Interim Budget Reports

As family leaders and education advocates, one of the opportunities we have to get a glimpse of the financial workings of the district is through their "interim budget reports." Although these reports are dense and can be hard to understand, they can help us to understand the fiscal health of a district for the current year and for upcoming years.

When the school board adopts the new budget in June, there are a number of assumptions built into the budget. *How many students will be enrolled and what will their attendance rates be? How many teachers will be hired? How much money will we receive from the state?* Some of the working assumptions may be accurate, but others will need adjustments as the real numbers develop. Twice a year, the district must report on how their assumptions are matching up with reality, and update their projections, in an "interim budget report."

Interim Budget Report Timeline

First Interim

Due by December 15, covers the period up to October 31

Second Interim

Due by March 15, covers the period up to January 31

Third Interim

Due by June 1, only required if the second interim was "qualified" or "negative."

These interim budget reports give a snapshot of the district's financial health during the school year and their projections for the next two years. The report compares the current financial conditions in the district to what was originally projected in the district's budget when it was adopted in June. A key responsibility of the school board is to monitor the interim reports, to make sure that the district's financial situation remains solid throughout the year, and to direct district staff to take action if signs of trouble emerge. The first page of the report self-certifies the district's fiscal condition: **positive**, **qualified**, or **negative**.

School District Financial Health Classifications

Negative: The district **will not** be able to meet its financial obligations for the remainder of the current year and/or for the next fiscal year.

Qualified: The district **may not** meet its financial obligations for the current year and/or the next two fiscal years.

Positive: The district **will** meet its financial obligations (be able to pay its bills) for the current year and the next two fiscal years.

After the school board approves the interim budget report, it is submitted to the County Office of Education, which has fiscal oversight responsibility over all districts in the county.

Find a list of local education agencies (LEAs) that received a negative or qualified certification here.

What happens if the district's budget receives a "qualified" certification?

A qualified certification is a warning sign that the district may need to adjust its expenditures in light of its revenues. In response, the County Superintendent may take a number of actions, including:

- Assign a fiscal expert to advise the district on its finances.
- Conduct a study of the district's finances.
- Direct the district to create a proposal for addressing the fiscal situation.
- Assign the Fiscal Crisis & Management Assistance Team (FCMAT) to review teacher hiring, retention and assignment practices or to conduct a fiscal risk analysis.

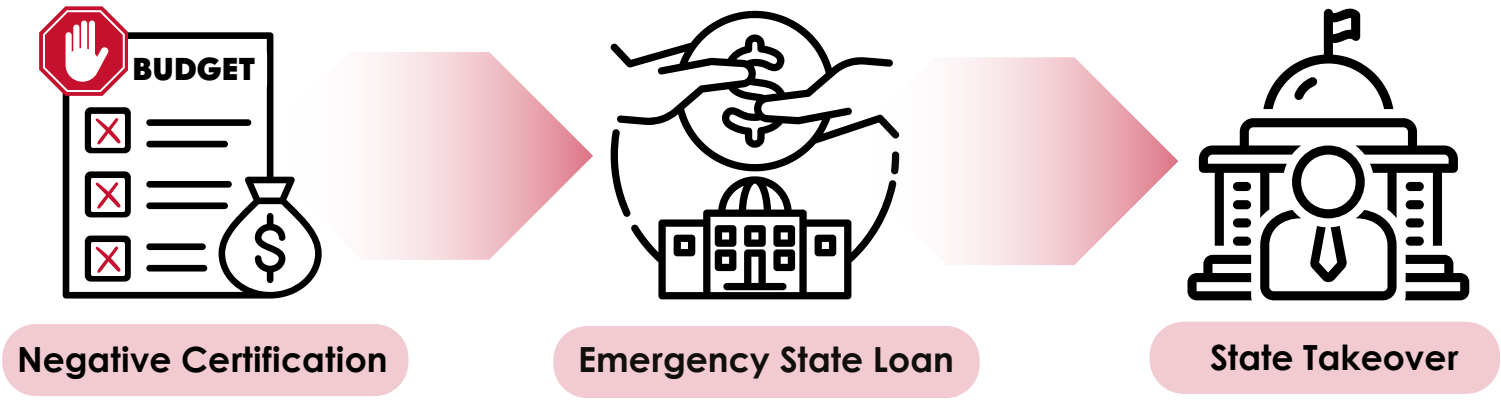
What happens if the district's budget receives a "negative" certification?

A negative certification is a serious sign that the district will not have the resources to meet its financial obligations. The County Superintendent may take stronger actions, such as:

- Create and impose revisions to the district's budget.
- Help develop a new financial plan for the district and budget for the following year.
- Appoint a fiscal adviser with the ability to impose revisions or halt district actions related to the budget.

What happens if the district's negative financial status continues and they can't pay their bills?

The district can get an emergency loan from the state, which can lead to a **state takeover**. In this situation, district decisions get turned over to a state-appointed administrator until the district becomes solvent. Borrowing money from the state is a last resort.



Some things to keep in mind:

One important thing to keep in mind is that the projections in the interim budget reports are just that: projections. After the end of the fiscal year, the district "closes its books" and presents the "**unaudited actuals**" report in September. However, we won't find out the final accounting of what the district's full revenues and expenditures were for the year until the district hires an independent auditor who reviews all of these financial records to ensure their accuracy. Findings are presented to the Board of Education in the **auditor's report** in December.

So, one important accountability action can be monitoring the accuracy of the district's projections. If a district consistently overestimates its **revenues** (the money it receives) or underestimates its **expenditures** (the money it spends), this can obviously lead the district into a serious, negative fiscal condition. On the other hand, it is also a serious concern if the reverse is true. If the district significantly underestimates its revenues or overestimates its expenses, this can lead to the district being overly cautious and not spending adequate money to provide the high quality services our students need.