2020–21 Second Interim Report Considerations

BY ROBERT MCENTIRE, EDD
BY MATT PHILLIPS, CPA

posted January 29, 2021

The Second Interim report is a snapshot in time of a local educational agency's (LEA) revenue and expenditure forecasts for the current fiscal year, as well as a projection of the two subsequent fiscal years. It is a time to adjust the budget based upon the proposed Governor's Budget and subsequent trailer bills, discuss changes from the First Interim report, adjust revenues and expenditures, and begin projecting the ending balances for your funds and resources. The Second Interim report covers the period of time from July 1 through January 31, and must be submitted to the county office of education no later than March 17 (45 days after the close of the reporting period per Education Code Section [EC §] 42131(a)).

School Services of California Inc.'s School District and Charter School Financial Projection Dartboard is updated to include the financial factors needed for your budget.

Below are legal considerations and "best practices" to help with the Second Interim report.

Accounts Receivable/Accounts Payable

The California School Accounting Manual (CSAM) defines "accounts receivable" as amounts due from private persons, firms, and corporations. LEAs typically err on the side of overstating the balance of their accounts receivable.

To enhance the accuracy of your agency's accounts receivable, review the large entries recorded in the accounts receivable ledger to ensure that they are accurate and meet CSAM's criteria for an accrual. Any unresolved accounts receivable from the prior year should be investigated to determine whether they are still valid and collectible according to CSAM. An accounts receivable reconciliation report will assist in fully understanding amounts due that are still outstanding and allow you to clear any recorded receivables that will not materialize this fiscal year. Unverified accounts receivable that remain may be falsely increasing revenue and ending balance projections.

CSAM defines "accounts payable" as amounts due to private persons, firms, or corporations for services rendered and goods received on, or before, the close of the year. In contrast to the accounts receivable, LEAs often inadvertently understate the balance of their accounts payable by failing to accrue an amount due to an outside vendor.

As with accounts receivable, any accounts payable items remaining that were accrued the prior year should be investigated to ensure that they are still outstanding. If they are not, then an adjusting entry should be made to clear that item from the accounts payable balance. Unverified accounts payable that remain may be falsely increasing expenditure projections and decreasing ending balance projections.

Attendance/LCFF

Average daily attendance (ADA) is held harmless for the 2020–21 fiscal year, and for declining enrollment districts, the 2021–22 attendance figure will be based on 2019–20 Second Principal Apportionment and Annual Principal Apportionment figures.

Senate Bill (SB) 820 (Chapter 110/2020) provided a pathway for LEAs to receive credit for growth in enrollment/ADA in the 2020–21 fiscal year. To qualify for growth funding, an LEA that provides classroom-based instruction must have budgeted growth in enrollment or ADA as part of their 2019–20 Second Interim, or 2020–21 Adopted Budget. The credit for growth through the Local Control Funding Formula (LCFF) is capped at the lesser of the aforementioned growth, or the census day enrollment adjusted for the statewide absence rates. Now that census day enrollment records are final, LEAs should be able to calculate whether they qualify for growth in LCFF funding for 2020–21, and incorporate their conclusion into LCFF estimates for the Second Interim. To be eligible for growth funding, an LEA must have submitted an application by November 6, 2020. The statewide absence rates can be found on the California Department of Education (CDE) website.

Unfortunately for many LEAs, the unduplicated pupil percentages (UPP) did not receive the same hold harmless protection, and the UPP will be adjusted based on the reporting of student records as part of the census day collection. The deadline for certification was December 18, 2020, and the amendment window closes on February 4, 2021. That means your UPP is final for the 2020–21 fiscal year, and the final count should be incorporated into your LCFF estimates.

Even though ADA is held harmless in 2020–21, LEAs must meet the requirements of EC § 43504(c)–(f). This includes meeting the minimum daily minute requirements, completing a weekly engagement record documenting participation for each day on which distance learning is provided, documenting absences, and developing written procedures for tiered reengagement strategies. This topic is addressed in more detail in our August 2020 *Fiscal Report* article, "How to NOT Lose Principal Apportionment Funding."

CalSTRS On-Behalf Payments

Review the CDE guidance dated July 2, 2015, here. In the Standardized Account Code Structure (SACS), the journal entry to recognize the state's on-behalf pension contribution to the California State Teachers' Retirement System (CalSTRS) is to debit pension contribution expenditures by fund, goal, and function in proportion to the LEA's own pension contributions to CalSTRS by fund, goal, and function with a corresponding credit to state revenue.

The amount for 2020–21 must be calculated for each entity using guidance provided on the CalSTRS website, which can be found by clicking here. This activity should occur in Resource Code 7690, and revenues will equal expenditures. The link for the spreadsheet to allocate the amount across the funds, goals, and functions is provided by the CDE and can be found by clicking here.

It is important to explain to all stakeholders that this is a "paper only" entry and does not impact the bottom line. However, the required Reserve for Economic Uncertainties will need to be increased because a "phantom" expense is recorded for the CalSTRS on-behalf payment.

Carryover Balances

Begin adjusting expenditure lines for unspent funds that will be carried over to subsequent years. Estimates of funds that are anticipated to be unspent should be entered into the expenditure budget in contra-accounts in order to reduce the volatility of the fund balance when the Estimated Actuals and

Unaudited Actuals are prepared. Ensure that carryover expenditures are budgeted as one-time activities when preparing the multiyear projection (MYP) for 2021–22 and 2022–23. Unspent funds that need to be separately identified as carryover should be done so by creating an assignment in the ending fund balance.

Cash Flow

Cash deferrals were introduced to the tune of more than $12 billion in 2020–21. Completion of the Form CASH in SACS was likely a perfunctory task in past years, but this document is now just as important as the MYP. For LEAs that follow the traditional 5-5-9 schedule for state aid, your cash flow projections should incorporate significant deferrals of cash beginning in February 2021. For more information on the topic, please see our September 2020 Fiscal Report article, "CDE Estimates Apportionments after Cash Deferrals."

Those LEAs that are community-funded, with reserve balances at or near the legal minimum; in declining enrollment; or in a growing environment, should conduct an additional cash flow projection for the year following the budget year to ensure adequate reserve balances are available. Cash flow projections should be prepared for two years following any bargaining unit agreement settlements to ensure the LEA can afford the terms of the agreement.

The proposed Governor's Budget aims to eliminate many of the deferrals in the 2021–22 fiscal year, but the proposal is still subject to input from the Legislature. The proposal has no impact on deferrals scheduled to begin in February 2021. LEAs should continue to prepare cash flow projections as if cash deferrals will continue to ensure that there is sufficient cash on hand to pay the day-to-day operating costs.

Charter Schools

Supplemental and concentration (SC) grants for charter schools are limited to no more than the SC grant increase of the school district where the charter is physically located. EC § 42238.02(f)(2) allows a charter school to include its authorizing school district when determining its physical location.

Payments for in-lieu property taxes are required to be received and recorded monthly. If you are a chartering authority, ensure that the in-lieu property taxes between your financial statements and your authorized charter schools net to zero.

Clearing Funds

As stated in its title, clearing funds are cash conduits used by the LEA to account for receipts due to agencies such as the Internal Revenue Service, CalSTRS, and the California Public Employees' Retirement System. The clearing funds should have a zero balance after the payment has been sent to the agency. Over the course of the year, the clearing funds should be reconciled and cleared on a monthly basis.

Collective Bargaining Agreements

If your collective bargaining agreements have been settled for the current and subsequent years, ensure that your budget includes any adjustments to salary as well as professional development costs, substitute costs, or other changes to the agreements that need to be budgeted.

COVID-19 Resources

Nearly $7 billion in one-time funds have already been allocated to LEAs in response to the COVID-19 pandemic. The largest source of funds, the Coronavirus Relief Fund (CRF), received a late, but welcomed extension to December 31, 2021. However, the proposed Governor's Budget limits the period of availability to May 31, 2021.

A second round of Elementary and Secondary School Emergency Relief (ESSER) funds was approved by Congress as part of the Coronavirus Response and Relief Supplemental Appropriations (CRRSA) Act. The funding for California is estimated to more than $6.7 billion, with at least 90% required to be disbursed to LEAs based on Title I allocations.

For an estimate of ESSER II funds, please see our January 2021 *Fiscal Report* article, "Estimated ESSER Allocations."

For more information, including deadlines and allowable uses, on the all the COVID-19 Resources, please see SSC's COVID-19 Resources for LEAs table.

Local Control and Accountability Plan

LEAs received a one-year abeyance on the development and approval of a Local Control and Accountability Plan (LCAP). For the 2020–21 fiscal year, the LCAP was replaced with the Learning Continuity and Attendance Plan, which focused on distance learning, and adoption of the Budget Overview for Parents was delayed until December 2020. However, the requirement to complete an LCAP returns for the 2021–22 fiscal year. LEAs will use the three-year LCAP template adopted by the State Board of Education in January 2020, and the final template for the Annual Update was recently released by the CDE and can be found here. LEAs should be engaging with stakeholders, measuring progress towards meeting goals, and determining if any changes need to occur to their actions and services.

The LCAP will follow the traditional schedule which requires a public hearing of the LCAP and the proposed budget at one meeting. At a subsequent meeting, both the LCAP and proposed budget will need to be adopted.

Lottery

The most recent projections from the CDE estimate unrestricted Lottery at $150 per ADA and restricted lottery at $49 per annual ADA, multiplied by an enrollment factor of 1.04446.

Multiyear Projections

At industry standard checkpoints every year, SSC uses the services of a Wall Street Journal award winning economist for its out-year statutory cost-of-living adjustment (COLA) projections. This year, consistent with past years, we had the estimates run for comparison to the Department of Finance (DOF) projected statutory COLA. When there are differences between our forecast and the DOF's—and they are fairly close, such as within 0.5%—we only publish the DOF out-year estimated statutory COLA. However, this year, because of the wide disparities between our projections, we have included both the DOF's out-year statutory COLA projections and our own (which is very similar to the Legislative Analyst's Office [LAO] projections). We cannot speak to the economic assumptions used in the DOF's projections, only ours. Therefore, we have provided an alternative statutory COLA for planning purposes. LEAs with low reserves, declining enrollment, or other significant economic pressures may elect to use the lower COLA in the out-year projections as an additional layer of protection in the event that the Governor's projections turn out to be overly optimistic.

	2021–22	2022–23	2023–24
DOF Statutory LCFF COLA	3.84%	2.98%	3.05%
SSC Statutory LCFF COLA	3.84%	1.28%	1.61%

While the COLA for the LCFF is estimated to be 3.84% in 2021–22, programs outside the LCFF will not benefit from the catch-up provision and are projected to receive 1.50%. The Governor's Budget proposal includes a number of augmentations through on-going programs, as well as a significant investment of one-time state resources in response to the pandemic. SSC advises that the proposals be acknowledged for transparency, but it would be premature to include any of the projected revenues in the Second Interim projections.

Reserves

Adequate reserves are critically important, but the existence of adequate reserves does not mean that there is sufficient cash on hand. Reserves are an accumulation of resources, including accounts receivable. Cash is king, so make sure that the cash flow is updated and do not rely on just the fund balance number.

LEAs should be familiar with the laws that govern the reserve cap, but should not be in a rush to spend down reserves in the event that the reserve cap is triggered. Although the current economic assumptions used in the proposed Governor's Budget suggest that the reserve cap will be triggered in the 2022–23 fiscal year, LEAs should first look to the flexibilities provided in statute. Those flexibilities include a waiver that can be approved by the county office of education for two years in a three-year consecutive period, as well as a myriad of local options including committing funds, or transferring resources to other funds to finance long-term construction projects or retirement obligations.

As a reminder, the law has excluded charter schools, small school districts, and community-funded districts from the reserve cap.

Routine Restricted Maintenance Account

The contribution to the Routine Restricted Maintenance Account (RRMA) is in full effect for the 2020–21 year and beyond. Any LEA which qualifies based on EC § 17070.75(b)(2) must contribute no less than 3% of total General Fund expenditures to Resource Code 8150.

SB 820 amended the definition of total General Fund expenditures for the purpose of calculating the RRMA contribution by excluding the following:

- Expenses coded to Resource Code 7690

- Expenses of one-time pandemic funding sources in Resource Codes 3210, 3215, 3220 and 7420

Compliance with this law is monitored through the criteria and standards, but ultimate compliance is measured against total General Fund expenditures as of Unaudited Actuals, adjusted for the exceptions above. Note that the law does not contemplate how much is spent in the RRMA, but only that the contribution is no less than 3%.

SACS Software

The SACS software is the same software that was used for reporting the 2019–20 Unaudited Actuals. A link to the software is located on the CDE website and can be accessed by clicking here.

Special Education Maintenance of Effort and Excess Costs

Now that the books are closed for the prior year, evaluate the cost factors that may have increased your LEA's maintenance of effort (MOE) level. Ensure that your agency is properly recording expenditures and that the time charged for special education staff represents time working with students on an Individualized Education Program (IEP). Many LEAs allow 100% of staff member's time to be charged to special education when they may actually be working with students prior to eligibility for services having been or being determined during the IEP. Review the factors from your Program Cost Report Allocations Form to ensure that centralized costs are distributed accurately as well.

Utilize the SACS forms for MOE during the Interim periods. These are voluntary at this point, but will assist in getting an up-to-date peek at where you stand. The SEMAI Form can be accessed in the "Reports" section of SACS.

Once you review your agency's special education costs as they are budgeted, you can then project whether your agency will meet the MOE requirement by year's end. You may also want to review the excess cost data to ensure that your agency has met those requirements prior to using funds. If your agency is not projected to meet the MOE, contact your Special Education Local Plan Area for assistance in reviewing your agency's costs to ensure you have captured all appropriate expenditures.

Current law allows four exceptions to reduce the current-year MOE:

- Voluntary or just cause departure of special education, or related, personnel
- A decrease in special education enrollment
- The termination of the LEA's obligation to provide services because a high-cost student has either left the agency, reached the age at which the agency is no longer required to provide free and appropriate public education, or no longer needs special education
- Costly expenditures such as equipment or facilities are terminated

The CDE has developed an LEA MOE exemption worksheet that must be completed and included with the submission of the LEA's MOE report. The LEA MOE exemption worksheet is available here.

Transportation

Expenditures recorded against the transportation programs (Resource Code 0000 and Function 3600) should be reviewed to ensure that they are all appropriate and the MOE requirement is met.

As a reminder, the MOE is measured by the lesser of the following:

1. Expenditures for transportation in 2012–13
2. State revenues received for home-to-school transportation and small school bus replacement in 2012–13

For most LEAs, number two will be the operative test. The penalty for non-compliance with this MOE is a finding in the annual audit report, but there is no fiscal penalty. For more information on the topic, please see our August 2020 *Fiscal Report* article, "Ask SSC . . . What Are the Requirements for the Transportation MOE?."

Additional Information

Ensure that the filing of reports is done in a timely manner. Key reporting deadlines for specific programs can be found here.