are covered in detail in sections A and B, respectively; section C discusses the technical details of how to set up a model using Microsoft Excel and provides a link to a sample cash flow model Microsoft Excel file.

Projection-Pro, a multiyear and cash flow projection software, can also be used for cash flow projections. The software can be downloaded at <https://www.fcmat.org/projection-pro>

A. General Fund Cash Inflows (Receipts)

A school district has numerous revenue sources from both governmental and nongovernmental entities. A thorough analysis is required to convert this varied multiyear revenue information into reliable cash inflow amounts. It is common practice to start with projections of annual revenue, then break these down to monthly cash flow streams based on payment schedules or contracts. At certain times of the year, projections of weekly cash flow streams are essential as cash balances may vary widely from day to day. When using this approach, it is important to differentiate between cash attributable to current year and prior year revenues.

The Standardized Account Code Structure (SACS) Web financial reporting system labels this area of the cash flow as "Receipts." Cash flows to clear prior year accruals are recorded in the Balance Sheet section of the SACS form CASH. See further details below under "Balance Sheet Items."

1. Principal Apportionment

The following are included in the principal apportionment:

- Local Control Funding Formula (LCFF) state aid.
- School District Basic Aid (choice, court-ordered voluntary pupil transfer, and open enrollment).
- Adults in correctional facilities.
- Special education Assembly Bill 602.
- Special education infants (0-2).
- Transfer of funds for county-served district-funded average daily attendance (ADA).
- New or expanding charter advance payments.
- School district advance payments of in-lieu property tax transfers for new or expanding charter schools.
- Amount charter overpaid.

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- Prior year amount charter overpaid.
- Adjustments and prior year recomputations.

The principal apportionment distribution schedule, available from the California Department of Education (CDE), shows the entitlement percentage a school district can expect to receive each month based on EC 14041. The percentages on the schedule are before any deferrals are applied. There are three different types of payment plans for the principal apportionment distribution; a school district must use the correct type. The apportionment schedule is included in Table 1 below. Users may download the latest principal apportionment distribution schedule from the CDE's website at: <http://www.cde.ca.gov/fg/aa/pa/index.asp>.

Table 1: Principal Apportionment Distribution Schedule

	Payment Plan Type			Period
	Type 1	Type 2	Type 3	
	EC 14041(a)(2)	EC 14041(a)(7)	EC 14041(a)(8)	
July	5%	15%	15%	Advance
August	5%	15%	30%	
September	9%	15%	30%	
October	9%	15%	15%	
November	9%	0%	0%	
December	9%	0%	0%	
January	9%	6%	6%	
February ¹	1/5	1/5	0%	P-1
March ¹	1/5	1/5	0%	
April ¹	1/5	1/5	0%	
May ¹	1/5	1/5	0%	
June ²	Balance Due	Balance Due	Balance Due	P-2

¹ Based on the difference between the first principal apportionment certification and payments through January.

² Based on the difference between the second principal apportionment certification and payments through May.

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The California State Controller's Office (SCO) maintains a schedule of the planned payment dates that shows exactly what day of each month a school district can expect to receive the apportionment. This schedule may be downloaded from the controller's office website at http://www.sco.ca.gov/ard_local_apportionments.html.

When the principal apportionment is certified each period (advance, first and second), the CDE posts the calculations letter and a planned monthly payment schedule for that period on its website. It is a good practice to verify that the monthly amounts in a school district's cash flow match the CDE's planned payments. The periods are as follows:

- Advance Principal Apportionment – certified in July for July to January payments.
- First Principal Apportionment (P-1) – certified in February for February to May payments.
- Second Principal Apportionment (P-2) – certified in June for the June payment.

2. Proposition 30, Education Protection Account (EPA)

Proposition 30, The Schools and Local Public Safety Protection Act of 2012, approved by the voters on November 6, 2012, temporarily increases the state's sales tax rate for all taxpayers and the personal income tax rates for upper-income taxpayers. The temporary sales tax increase of 0.25% began on January 1, 2013 and ended on December 31, 2016. The temporary personal income tax increase for upper-income earners began in the 2012 tax year and ended in the 2018 tax year. Proposition 55 (2016) extended some of the provisions of Proposition 30 (2012), resulting in continuing EPA funds. Each local educational agency (LEA) receives at least \$200 per unit of ADA in EPA funds annually.

EPA funds are allocated quarterly in September, December, March, and June. The CDE maintains a webpage with EPA allocations, certifications, FAQs and other resources at <http://www.cde.ca.gov/fg/aa/pa/epa.asp>.

Property Taxes

The property tax apportionment schedule is produced by the property tax department of the county auditor and controller's office and is distributed to school districts. Each component of the property tax revenue (e.g., current secured, current unsecured, etc.) will have a different distribution schedule. One method to project cash flow is to break the projected property tax revenue into the individual components and then apply the appropriate distribution percentages. Another method is to use the prior year's monthly inflows as a percentage of the annual amount received. The largest payments are usually in December and April. The property tax apportionment schedule is an estimated distribution, but the actual property tax cash flow to a school district depends on the actual tax received by the county auditor and controller's office.

The county auditor and controller's office provides the property tax revenue estimate for each school district as follows:

- P-1 (estimate) certified by November 15.

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- P-2 (estimate) certified by April 15.
- For the annual period, the final taxes are certified by August 15 of the following fiscal year.

In most counties, the assessor's office will provide the estimated assessed property valuations in May, which can help a school district estimate the property tax revenues for the coming year. The final assessed valuations are available in July.

3. Federal Revenues

Federal funds flow differently depending on the funding source. In California, a school district can receive federal funding in one of two ways:

- Directly from the federal government via a wire transfer (Federal Grants Administration and Payment System (GAPS)).
- From the CDE, which apportions funds to county treasurers or to a school district by warrant after receiving a statewide apportionment from the federal government.

In either of these cases, the federal funding may be allocated differently depending on the grant:

- By a specific schedule, e.g., 40% in November, 40% in February, 20% in June.
- By reimbursement after expense has been incurred, e.g., monthly, quarterly, annually, other.

The CDE maintains a cash flow schedule for federal and state categorical programs at <http://www.cde.ca.gov/fg/aa/ca/estcashflow.asp>.

If a school district neglects to report annual expenditures on the consolidated application, funding for the following year could be affected.

Federal Cash Management Guidelines

For certain programs, when required, school districts must report cash balances to the CDE quarterly. This information is used to allocate apportionments. For each quarter, the amount apportioned is 25% of the district's entitlement, minus the reported cash balance, subject to a maximum payment equal to the unpaid entitlement amount. A school district must submit cash management data each reporting period to be eligible to receive funds in that period. Following are two options for showing this in the cash flow:

- If program expenditures are consistent from year to year, a full year of revenue receipts for a program subject to federal cash management can be used to project future years based on prior year trends.
- If program expenditures are not consistent, expenses must be estimated based on program expectations for the year. The expected expenses are applied to estimate quarterly cash in order to project what percent of scheduled apportionments might be expected.

Reimbursement Grants

Reimbursement funding implies a negative cash flow; expenses must be incurred before revenue can be requested. Some of the factors to consider are the time it takes to compile the reimbursement request and the time from request submittal to receipt of reimbursement. If these factors are consistent from year to year, prior year trends can be used when preparing cash flow projections. Types of reimbursement requests include the following:

- Submission of expenditure report.
- Online or paper submission.
- Reporting period can be monthly, quarterly, or other.
- GAPS.
- Requests can be made as often as desired.
- A school district must certify that the amount requested has either already been expended or will be expended within a specified time.
- Revenue is normally deposited with the county treasurer within two days of approval by the grantor.

Pass-Through Grants

A school district can be the lead, primary, or sub-grantee, but in all cases a set funding schedule or method should be detailed in the grant or memorandum of understanding (MOU). These grants can be reimbursement-based, adhere to federal cash management guidelines, or be forward-funded.

4. Other State Revenues

Lottery is a quarterly apportionment issued by the SCO. For detailed information related to lottery apportionment, visit the following websites: <http://www.cde.ca.gov/fg/aa/lo/> and http://www.sco.ca.gov/ard_payments_lottery.html.

Various state agencies also offer grants that may be competitive and included on a reimbursement or other distribution schedule. The CDE maintains a cash flow schedule for federal and state categorical programs at <http://www.cde.ca.gov/fg/aa/ca/estcashflow.asp>.

5. Other Local Revenue

Other local revenues can come from many sources and are usually unique to each school district. They may include the following:

- Contract revenue

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This category includes school district contracts with other school districts or outside entities. The contracts should provide specifics on the cash receipt schedule.

- Interest revenue

The county treasurer apportions the interest quarterly, usually one month after the end of the quarter.

- Parcel taxes

Parcel taxes are apportioned by the county auditor on the same schedule as all other local property taxes.

- Miscellaneous sources

Examples of miscellaneous revenues are school and district sales, donations, and ticket sales. A school district might find it best to use prior year trends to project these uncertain revenue sources.

6. Special Education AB 602

The special education program has many funding streams that can vary depending on each district's unique situation. This section will cover AB 602, which is the main funding model and consists of state, federal and local amounts.

The state portion of the AB 602 special education funding will follow the principal apportionment distribution to each special education local plan area (SELPA), which is discussed above in section II, A, 1. The federal Individuals with Disabilities Education Act (IDEA) Local Assistance entitlement portion is distributed to each SELPA on a reimbursement basis. The cash flow for the federal funding stream can lag to the end of the subsequent fiscal year. The local funding consists of property taxes that are transferred to the SELPA administrative unit (AU) from the county auditor. The timing of these transfers can be different in each county and should be confirmed every year.

The SELPA has an important role in AB 602 cash flow. For member districts of a multidistrict SELPA, the funding will be received based on the SELPA's funding model and policy for revenue disbursement. Both state and local funding are recorded as other local revenues in a member district's books. Following are two methods for allocating this funding to districts:

- A school district may receive SELPA funding on the same revenue receipt schedule as the SELPA.
- A school district may receive SELPA funding on a set schedule of apportionment adopted by that SELPA.

Refer to the SELPA's policy when incorporating this funding into a school district's cash flow.

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If a school district is a single-district SELPA, the district will receive its AB 602 funding directly from the CDE and the COE.

Additional special education programs, such as mental health services and infant programs, follow their own cash disbursement schedules as discussed above under “Federal Revenues” and/or “Other State Revenues.”

7. Interfund Transfers In

Interfund transfers are long-term and differ from the short-term borrowing between funds that is described below.

Some examples of interfund transfers to the general fund are:

- Transfers from the special reserve funds.
- Transfer of the ending balance of a closed fund (usually a small amount).

The activities in the interfund transfer object codes are unique to each school district and in most cases should be well documented in advance.

8. All Other Financing Sources

Some examples of other financing sources are:

- Proceeds from certificates of participation (COPs).
- Proceeds from capital leases.
- Proceeds from TRANS.

The activities in the All Other Financing Sources object codes are unique to each school district, happen infrequently, and should be known well in advance.

B. Cash Outflows

The timing of cash outflows varies by type of expenditure. This section discusses methods for estimating each type of expenditure.

Standardized Account Code Structure (SACS) Web financial reporting system labels this area of the cash flow as “Disbursements.” You will need to include any balance sheet items that affect cash outflows. See further details below under “Balance Sheet Items.”

1. Salaries and Benefits

Salaries and benefits are the single largest item in a school district’s general fund expenditure budget and cash outflow. A good method for estimating salaries and benefits is to use historical trends for each month. Identify and remove any one-time occurrences in the prior year, such as

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retroactive raises all paid in one month. Other factors that may cause the current year outflows to be different include the following:

- A major portion of the workforce may have reduced hours in the summer months and only receive 10 or 11 regular paychecks.
- The size of a summer school program may change.
- Early retirement or separation incentives will only be paid over a limited time.

Timing is another issue a school district should consider when developing a cash flow. State Teachers' Retirement System (STRS), Public Employees' Retirement System (PERS), and state unemployment insurance are usually paid in the period following the period in which the expense is incurred (e.g., STRS for June is paid in July). In this situation, the expense is accrued in the prior year but the cash outflow is in the current year. Health and welfare benefit rates may be based on the calendar year, and a school district might expect a premium increase or a move to enrollment in a lower cost plan in January.

2. Supplies and Services

Some services have set monthly, quarterly, or annual billing cycles. Operational issues at the school district will also affect the timing of payments. In addition, the cost of items such as utilities may be cyclical. The purchase of supplies and services can vary greatly by school district, but prior year and seasonal trends can provide good insight when estimating the cash outflow. Some things to consider include:

- Large cash payments can occur in the early months of a fiscal year because supplies are being ordered to start the new school year, large purchases are being made (e.g. textbooks), and prior year invoices are being paid.
- June can have high cash outflows because of efforts to spend categorical funds and pay bills to avoid having to make accruals.
- Purchasing deadlines can affect the timing of payments to vendors.
- One-time payments should be taken into account.

3. Transfer of Direct Costs

Direct costs may include maintenance, photocopying, or vehicle use, and often accumulate in certain accounts. Transfers may be made periodically to charge other resources within the general fund, which has no impact on cash flow, or to other funds that use these services. A school district could improve its cash position by reviewing the timing of any charges between funds. It may be necessary to review the cash balances of other funds before making these types of transfers.

4. Capital Outlay

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Capital expenditures are for the acquisition of land or buildings, site improvements, and equipment purchases. Because these costs are usually large and infrequent, it is important to work with the manager(s) in charge of capital projects when estimating these items.

5. Other Outgo

Tuition/Interagency Transfers

Interagency costs are the costs a school district incurs from other governmental agencies. Examples include the cost of contracted educational services provided by another school district, transfers of pass-through revenue, and other apportionment transfers.

Transfers of Indirect Costs

Indirect costs can be charged to a fund when the general fund supports that fund. This will show as a negative expenditure in the general fund. School districts may consider making these transfers during the fiscal year to increase general fund cash flow.

Debt Service

Debt service expenditures are recorded to show the payment of principal and interest needed to pay a school district's debt. A school district should review schedules for debt service payments, because these payments are usually large and are generally determined at the time of borrowing.

6. Interfund Transfer Out

As discussed in section II, A, 7, interfund transfers are permanent and differ from short-term borrowing and lending. Examples of transfers from the general fund to other funds are:

- Contractually-required contributions to retiree/post-employment benefits funds. The timing and amounts should be known and/or accessible.
- Funding of an ongoing program operated in another fund, such as a bus replacement program in fund 15.
- Contributions to other funds, such as the cafeteria fund.

The activities in the interfund transfer object codes are unique to each school district and should be well documented in advance in most cases.

7. All Other Financing Uses

An example of other financing uses is:

- Transfers of funds from lapsed or reorganized LEAs.
- If long-term debt is issued at a discount, the discount should be recorded here.

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- The disbursement of funds by a defunct charter school or by a charter school whose authorizing agency changes.
- For repayment of debt only when using the proceeds from refunding debt to pay existing debt.

The activities in the All Other Financing Sources object codes are unique to each school district, happen infrequently, and should be known well in advance.

C. Balance Sheet Items

Balance sheet items will vary by type; however, most accounts receivable and accounts payable transactions should occur in the first 90-120 days of the fiscal year. Each item is unique to each school district.

In the SACS form CASH, receipts of cash in the assets section (for example, cash received to clear an accounts receivable) are recorded as positive numbers.

1. Assets and Deferred Outflows

Cash Not In Treasury

Cash not in treasury includes cash held in local banks, with fiscal agents, and in other investment vehicles such as the Local Agency Investment Fund (LAIF).

The activities in these accounts are unique to each school district and may have no impact on available cash in the county treasury.

2. Accounts Receivable

Cash received in the current year can be the result of a receivable set up in the prior period. Receivable receipts should not affect amounts recorded for current year revenue but will increase cash when received. They can be from multiple sources: principal apportionment, federal, state, and local. The timing of each of these types of subsequent year receipts can be estimated in the cash flow. Ensure that any state or federal expenditure reports are completed on time to ensure prompt receipt of cash. This line also includes Due from Grantor Governments (object code 9290).

Due From Other Funds

This line should include prior year general fund receivables related to interfund transfers and short-term borrowing between funds. These transactions are generated by the district based on timing and cash available in the funds involved.

Stores

Purchases for stores should be included as cash outflows when the vendor invoice is paid.

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Prepaid Expenditures

Most prepaid expenditures (cash outflows) occur at the end of a school year. Examples of prepaid expenditures include conference expenditures and insurance premiums.

3. Liabilities and Deferred Inflows

In the SACS Form CASH, payments (cash outflows) to clear liabilities are recorded as positive numbers, and receipts of cash recorded as a current loan is recorded as a negative number.

Accounts Payable

These liabilities are created when expenses are recognized and accrued in the previous fiscal year but the cash payment is made in the current year. They should be included in cash flow projections as outflows of cash.

Most payables should be cleared by the first interim reporting period. If balances remain in these accounts, staff should analyze the amounts to see if they are still valid payables and take steps to clear them.

Due To Other Funds

This line should include prior year general fund payables related to interfund transfers and short-term borrowing from other funds. These transactions are generated by the district based on timing and cash available in the funds involved.

During the year, the general fund might need a short-term loan from another fund, often to cover payroll at the end of a month. This is also common for the cafeteria fund. The school district should review the cash flow of other funds before loaning cash to the general fund. Internal borrowing is usually the lowest cost alternative for a school district because interest costs or earnings stay within the district and are recorded as a 'due from' (receivable) in the fund lending the cash and a 'due to' (payable) in the fund receiving the cash.

Internal borrowing or interfund loans are covered by EC 42603. Amounts borrowed must be repaid within the same fiscal year, or in the following fiscal year if the funds were borrowed within the final 120 calendar days of a fiscal year. No more than 75% of the cash available in the lending fund may be borrowed.

A school district should check to determine whether any bond language might prevent short-term borrowing from a bond fund.

In the SACS Form CASH, cash received pursuant to an interfund loan is shown as a negative number. Repayment of the funds should be included on this line as positive numbers by the end of the fiscal year, unless the funds were borrowed within the final 120 days of a fiscal year. In that case, include the planned subsequent year repayment in the accrual column.

Current Loans

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Loans received from outside sources (such as a TRAN) should be recorded as current loans. Receipts of cash should be shown as a negative number in the SACS Form CASH, and repayments of the loan as a positive number.

Unearned Revenues

Unearned revenue is recorded as a liability. Most federal grants fall into this category, as do a few state grants. Activity on this line is offset to the related revenue object and increases current year revenue received/available for expenditure; however, it has no impact on cash. It is recommended that these liabilities be cleared to current year revenue as early in the fiscal year as possible.

4. Non-operating

Suspense Clearing

The cash effect for expenditures that are not paid when they are recorded and do not run through the normal accounts payable process. Examples include health and welfare benefits, unemployment insurance, workers' compensation insurance, and sales and use tax. As these expenditures are recorded, suspense/clearing accounts are offset to show that cash has not been disbursed. Suspense/clearing accounts should show outflows of cash as the liabilities are paid.

IV. SETTING UP A CASH FLOW TEMPLATE/MODEL

[Click here to download a sample Microsoft Excel cash flow template.](#)

The following information is designed to provide tools to build a cash flow model or modify the sample to your unique needs.

1. Layout

Cash flows are usually in data table format, with months listed horizontally left to right at the top of the columns and cash flow categories listed at the left of each row below. In the rows, a school district can set up cash flows using any of several different methods, including using the full account string, object codes or object code ranges, or organizing by program. The SACS Form CASH assigns an object code range to each row. For each month, the data should be organized as follows: beginning cash in county treasury balance, revenues/receipts with a subtotal, expenditures/disbursements with a subtotal, balance sheet items with a subtotal, and an ending cash balance.

2. Excel as a Tool

Cash flow templates should be set up to minimize data entry as much as possible. To accomplish this, the spreadsheet could have embedded formulas and, whenever possible, use standard data downloads that feed into schedules with links, VLOOKUP, HLOOKUP, SUMIF and/or other Microsoft Excel functions. Always have balancing totals for error checking. The assumptions used

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in the cash flow template should be consolidated in one assumptions tab for easy reviewing and updating rather than embedded in formulas throughout the spreadsheet. The cash flow formulas should be linked to the appropriate assumptions so that when an assumption is changed it will automatically flow to all the linked formulas.

Maintain major programs/items, such as LCFF and property taxes, in separate tabs or workbooks with links to the master cash flow. When using links to other workbooks, change the workbook settings to “Prompt user on automatic update for workbook links” so the master cash flow does not automatically update links with external content. This will prevent the numbers from changing until you want them to be updated.

3. Projection-Pro

An alternative to using Microsoft Excel as a tool for cash flow, Projection-Pro offers multiyear cash flow projections based on best practices and statewide assumptions. The software can be found at <https://www.fcmat.org/projection-pro>.

4. Trends and Averages

Often the best method for projecting future cash outflows is to look at past trends and activity. Trends provide better information when they draw from a larger amount of data (e.g., multiple years rather than a single year). A simple average formula can be used, or a weighted average formula can be used that applies more weight to the more recent periods than to older periods. This implies that the recent and current periods are more representative of what will happen in the future.

In any budget year there may be changes that affect cash flow (e.g., deferrals). Because of these and other potential changes, cash flow schedules based on trends are best focused on the most recent data available rather than on an historical average.

Table 2 provides an example of a simple average and a weighted average for a school district’s expenditures as a percentage of annual expenditures by year (formulas are below the columns):

Table 2: Example of simple average and weighted average expenditures by year.

	May		
Year	Simple	Weighted	Weight
Year 1	11.3%	11.3%	1
Year 2	9.2%	9.2%	1
Year 3	7.8%	7.8%	1
Year 4	6.2%	12.4%	2

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	May		
Year 5	6.1%	18.3%	3
Average	8.1%	7.4%	8

In the Weighted column of this example, the most recent years were given weights of 2 and 3, respectively. This produced an average more heavily influenced by these periods. In contrast, the Simple average column weights all periods equally.

Table 3 below shows one example of how a table can be set up to calculate monthly or seasonal percentages. Apply resulting monthly percentages to the annual projections to calculate the expected cash outflows for each month. With the initial setup of the cash flows, the sum of the percentages will add up to 100. As months pass and the actual outflows are used instead of the projections, the total will be more or less than 100%. To account for 100% of the annual projection, June can be used as the catch-up month.

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Table 3: Example of table to calculate monthly or seasonal percentages

Salaries & Benefits Data Table														
FY	July	August	September	October	November	December	January	February	March	April	May	June	Accruals	Totals
FY 1	\$7,235,680	\$9,290,802	\$10,918,042	\$11,290,378	\$11,441,634	\$11,377,776	\$11,149,332	\$11,524,555	\$11,449,727	\$11,560,751	\$11,382,219	\$11,535,813	\$5,767,907	\$135,924,616
FY 2	8,002,682	9,488,105	11,431,390	2,309,694	19,871,850	13,128,228	11,806,245	11,317,612	11,985,912	12,081,359	12,000,123	12,108,754	6,054,377	144,586,331
FY 3	8,296,944	10,097,322	12,308,996	12,449,154	12,333,245	12,389,372	12,281,731	12,476,970	12,556,682	13,166,170	12,353,929	12,710,856	6,355,428	149,776,809
FY 4	8,434,390	10,409,378	13,381,836	12,739,670	12,731,145	12,775,761	12,225,552	12,799,443	12,808,240	12,134,068	12,612,491	12,967,192	6,483,596	152,502,762
FY 5	8,199,698	15,882,393	13,677,433	17,034,307	14,798,341	14,071,443	13,812,409	13,728,589	14,459,180	13,815,352	14,805,690	14,033,671	7,016,836	175,335,342
FY 6	9,055,443	11,456,132	13,485,783	13,868,711	13,961,665	13,412,105	13,512,587	13,660,728	13,734,235	13,891,942	13,626,825	13,719,388	6,859,694	164,245,238
FY 7	13,554,516	12,993,960	13,638,147	13,639,210	13,565,648	13,678,497	13,585,735	13,403,953	13,673,112	13,567,913	13,671,162	13,530,430	6,765,215	169,267,498
Total	\$62,779,353	\$79,618,092	\$88,841,627	\$83,331,124	\$98,703,528	\$90,833,182	\$88,373,591	\$88,911,850	\$90,667,098	\$90,217,555	\$90,452,439	\$90,606,104	\$45,303,053	\$1,091,638,596
% of Total	5.32%	6.84%	8.03%	8.31%	8.42%	8.37%	8.20%	8.48%	8.42%	8.51%	8.37%	8.49%	4.24%	
Monthly Outflows as a Percentage of Total														
FY	July	August	September	October	November	December	January	February	March	April	May	June	Accruals	Total
FY 1	5.32%	6.84%	8.03%	8.31%	8.42%	8.37%	8.20%	8.48%	8.42%	8.51%	8.37%	8.49%	4.24%	
FY 2	5.53%	6.56%	7.91%	1.60%	13.74%	9.08%	8.17%	7.83%	8.29%	8.36%	8.30%	8.37%	4.19%	
FY 3	5.54%	6.74%	8.22%	8.31%	8.23%	8.27%	8.20%	8.33%	8.38%	8.79%	8.25%	8.49%	4.24%	
FY 4	5.53%	6.83%	8.77%	8.35%	8.35%	8.38%	8.02%	8.39%	8.40%	7.96%	8.27%	8.50%	4.25%	
FY 5	4.68%	9.06%	7.80%	9.72%	8.44%	8.03%	7.88%	7.83%	8.25%	7.88%	8.44%	8.00%	4.00%	
FY 6	5.51%	6.98%	8.21%	8.44%	8.50%	8.17%	8.23%	8.32%	8.36%	8.46%	8.30%	8.35%	4.18%	
FY 7	8.01%	7.68%	8.06%	8.06%	8.01%	8.08%	8.03%	7.92%	8.08%	8.02%	8.08%	7.99%	4.00%	
Average	5.73%	7.24%	8.14%	7.54%	9.10%	8.34%	8.10%	8.16%	8.31%	8.28%	8.29%	8.31%	4.16%	99.70%
Population Variance	0.01%	0.01%	0.00%	0.06%	0.04%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	

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Another method for projecting cash outflows is to use the percent of change from the prior month. Table 4 shows how a table can be set up to calculate the percent of change from one month to the next. According to Table 4, September cash outflows for supplies and services average 8.1% less than August. As Table 4 shows, there can be large changes from one year to the next for a given month. With the initial setup of the cash flows, the sum of the percentages will not add up to 100%. To account for 100% of the annual projection, use June as the catch-up month.

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Table 4: Sample table to show percent of change from month to month

Supplies & Services														
FY	July	August	September	October	November	December	January	February	March	April	May	June	Accruals	Totals
FY 1	\$1,435,317	\$2,302,448	\$2,149,274	\$1,837,362	\$1,702,527	\$1,567,597	\$1,858,400	\$1,338,477	\$2,634,965	\$1,542,258	\$2,717,291	\$2,907,012	\$1,453,506	\$25,446,434
FY 2	2,114,405	2,417,368	1,778,644	2,415,403	1,341,566	1,420,431	2,008,986	2,223,011	1,689,641	1,754,387	2,176,189	2,437,728	1,218,864	\$24,996,623
FY 3	4,163,259	3,859,997	2,726,476	2,363,240	1,827,105	3,258,312	2,568,259	1,808,237	2,100,600	2,897,310	2,575,180	2,945,022	1,472,511	\$34,565,508
FY 4	3,133,698	3,233,398	2,859,571	2,712,522	2,166,759	2,172,973	2,631,333	2,094,722	1,827,766	3,028,904	1,966,667	3,778,605	1,889,303	\$33,516,221
FY 5	2,510,031	1,982,910	2,651,035	2,203,813	1,988,931	2,118,855	5,046,810	1,792,655	2,857,760	1,781,146	2,148,212	3,278,935	1,639,468	\$32,000,561
Totals	\$13,366,710	\$13,796,121	\$12,165,000	\$11,532,340	\$9,046,888	\$10,538,168	\$14,113,788	\$9,257,102	\$11,110,732	\$11,004,005	\$11,583,539	\$15,347,302	\$7,673,651	\$150,525,346
Average	2,671,342	2,759,224	2,433,000	2,306,468	1,809,378	2,107,634	2,822,758	1,851,420	2,222,146	2,200,801	2,316,708	3,069,460	1,534,730	\$30,105,069
% of Total	5.64%	9.05%	8.45%	7.22%	6.69%	6.16%	7.30%	5.26%	10.35%	6.06%	10.68%	11.42%	5.71%	100%
Change from Prior Month														
FY	July	August	September	October	November	December	January	February	March	April	May	June	Accruals	Totals
FY 1		867,131	-163,174	-311,912	-134,835	-134,930	290,803	-519,923	1,296,488	-1,092,707	1,175,033	189,721	-1,453,506	
FY 2		302,963	-638,724	636,759	-1,073,837	78,865	588,555	214,025	-533,370	64,746	421,802	261,539	-1,218,864	
FY 3		-303,262	-1,133,521	-363,236	-536,135	1,431,207	-690,063	-760,022	292,363	796,710	-322,130	369,842	-1,472,511	
FY 4		99,700	-373,827	-147,049	-525,763	-13,786	458,360	-536,611	-266,956	1,201,138	-1,062,237	1,811,938	-1,889,303	
FY 5		-527,121	668,125	-447,222	-214,882	129,924	2,927,955	-3,254,155	1,065,105	-1,076,614	367,066	1,130,723	-1,639,468	
Totals		439,411	-1,631,121	-632,660	-2,485,452	1,491,280	3,575,620	-4,856,686	1,853,630	-106,727	579,534	3,763,763	-7,673,651	
Average		87,882	-326,224	-126,532	-497,090	298,256	715,124	-971,337	370,726	-21,345	115,907	752,753	-1,534,730	
Percent Change from Prior Month														
FY	July	August	September	October	November	December	January	February	March	April	May	June	Accruals	Totals
FY 1		60.41%	-6.65%	-14.51%	-7.34%	-7.93%	18.55%	-27.98%	96.86%	-41.47%	76.19%	6.98%	-50.00%	153.10%
FY 2		14.33%	-26.42%	35.80%	-44.46%	5.88%	41.43%	10.65%	-23.99%	3.83%	24.04%	12.02%	-50.00%	53.10%
FY 3		-7.28%	-29.37%	-13.32%	-22.69%	78.33%	-21.18%	-29.59%	16.17%	37.93%	-11.12%	14.36%	-50.00%	12.20%
FY 4		3.18%	-11.56%	-5.14%	-19.38%	-0.63%	21.09%	-20.39%	-12.74%	65.72%	-35.07%	92.13%	-50.00%	77.20%
FY 5		-21.00%	33.69%	-16.87%	-9.75%	6.53%	138.19%	-64.48%	59.41%	-37.67%	20.61%	52.64%	-50.00%	161.30%
Totals		3.29%	-11.82%	-5.20%	-21.55%	16.48%	33.93%	-34.41%	20.02%	-0.96%	5.27%	32.49%	-50.00%	37.50%
Average		3.29%	-11.82%	-5.20%	-21.55%	16.48%	33.93%	-34.41%	20.02%	-0.96%	5.27%	32.49%	-50.00%	91.40%

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4. Population Variance

When using averages and trends, it is important to determine if there are one-time occurrences that are outside the normal data. For example, assume that Table 3 shows that in fiscal year 2009-10, the October cash outflow for the payroll was posted to the bank account on November 1 instead of October 31. Because these types of variances skew the trend and have a low probability of recurring, they should be excluded. To help identify these instances, use the population variance function in Excel. The formula =VARPA(F1:F7) will calculate the population variance of the data in the range F1 to F7. Next, identify a reasonable population variance for each category. For example, the category of salaries and benefits will probably have a smaller acceptable variance than supplies and services. A common rule of thumb is that an acceptable variance includes 95% of the population. When October and November of fiscal year 2009-10 are excluded from the calculation in Table 3, the remaining data still contains 97% of the population. Conditional formatting can be used to make it easy to see instances that are outside the population variance. Table 3 also shows the use of the population variance.

A school district will most likely have large payments one or two times each year, such as TRANS repayments or early retirement incentive payments. These items should be excluded from the trend analysis and should be projected separately.

V. BORROWING OPTIONS

In some cases a monthly cash flow is not enough, and daily monitoring is required to determine if there is enough cash in a fund to cover the planned outflows. If temporary borrowing is required, a school district might have the option of borrowing internally from other funds or externally from other entities. Unlike internal borrowing, external borrowing includes costs to the district such as interest, issuance costs, and other expenses.

1. Interfund Borrowing

Internal borrowing from other funds is covered in section II, C, 3 above.

2. TRANS

Government Codes 53850 to 53858 authorize a school district to issue notes and enumerate parameters for the indebtedness. No voter approval is necessary, but the governing board must adopt a resolution authorizing the issuance.

Tax revenue anticipation notes (TRANS) are short-term interest-bearing notes issued by a school district in anticipation of taxes and other revenues. A TRAN may not exceed 85 percent of the estimated amount of the uncollected revenues available to repay the note; its maturity can be no greater than 15 months; and it is payable only from revenues received or accrued during the fiscal year in which it was issued. Federal tax laws governing positive arbitrage usually cause the maturity to be no greater than 13 months.

For the traditional TRANS issue, to cover cash shortfalls in November, planning will usually start in spring, close in early July, and have two set-asides: one in January or February, and the final

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in April. Midyear TRANS issuances are used when school districts are experiencing low cash situations later in the fiscal year. Many school districts participate in a TRANS pool that can be coordinated through the COE, which reduces the issuance costs to individual school districts. The California school Finance Authority (California State Treasurer) and various education industry associations offer TRANS.

3. County Treasury Loans

Education Code 42620 requires the county treasurer to loan money to a school district that does not have sufficient cash to meet current expenses. The county treasurer will usually require a resolution approved by a school district's board. A school district shall not borrow more than 85% of the revenues accruing to the district. The last transfer of funds must be made before the last Monday in April. Repayment must be made from the first monies received by a school district before any other obligation is paid. The county treasurer will usually take repayment directly from the incoming cash.

4. County Office of Education Loans

Education Code 42621 and 42622 allow a county superintendent of schools to loan funds to a school district with the approval of the county board of education. The loan cannot exceed 85% of the amount of money accruing to the district at the time of transfer and is subject to the funds available at the COE. The loan must be repaid before June 30 or, with the county board of education's approval, in the subsequent fiscal year.

Waiver of State Apportionment Deferrals

Procedure 28

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I. OVERVIEW

- A. Because of the cash shortfalls the state has experienced, there have been a series of deferrals of state apportionments to local educational agencies (LEAs), including K-12 school districts, county offices of education and charter schools. Some deferrals have been enacted in lieu of budget reductions, while others are intended to help the state resolve its own cash shortfalls.
 - 1. Some of the deferrals are ongoing, while others are enacted by the Legislature to deal with a projected cash problem in the current fiscal year. The details of these deferrals are found in Education Code Sections 14041.5 and 14041.6.
 - 2. The deferrals are stated as dollar amounts to be deferred during specified months. Based on the apportionment schedule currently in effect, the deferrals will impact the programs included in the principal apportionment state aid (the Local Control Funding Formula — LCFF, special education, and several other programs). Education Protection Account (EPA) payments are not subject to deferral and will continue to be issued quarterly.
 - 3. LEAs have been able to accrue the revenues for the deferrals even though the cash may not be received until the following fiscal year. In addition, these deferred amounts are included as part of the following fiscal year's state education funding.
- B. Because the availability of cash to meet financial obligations is the first test of fiscal solvency, LEAs have been forced to use temporary borrowing to meet their cash commitments (See Procedure 27, Cash Flow Procedures).
- C. LEAs have the option to file an application for an exemption from specified apportionment deferrals (E.C. 14041.8).
 - 1. For some state deferrals, the legislation specifies that LEAs can certify to the State Superintendent of Public Instruction (SPI) and Department of Finance (DOF) that the deferrals will result in the inability to meet expenditure obligations by specified deadlines after exhausting all other forms of temporary borrowing.
 - 2. The application for deferral exemption is subject to approval by the DOF, with concurrence by the SPI, before being implemented.
 - 3. The California Department of Education (CDE) notifies the LEA administrators of the deferrals eligible to be exempted or waived, as well as the process to follow to file an application for exemption from the deferral(s).

II. EXEMPTION PROCESS

- A. The CDE outlines the process and format by which LEAs may apply for exemption as well as the due date for submission. The submission will include the following items:

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1. An “Application and Certification to Exempt a School District or Charter School” from the (specified) apportionment deferral. The form and directions can be found on the CDE’s website at <https://www.cde.ca.gov/fg/fi/ad>.
 2. A cash flow statement from the LEA that demonstrates the LEA will be unable to meet its expenditure obligations during the deferral.
 - a. The cash flow should reflect the latest state apportionment schedule, which can be found on the CDE’s website at <https://www.cde.ca.gov/fg/aa/pa/>.
 3. A narrative that describes the fiscal condition of the LEA and any actions taken to avoid fiscal insolvency.
- B. Process for Submitting an Application for Deferral Exemption
1. The process is the same for all LEAs.
 2. The county superintendent must certify a district’s application as true and correct prior to submission.
 3. A charter’s authorizing agency must consult with its county superintendent of schools when reviewing, certifying and submitting an application.
 4. The original application and supporting documentation should be emailed to DeferralExemption@cde.ca.gov. Doing so ensures that it will be considered submitted to both the DOF and the CDE.
 5. After the DOF approves the request, the CDE will post the lists of exempted LEAs on its website. A notification will be sent to the COEs, because apportionment schedules will be adjusted for those LEAs.
- C. Approval for exemption will be based on the following conditions:
1. The LEA has exhausted all internal and external sources of borrowing, as applicable, including those pursuant to Education Code Sections 42603 and 42621; the California Constitution, Article XVI, Section 6; and Government Code Sections 53850 – 53858. This includes temporary short-term borrowing from the following potential funding sources:
 - District interfund borrowing.
 - Borrowing from the county treasurer.
 - Borrowing from the county office of education.
 - Borrowing from external financial institutions (such as tax and revenue anticipation notes (TRANS)).

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2. The apportionment deferral will result in the LEA being unable to meet its financial obligations for the relevant month of deferral or any subsequent month until the deferral is repaid.
3. For a school district, it will require a state emergency loan if it does not receive the exemption.

III. COUNTY OFFICE ROLE IN SUPPORT OF A DEFERRAL EXEMPTION REQUEST

- A. The COE should do the following in support of a district or charter school application for a deferral exemption.
 1. Provide as much documentation as possible to support the application for qualifying LEAs.
 2. Provide LEAs with adequate lead time in developing their application for exemption.
 3. Validate the LEA's cash flow and ensure that the revenue forecasts are consistent with the latest apportionment and cash flow schedules provided by the CDE.
 - a. When forecasting state aid for cash flow purposes, the COE should be aware that the assumptions the CDE and DOF use may differ from those recommended by county offices for cash projections during the budget or interim period. This could include deferrals adopted by the Legislature, and any proposed deferrals included in an LEA's projections that the DOF might not otherwise consider.
 4. Instruct the LEA to submit all board resolutions already adopted or anticipated that authorize temporary borrowing. These could include district interfund borrowing, borrowing from the county treasurer, borrowing from the COE and/or borrowing from an external financial institution (such as via a TRAN).

If any of the following conditions exist, an LEA should state so in the narrative:

- a. An LEA has applied for a TRAN to bridge a cash shortfall.
 - b. A TRAN has been obtained but has not yet been funded.
 - c. The LEA is ineligible for a TRAN because of its fiscal status or the high cost of borrowing.
5. Validate and provide the cash balance for all district funds as of the date of the application.
 - a. If available, a monthly cash flow for funds with significant cash balances could also be submitted.
 - i. Provide a statement indicating whether or not the district can borrow from these funds, as well as any limitations on potential borrowing, such as restrictions on bond funds or a need for the cash to fund future obligations.
 - b. Document any extenuating circumstances that the district may face that are not evident in the cash flow but that would justify an exemption. For example, at the end of the fiscal year,

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a district may close with a positive cash balance prior to its payroll on July 1. The district will therefore need available cash for the July payroll prior to July 1.

6. Submit any county office letters from the budget, interim reports or other reports that document cash concerns in support of the district's request.

Current Expense Formula and Reporting – SACS Form CEA

Procedure 29

Revised 2/2018

I. OVERVIEW

- A. Education Code Section 41372 requires that elementary, unified and high school districts expend at least 60%, 55%, and 50% of their current cost of education, respectively, for classroom teacher and aide salaries, plus associated benefits. Each school district is required to complete the Standardized Account Code Structure (SACS) Form CEA, “Current Expense Formula/Minimum Classroom Compensation – Actuals,” and submit it with their unaudited actuals report to allow their county office of education to determine whether the district complies with Education Code Section 41372.

SACS also includes an optional Form CEB, “Current Expense Formula/Minimum Classroom Compensation – Budget,” supplemental report with budget adoption software. Both Form CEA and Form CEB are populated by the SACS software and allow the user to adjust (or override) the reduction amounts if necessary. Although it is optional, districts should be encouraged to complete the Form CEB report to help avoid problems meeting the required percentage levels at year end.

- B. Form CEA (or CEB) calculates the total classroom compensation percentage (objects 1000-3999 and functions 1000-1999) of the total actual expenditures in the general fund 01. The SACS software excludes certain resources, objects, goals and functions, from both classroom compensation and total expenditures. These exclusions eliminate expenditures of any program that does not allow classroom compensation costs or any restricted resource for which the specified funding use precludes compliance with Education Code Section 41372 requirements. A current list of SACS software expense reductions can be found in the *SACS Software User Guide* within the SACS software.
- C. Districts with less than 101 units of ADA in the previous year are excluded from the CEA requirement. In addition, Education Code Section 41374 states that Education Code Section 41372 shall not apply to districts that maintain all “individual class sessions” with equal to or less than the following number of pupils in attendance:
1. An elementary school district – 28 pupils
 2. A high school district – 25 pupils
 3. A unified school district:
 - a. Grades K-8 – 28 pupils
 - b. Grades 9-12 – 25 pupils
 - c. Grades 7-9 of a junior high school shall be deemed to be high school grades for the purposes of this section.

“Individual class session” shall not include classes in grades K-8 in the following subjects: visual and performing arts, industrial arts, and physical education. In grades 9-12, classes in commercial arts, visual and performing arts, industrial arts, vocational arts, and physical education shall not be included. In addition, grades 9-12 shall not include any two or more classes that come together for joint lectures or demonstrations.

Current Expense Formula and Reporting – SACS Form CEA

Procedure 29

Revised 2/2018

II. COUNTY OFFICE RESPONSIBILITIES

- A. County offices of education (COEs) must review the Form CEA supplemental report to ensure that school districts comply with Education Code Section 41372. Form CEA is a required component of a district's unaudited actuals report. The SACS software also includes an optional Form CEB supplemental report. COEs may request that the district also complete CEB forms at budget adoption.
- B. If, upon review of the district's Form CEA report, it is determined that the district does not meet the required level of expenditure in classroom compensation, the board may apply in writing to the county superintendent of schools for a waiver no later than September 15 of the second fiscal year after the fiscal year for which the district received the audit finding. The waiver can be granted for the following reasons:
 1. The application of Education Code Section 41372 would result in a serious hardship to the district.
 2. The application of Education Code Section 41372 would result in the district paying its classroom teachers salaries that exceed those of other districts of comparable type and functioning under comparable conditions.
- C. The county superintendent of schools, upon receipt of the district's application:
 1. Shall grant the waiver if the deficiency amount is less than \$1,000.
 2. May grant an exemption based on the merits of the application if the deficiency is more than \$1,000.
- D. If the waiver is granted or the district makes the expenditure in the current fiscal year (the fiscal year after the fiscal year for which the district received the audit finding), the district's deficiency is considered remedied and no further action is required.
- E. If a waiver application is not received, is approved for less than 100% of the deficiency, or is denied, the county office of education is required to designate an amount from apportionments made to the school district after April 15 in the current fiscal year equal to the apparent deficiency in district expenditures. The amount shall be deposited in the county treasury to the credit of the school district, but shall remain unavailable for expenditure by the district. The county superintendent shall order the designated amount (or amount not exempted) to be added to the amounts to be expended for classroom teachers' salaries during the next fiscal year.
- F. Sample Timeline (dates are given as examples only to clarify the timeline progression):

Current Expense Formula and Reporting – SACS Form CEA

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Fiscal Year 1	2015-16	9/15/2016	FY1 Unaudited Actuals Form CEA shows district has a deficiency and is not exempt.
Fiscal Year 2	2016-17	12/15/2016	FY1 Audit Report is completed and contains a finding that the district has a CEA deficiency. Districts that qualify may apply for a waiver beginning with the issuance of the audit report as part of their corrective action plan.
		4/15/2017	If a waiver has not been received, or a waiver has been approved for less than 100% of the deficiency, or a waiver has been denied, the county superintendent sets aside the FY1 deficiency amount out of apportionments received after April 15.
Fiscal Year 3	2017-18	9/15/2017	This is the latest date an LEA can apply for an exemption.
			The county superintendent reviews exemption applications and either grants the exemption or orders the district to make the expenditure.
Fiscal Year 4	2018-19	7/1/2018	If ordered to do so by the county superintendent, the district must add non-exempted amounts to teacher salaries.

- G. The county superintendent of schools shall enforce the requirements prescribed by Education Code Section 41372 and may adopt necessary rules and regulations to that end.

III. COMPLETION OF FORM CEA AND POTENTIAL ISSUES

- A. Form CEA (or CEB) is completed automatically from data imported into SACS software.
- B. The only modification allowed to the amounts imported and calculated by SACS software is an optional adjustment in the “Reductions (Overrides)” column. This may be needed if expenditures that should be excluded are not already excluded by SACS software. For example, expenditures in the following resources, Other Federal – 5810, Other State – 7810, or Other Local – 9010, are not already excluded by an ineligible object, goal or function. An evaluation of the expenditures that roll up to these resources may be needed to determine if additional reductions are warranted based on the funding source or program they support (Ref. D7 below).

Districts should provide documentation or explain reduction override amounts, and these amounts should be verified by the county office of education.

- C. The district can enter an “X” on line 16 to indicate that it is exempt based on Education Code Section 41374. The district should provide documentation regarding class size to support the determination.
- D. If the district does not meet the required percentage, thus generating a deficiency in Part III, the district and/or county office of education should look for potential coding errors and other issues

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that would affect the CEA formula. The goal is to accurately show classroom compensation included in the formula (Part II – Minimum Classroom Compensation) and appropriately reduce or eliminate other costs from the total expenditures section (Part I – Current Expense Formula). Below are some examples of things to look for.

1. Classroom teachers and other classroom staff should be coded to function 1###, e.g., classroom aides, tutors, or other staff providing direct educational services.
2. Whenever possible, classroom teachers and direct instructional support staff costs should not be coded to any resource excluded from the CEA calculation. Direct instructional support staff costs in Lottery RS 1100 are included in Part II.
3. Expenditures coded to Lottery — RS 1100 and 6300 — are excluded in Part I. Review the possibility of reclassifying additional expenditures to these resources as appropriate. An increase in lottery expenditures will lower the total expenses in Part I.
4. Review expenditures coded to functions 2100, 2130, 2140 to make sure that staff salaries or staff development costs, including substitutes, are not recorded here; these expenditures should be recorded as function 1000.

The California School Accounting Manual (CSAM) states the following under function 2140:

A fee paid for an employee to attend a conference, or a salary stipend for attending a staff development conference, should follow the function of the employee. For example, the cost of a classroom teacher improving his or her ability to teach is an instructional cost, an “activity dealing directly with the interaction between teachers and students,” and should be charged to Function 1000.

5. Look for costs that should be coded to the goals and functions deducted in Part I (e.g., non-agency, community services, food services) but that currently are not. For example, for expenditures for shared staff and services among agencies, the contracted portion could be coded as non-agency. Also, if the district operates a childcare program, that could be a community services goal. Coding to excluded goals or function codes reduces the total expenses in Part 1.
6. Review cost sharing between the district’s general fund and other funds or dependent charters. Are they using object 5750 to transfer program support costs or recording a fund transfer as payment for support costs? Using object 5750 will decrease costs in the general fund, thereby reducing total expenditures in Part 1.
7. Review expenditures coded to restricted “other” resources that are not included in the SACS software’s exemption list. Should they be in the formula? Are they restricted for a purpose that excludes their use for salaries and benefits of classroom staff (e.g., equipment, facilities, supplies only, staff development)? If so, manually removing them in column 4b would reduce overall expenses in Part 1.

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8. Review expenditures in functions 8000-8999 for plant services in the general fund that may qualify as expenditures for deferred maintenance or capital projects funds. Moving these costs to other funds will decrease costs in the general fund, thereby reducing total expenditures in Part 1.

IV. RESOURCES

Following are links to two spreadsheets designed to help identify and document reductions/overrides in addition to those that are automatically extracted in the calculation of CEA, and a link to an application for exemption from the CEA deficiency penalty:

1. [Multiyear CEA template long form with data retrieval instructions](#)
2. [Single-year CEA template short-form](#)
3. [Application for Exemption from the Required Expenditures for Classroom Teachers' Salaries](#)