

Supplemental Memorandum

To: STATE BOARD MEMBERS

Date: 3/26/03

From: Susan Lange, Deputy Superintendent
Finance, Technology and Administration

Re: ITEM # 17

Subject PERMANENT REGULATIONS PERTAINING TO ANNUAL FINANCIAL REPORTING FOR ALL K-12 LOCAL EDUCATIONAL AGENCIES, INCLUDING CHARTER SCHOOLS, AS REQUIRED BY ASSEMBLY BILL 1994 (CHAPTER 1058, STATUTES OF 2002)

The materials provided in this Supplemental Item are in support of Item 17 submitted earlier requesting the Board to take action to commence the rulemaking process to adopt regulations for the forms used by school districts, county offices of education, joint powers agencies, and charter schools for annual financial reporting.

These regulations are required by *Education Code* sections 1628 and 42100, as amended by Assembly Bill 1994, Statutes of 2002, effective January 1, 2003.

By the end of fiscal year 2003-04, all school districts, county offices of education, and joint powers agencies will be reporting in the standardized account code structure (SACS) format. The first regulation will formalize this existing reporting format. (The forms for SACS are available on our Web site at www.cde.ca.gov/fiscal/software.)

Included in this packet of materials is an alternate form, titled "Charter School Unaudited Actuals Financial Report - Alternative Format," for use by charter schools only, that is in addition to the standardized account code structure format that is available for all local educational agencies, including charter schools. The section of the regulations that pertains to charter schools is effective for fiscal year 2003-04 only. CDE's goal is to come back to the Board next year with a proposal that charter schools implement SACS. In the meantime, however, CDE will be pursuing funding options to help charter schools implement SACS.

Please see the following attachments:

[Attachment 1](#): Proposed Regulations (Pages 1-2)

Attachment 2: Charter School Unaudited Actuals Financial Report – Alternative Format
(Pages 1-5)

[Attachment 3](#): Initial Statement of Reasons (Pages 1-3)

[Attachment 4](#): Notice of Proposed Rulemaking (Pages 1-4)

PROPOSED REGULATIONS

Title 5. EDUCATION

Division 1. State Department of Education

Chapter 14. School Finance

Subchapter 2. Budgeting, Accounting and Reporting

Add Article 2 (commencing with Section xxx1) to read:

Article 2. Annual Financial Statements

Add Section xxx1 to Article 2 to read:

§ xxx1. Forms for Annual Financial Statements for Local Educational Agencies.

Except as provided in Article 2, Section xxx2 and Article 3, Section xxx3 of Division 1, Chapter 14, Subchapter 2, the forms for the annual statement of all receipts and expenditures of each county office of education, school district, and educational joint powers agency (as defined in Education Code section 41023) for the preceding fiscal year, shall be in the format of the standardized account code structure. The forms will be adopted by the State Board of Education and may be periodically amended by the Superintendent of Public Instruction to accommodate changes in statute or government reporting standards.

The standardized account code structure is a statewide, uniform financial reporting format based on the definitions and comprehensive chart of accounts set forth in the California School Accounting Manual as adopted by the State Board of Education. The structure is designed to provide a flexible statewide accounting system for local educational agencies to use in budgeting and reporting their revenues and expenditures. The structure also accommodates local, state and federal reporting needs.

The major components of the standardized account structure are:

(a) Fund/Account Group: Each fund is a fiscal and accounting entity, with a self-balancing set of accounts recording cash and other resources, all related liabilities and residual equities and balances or changes therein. Fund types include Governmental Funds, Proprietary Funds, Fiduciary Funds, and Account Groups.

(b) Project Year: The project year field is used to distinguish the activities of the same grant with different project years within the fiscal year.

(c) Resource (Project/Reporting): The resource field identifies the source of funding and is used for accumulating revenues and expenditures to meet various specialized reporting requirements and tracking categorical activities, for example, NCLB Chapter 1, Economic Impact Aid, and School Improvement Program.

(d) Goal: (Program): The goal field defines the objective, i.e., the target population being served or the education mode, for example, regular education, special education, and vocational education.

(e) Function: The function field describes the activity being performed for which a service or material object is acquired, for example, instructional services, pupil services, and general administration.

(f) Object: The object code describes the service or commodity obtained as a result of a specific expenditure, for example salaries, books, and capital outlay.

(g) Site (Optional): Local educational agencies may designate specific school sites within their individual accounting systems.

NOTE: Authority cited: Section 33031, Education Code. Reference: Sections 1628 and 42100, Education Code.

Add Section xxxx2 to Article 2 to read:

§ xxxx2. Form for Annual Financial Statements for Charter Schools for Fiscal Year 2003-04.

Charter schools may report their annual financial statements using the standardized account code structure format described in Section xxxx1 of Division 1, Chapter 14, Subchapter 2, or for the 2003-04 fiscal year only, the alternative format described below. The alternative format prescribed by the Superintendent of Public Instruction and adopted by the State Board of Education is structured to allow for electronic transmittal of the data and to include the following information:

(a) Revenues: an accounting of all funds received during the preceding fiscal year, including identification of specific details within the major revenue categories of revenue limit sources, federal sources, other state sources and other local sources.

(b) Expenditures: an accounting of all funds expended during the preceding fiscal year, including identification of specific details within the major expenditure categories of certificated salaries, classified salaries, employee benefits, books and supplies, services and other operating expenses, capital outlay, and other outgo.

(c) Other information: an accounting of additional information including beginning and ending fund balances, other sources and uses, assets, liabilities, and reserves.

Charter school data must be reported in accordance with the definitions and guidance provided in the California School Accounting Manual. Reporting by charters that are established as nongovernmental accounting entities must also comply with the California School Accounting Manual, except for accounting differences required due to their nonprofit status.

NOTE: Authority cited: Section 33031, Education Code. Reference: Sections 1628 and 42100, Education Code. Reference Section xxxx1 of Article 2 of Chapter 14, Subchapter 2 of Division 1 of Title 5, California Code of Regulations.

INITIAL STATEMENT OF REASONS

SPECIFIC PURPOSE OF THE REGULATIONS.

Section xxxx1. Forms for Annual Financial Statements for Local Educational Agencies

The proposed regulation will fulfill the requirement in Education Code sections 1628 and 42100 that the forms for local educational agencies to report their annual statement of all receipts and expenditures for the preceding fiscal year be prescribed by the Superintendent of Public Instruction (SPI) and adopted in regulations by the State Board of Education (SBE).

Necessity/Rationale

Current law requires all school districts, county offices of education, and joint powers agencies (JPAs) to submit annual financial data to the State on forms prescribed by the SPI. Assembly Bill (AB) 1994 (Chapter 1058, Statutes of 2002) amended current law to require that the forms for reporting the annual financial data be adopted in regulations by the SBE. The regulation will formalize the existing reporting requirement.

Currently, there are two standard formats for financial reporting. However, the “old” format (J-200) will only be available until all local educational agencies (LEAs) have converted to the new standardized account code structure (SACS); all LEAs in the state have been in the process of converting to SACS for the past six years. The process typically takes one to two years per LEA, but the implementation has been phased-in statewide, hence the extended timeframe. It is expected that by the end of fiscal year 2003-04, all LEAs will be reporting their annual financial statements in the SACS format. There have been a few instances in the past of LEAs being unable to implement the SACS system of accounting in their established timeframes, and they have needed to obtain an extension to their implementation date. Pursuant to current law, an extension may be allowed on a case-by-case basis upon application to the SPI (Chapter 299, Statutes of 1997).

SACS is basically a detailed chart of accounts whereby most financial transactions are coded with six key elements: fund, resource, project year, goal, function and object. What this detailed chart of accounts means is that each expenditure transaction tells a complete story (such as, what categorical program paid for the expenditure, what the expenditure was made for (e.g., textbooks or supplies), who is going to benefit from the expenditure (e.g., regular education students or Regional Occupational Programs (ROP) students), and the activity being performed (e.g., instruction or transportation).

SACS was developed in response to legislation enacted in 1993 (Senate Bill 94, Chapter 237). According to SB 94, the legislature intended to develop a new statewide budgeting and accounting model that would accomplish the following: 1) enable the public to be more informed about public school revenues and expenditures, 2) eliminate duplicate reporting, 3) ensure accurate and timely reporting of statewide data to ensure accurate allocations of federal funds, 4) ensure that adequate accounting flexibility exists to support schoolsite budgetary decision-making, 5) support financial integrity and stability, and 6) expand the fiscal information

capability of the California Department of Education (CDE) without adding costly or time-consuming reporting requirements.

Section xxxx2. Form for Annual Financial Statements for Charter Schools for Fiscal Year 2003-04.

The purpose of this regulation is to provide for charter schools, for the 2003-04 fiscal year only, an alternative financial report format to the standardized account code structure format described in Section xxxx1.

Necessity/Rationale

CDE recommends that charter schools report financial data using the standardized account code structure (SACS) because that format provides us with the most complete and comparable data. Many school districts and county offices of education incorporate their charters' data into their own SACS reports. However, we are aware that many charter schools handle their own accounting and they fear that it will be difficult to report using the SACS format. Unless charter data are reported in a manner similar to SACS, however, consistent and comparable statewide data will not be available; furthermore, CDE will be unable to comply with various federal reporting requirements.

Recognizing that some charter schools may need more time to implement SACS for reporting their financial statements, we developed an alternative form, available for use for only one year (2003-04), to allow charters to comply with the requirement to report financial data, yet give them extra time to develop or convert their accounting systems to the SACS report format.

The alternative format will provide very basic summary level detail, in a format quite similar to the old J-200 format that is so familiar to local educational agencies. The form will easily accept data from "off the shelf" accounting software that charter schools may be using to keep their financial records, thus allowing the data to be provided electronically to CDE, as are the data provided by all other school districts, county offices of education, and joint powers agencies.

TECHNICAL, THEORETICAL, AND/OR EMPIRICAL STUDIES, REPORTS, OR DOCUMENTS

The State Board did not rely upon any other technical, theoretical, or empirical studies, reports, or documents in proposing the adoption of these regulations.

REASONABLE ALTERNATIVES TO THE REGULATIONS AND THE AGENCY'S REASONS FOR REJECTING THOSE ALTERNATIVES

The State Board was not presented with other viable alternatives to the adoption of these regulations.

REASONABLE ALTERNATIVES TO THE PROPOSED REGULATORY ACTION THAT WOULD LESSEN ANY ADVERSE IMPACT ON SMALL BUSINESS

The State Board has not identified any alternatives that would lessen any adverse impact on small business.

EVIDENCE SUPPORTING FINDING OF NO SIGNIFICANT ADVERSE ECONOMIC IMPACT ON ANY BUSINESS

The proposed regulations would not have a significant adverse economic impact on any business because they apply to reports from school districts, county offices of education, educational joint powers agencies, and charter schools. The proposed regulations do not impose additional workloads on small businesses or contractors funded by the Department.

CALIFORNIA STATE BOARD OF EDUCATION

1430 N Street; P.O. Box 944272
Sacramento, CA 95814-5901



TITLE 5. EDUCATION

CALIFORNIA STATE BOARD OF EDUCATION

NOTICE OF PROPOSED RULEMAKING

Forms for Annual Financial Statements

[Notice published April __, 2003]

The State Board of Education (State Board) proposes to adopt the regulations described below after considering all comments, objections, or recommendations regarding the proposed action.

PUBLIC HEARING

The State Board will hold a public hearing beginning at 2:00 p.m. on Wednesday, _____, 2003, at 1430 N Street, Room 1101, Sacramento. The room is wheelchair accessible. At the hearing, any person may present statements or arguments orally or in writing relevant to the proposed action described in the Informative Digest. The State Board requests that any person desiring to present statements or arguments orally notify the Regulations Adoption Coordinator of such intent. No oral statements will be accepted subsequent to this public hearing.

WRITTEN COMMENT PERIOD

Any interested person, or his or her authorized representative, may submit written comments relevant to the proposed regulatory action to the Regulations Adoption Coordinator. All written comments must be received by the Regulations Adoption Coordinator no later than the close of the public hearing scheduled to start at 2:00 p.m. on Wednesday, _____, 2003. Requests to present oral statements at the public hearing or written comments for the State Board's consideration should be directed to:

Debra Strain, Regulations Adoption Coordinator
California Department of Education
LEGAL DIVISION
1430 N Street, Room 5319
Sacramento, California 94244-2720
Telephone : (916) 319-0641
FAX: (916) 319-0155
E-mail: dstrain@cde.ca.gov

AUTHORITY AND REFERENCE

Authority for these regulations is found in the following Education Code sections: (a) 33031; (b) 33050; (c) 1628; and (d) 42100.

- (a) Education Code section 33031 is the State Board's general authority to adopt rules and regulations for the government of the day and evening schools of the state.
- (b) Education Code section 33050 is the State Board's general authority to waive, with some listed exceptions, all or part of any section of the Education Code or any regulation adopted by the State Board of Education that implements a provision of the Education Code.
- (c) Education Code section 1628, as amended by Assembly Bill 1994, Chapter 1058, Statutes of 2002, requires that the State Board of Education adopt as regulations the format prescribed by the State Superintendent of Public Instruction for the annual financial statements of the county offices of education. Section 1628 also allows the State Superintendent of Public Instruction to amend the forms periodically to accommodate changes in statute or government reporting standards.
- (d) Education Code section 42100, as amended by Assembly Bill 1994, Chapter 1058, Statutes of 2002, requires that the State Board of Education adopt as regulations the format prescribed by the State Superintendent of Public Instruction for the annual financial statements of the school districts and charter schools. Section 42100 also allows the State Superintendent of Public Instruction to amend the forms periodically to accommodate changes in statute or government reporting standards.

References are made to Education Code sections 1628, 41023, and 42100. These statutes govern the annual financial statements required of all school districts, county offices of education, charter schools, and educational joint powers agencies (JPAs), and prescribe the process of how and when these reports are transmitted to the Superintendent of Public Instruction.

INCORPORATION BY REFERENCE

These regulations incorporate by reference the California School Accounting Manual (Section xxxx1 of the regulations), the J-200 Series of Unaudited Actuals Financial Report forms (Section xxxx1 of the regulations), and the standardized account code structure (SACS) Unaudited Actuals Financial Report forms (Section xxxx1 of the regulations). These items can be found on our Web site pages at www.cde.ca.gov/fiscal/software and www.cde.ca.gov/fiscal/sacs.

Note: The California School Accounting Manual is updated every year in December. The J-200 and SACS Unaudited Actuals Financial Report forms are updated every year in April and July, respectively.

INFORMATIVE DIGEST/POLICY STATEMENT OVERVIEW

The Board proposes to adopt Sections xxxx1 and xxxx2 in Article 2 of Division 1, Chapter 14, Subchapter 2 of Title 5 of the California Code of Regulations. These sections concern the format of the annual financial statements for school districts, county offices of education, educational joint powers agencies, and charter schools.

The purpose of the regulations is 1) to adopt the forms that are prescribed by the Superintendent of Public Instruction for local educational agencies to report their annual statement of all receipts and expenditures for the preceding fiscal year, and 2) to provide an alternative annual financial statement form for charter schools for use in the 2003-04 fiscal year only.

DISCLOSURES REGARDING THE PROPOSED ACTION

Mandate on local agencies and school districts: None

Cost or savings to any state agency: None

Costs to any local agency or school district which must be reimbursed in accordance with Government Code section 17561: None

Other non-discretionary cost or savings imposed on local educational agencies: None

Cost or savings in federal funding to the state: None

Significant, statewide adverse economic impact directly affecting business including the ability of California businesses to compete with businesses in other states: None.

Cost impacts on a representative private person or businesses: The State Board is not aware of any cost impacts that a representative private person or business would necessarily incur in reasonable compliance with the proposed action.

Adoption of these regulations will not:

- (1) create or eliminate jobs within California;
- (2) create new businesses or eliminate existing businesses within California; or
- (3) affect the expansion of businesses currently doing business within California.

Significant effect on housing costs: None.

Affect on small businesses: The regulations clarify which materials may be purchased with state Instructional Materials Funds and the percentages that can be spent on various specified categories. There may be a financial impact on some publishers of supplementary materials to the extent that some materials may no longer be purchased by districts using state Instructional Materials Funds. This impact is minimal and therefore, the proposed regulations would not have a significant adverse affect on any small businesses.

CONSIDERATION OF ALTERNATIVES

In accordance with Government Code section 11346.5(a)(13), the State Board must determine that no reasonable alternative it considered or that has otherwise been identified and brought to the attention of the State Board, would be more effective in carrying out the purpose for which the action is proposed or would be as effective and less burdensome to affected private persons than the proposed action.

The State Board invites interested persons to present statements or arguments with respect to alternatives to the proposed regulations at the scheduled hearing or during the written comment period.

CONTACT PERSONS

Inquiries concerning the substance of the proposed regulations should be directed to:

Caryn Becker, Administrator
California Department of Education
School Fiscal Services Division
1430 N Street, Suite 3800
Sacramento, CA 95814
E-mail: cbecker@cde.ca.gov
Telephone: (916) 324-7141

Requests for a copy of the proposed text of the regulations, the Initial Statement of Reasons, the modified text of the regulations, if any, or other technical information upon which the rulemaking is based or questions on the proposed administrative action may be directed to Debra Strain, Regulations Adoption Coordinator, or to the backup contact person, Natalie Vice, at (916) 319-0642.

AVAILABILITY OF INITIAL STATEMENT OF REASONS AND TEXT OF PROPOSED REGULATIONS

The Regulations Adoption Coordinator will have the entire rulemaking file available for inspection and copying throughout the rulemaking process at her office at the above address. As of the date this notice is published in the Notice Register, the rulemaking file consists of this notice, the proposed text of the regulations, and the initial statement of reasons. A copy may be obtained by contacting the Regulations Adoption Coordinator at the above address.

AVAILABILITY OF CHANGED OR MODIFIED TEXT

Following the public hearing and considering all timely and relevant comments received, the State Board may adopt the proposed regulations substantially as described in this notice. If the State Board makes modifications which are sufficiently related to the originally proposed text, the modified text (with changes clearly indicated) available to the public for at least 15 days before the State Board adopts the regulations as revised. Requests for copies of any modified regulations should be sent to the attention of the Regulations Adoption Coordinator at the address indicated above. The State Board will accept written comments on the modified regulations for 15 days after the date on which they are made available.

AVAILABILITY OF THE FINAL STATEMENT OF REASONS

Upon its completion, a copy of the Final Statement of Reasons may be obtained by contacting the Regulations Adoption Coordinator at the above address.

AVAILABILITY OF DOCUMENTS ON THE INTERNET

Copies of the Notice of Proposed Rulemaking, the Initial Statement of Reasons, the text of the regulations in underline and strikeout, and the Final Statement of Reasons, can be accessed through the California Department of Education's website at <http://www.cde.ca.gov/regulations>.