

Interest Earned on Federal Categorical Funds Liability Accrual

Interest earned on federal programs is to be returned to the federal government. As LEAs close their fiscal records they should be looking at cash carryovers in federal programs and then setting up potential liabilities for any interest earned on these funds that they will be reporting to the California Department of Education (CDE). While the federal fiscal year does not end until September 30, it is advisable that the LEA sets up a liability in the unrestricted interest account (01 0000 0 0000 0000 8660-000-XXXX) to reserve any potential interest earnings to-date. The management code can be used to earmark the specific federal resource. The interest should not be transferred to the Federal Resource Account. The federal guidelines do not allow for the sub-recipients to expend these dollars for purposes of the grant.

Districts should run the appropriate General Ledger Cash reports and complete the interest earnings worksheets and place them in their project files. The interest worksheets should be completed for each resource. Districts will find that some resources will have interest earnings and some will show that the district has funded the project (negative interest) waiting for federal cash releases. Those programs that have no earnings (worksheet shows negative interest) will not incur any liability. In order to document the effect of some grants providing advances and others being funded in arrears, we suggest that you save all of your calculations and complete a total federal interest report by running the General Ledger Cash report by all federal resources collapsed together to document what the net interest earnings are for all of your federal funds. Be sure to exclude any child nutrition reimbursable accounts that you maintain in the General Fund. In the following fiscal year, when you complete your annual reports, you will have the information in your files to report to CDE as well as have reserved the earnings as a liability and be able to pay any amount due back to the federal government.

While the interest earning limitation and the timing of federal fund releases to sub-recipients are not new requirements, they are areas that CDE was notified that they needed to monitor closer. Starting in January, CDE revised the language in many of the federal apportionment notices to inform LEA's of the need to monitor federal programs. In order to comply with federal cash management requirements under the Tydings Amendment Section 421(b) of the General Education Provisions Act 20.20 U.S. C 1225(b), LEAs must expend federal funds in a timely manner. Although the Tydings Amendment provides specific timelines governing the expenditure/encumbrance of program funds, federal guidelines discourage the release of additional funding to LEAs that have not spent the dollars previously apportioned. LEAs were therefore requested by CDE to minimize the time frame between receipt and expenditure of federal program funds. The CDE notices also stated that beginning in the 2003-2004 fiscal year, the California Department of Education will review the percentage of federal carry-over funds from prior fiscal years for each LEA and the release of future apportionments may be delayed for LEAs with significant balances.

The California Department of Education (CDE) has also reminded LEAs that Federal Law Title 34 CFR 80.21(i) requires any interest earned by LEAs on federal dollars to be returned to the United States Department of Education (USDE) if the amount is in excess of \$100. The notices went on to inform LEAs to forward interest payments for remittance to USDE to: California Department of Education, Attention: Cashiering, 1430 N Street, Suite 2213, Sacramento, CA 95814. To ensure proper posting of payments, they asked the LEA to include the program's PCA number and identify the payment as "Federal Interest Returned."

This bulletin is offered to provide guidance on the accounting treatment for interest liabilities for those districts finding that they have received cash advances from federal entitlements that will require interest returns as per Title 34 CFR.

If you have any questions, please do not hesitate to contact Business Advisory Services.