FISCAL REPORT

PUBLIC EDUCATION'S POINT OF REFERENCE FOR MAKING EDUCATED DECISIONS

Considerations for Closing the Books for 2022-23

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Every year after June 30, local educational agencies (LEAs) switch from preparing the budget to closing the books—think budget transfers to journal entries. Under current law, the Unaudited Actuals are due to the county office of education (COE) and the chartering agency—for charter schools—by September 15.

School Services of California Inc.'s (SSC) Year-End Closing Checklist (Checklist) is a reference tool for this busy time. The Checklist consists of year-end closing procedures for various areas, along with columns for the responsible staff person and the completion date of the procedure.

Below are legal considerations and "best practices" to help with this tremendous task of preparing for a positive year-end audit. We hope you find this information helpful and, if you have not already done so, incorporate the information into your LEA's year-end closing procedures. Please contact SSC, your COE, or your external auditors for discussion and clarification when in doubt.

SACS Software

Many LEAs prepared their 2023-24 budget in the new web-based Standardized Account Code Structure (SACS), and for the first time, the 2022-23 Unaudited Actuals will be submitted via the new web-based SACS.

Revenues

Categorical Reductions

The 2022-23 Enacted State Budget included more than $11.5 billion for two one-time, restricted categorical programs—the Learning Recovery Emergency Block Grant ($7.90 billion) and the Arts, Music, and Instructional Materials Discretionary Block Grant ($3.56 billion). However, the state continues to grapple with declining state revenues, and a desire to increase ongoing funding into the 2023-24 fiscal year. To help offset the cost of an 8.22% cost-of-living adjustment (COLA) in 2023-24, the state—assuming Governor Gavin Newsom signs Senate Bill 114—is reducing the amount of funding appropriated for the two block grants in 2022-23 by $1.34 billion. The Arts, Music, and Instructional Materials Block Grant is reduced by $200 million, and the Learning Recovery Emergency Block Grant is reduced by $1.14 billion, both reductions to be applied in a pro rata share using the statutory formula that was used to distribute the funds.

This mid-year reduction is not unprecedented, but certainly signals a significant slowdown in state revenues. Further complicating this is the fact that only 50% of the $3.6 billion appropriated for the Arts, Music, and Instructional Materials Discretionary Block Grant was distributed in 2022-23, and 100% of the $7.9 billion appropriated for the Learning Recovery Emergency Block Grant was distributed in 2022-23.

To ensure accounting records are accurately recorded, LEAs will need to treat the two block grants very differently. For the Arts, Music, and Instructional Materials Block Grant, LEAs should accrue accounts receivable and revenue in 2022-23 to account for the difference between the revised appropriation total and the cash received.

For the Learning Recovery Emergency Block Grant, LEAs have been overpaid as 100% of the cash was disbursed in 2022-23. It is unlikely that the California Department of Education (CDE) will issue invoices for the overpayment, but rather, will offset Principal Apportionment payments in 2023-24 to recapture the overpayment. LEAs should consider setting up a liability in the Learning Recovery Emergency Block Grant resource code in 2022-23 to account for this overpayment and offset the liability against Principal Apportionment payments received in 2023-24.

LCFF

The Local Control Funding Formula (LCFF) is generated based on three factors: funded average daily attendance (ADA), funding per ADA, and unduplicated pupil counts. At the local level, LEAs have access to all of those data points, which means LEAs should know exactly what their LCFF revenues are for 2022-23. While there are three factors used to calculate LCFF revenues, there are three distinct funding sources used to satisfy the LCFF revenues—state aid, property taxes, and the Education Protection Account (EPA). Below are some considerations as LEAs prepare closing entries for the LCFF, inclusive of any adjustments through accounts receivable or accounts payable.

Factors

- The final statutory COLA for the 2022-23 fiscal year is 6.56%.
- The 2022-23 Enacted Budget also include an augmentation of 6.70% to offset rising costs of LEAs.
- LEAs should update 2022-23 tax receipts based on the most recent information from their county office/tax assessor.

- School districts must ensure that K-3 (including transitional kindergarten [TK], regardless of age) grade span class sizes were compliant throughout the year. In the absence of a collectively bargained agreement noting a different limit, each school site must report an average class enrollment of 24 or fewer. If one school site did not meet the K-3 grade span adjustment (GSA) requirement, the district stands to lose all K-3 GSA funding ($953/ADA).
- A separate calculation must be completed just for TK to verify compliance two metrics: (1) average enrollment, by school site, of no more the 24:1; (2) average pupil-to-adult ratios, by school site, of no more than 12:1. School districts that find themselves out of compliance risk losing a portion of their K-3 GSA funding ($953/ADA) and/or TK add-on funding ($2,813/ADA).
- LEAs should verify unduplicated pupil counts and that the appropriate documentation/ paperwork is on file.
- For Provision 2/3 and Community Eligibility Provision schools, ensure that data collection is accurate for the base year and the current year for unduplicated pupil counts, including eligibility forms for newly enrolled students.

Unspent Supplemental and Concentration Grant Funds

Annually, LEAs are required to calculate their minimum proportionality percentage and show increased or improved services for eligible students—English learners, children from low-income families, and foster youth—above what is provided to all students. For the second consecutive year, LEAs must report the estimated carryover of supplemental and concentration grant funds, if any, and add that amount to the 2023-24 spending requirement. To accommodate this requirement, as well as compliance with the reserve cap, as appropriate, we recommend committing any unspent supplemental and concentration grant funds in your fund balance. The LEA must use these unspent funds in future years to implement and/or enhance actions and services in the board-approved Local Control and Accountability Plan.

EPA

As a result of the extension of the tax deadline—April 2023 to October 2023—and the lower-than-expected tax receipts in 2022-23, many LEAs have been overpaid from the EPA over the first three quarterly payments in 2022-23. As a result, many LEAs did not receive a fourth quarter EPA payment. Because the EPA funds offset the amount of state aid, LEAs that received excess EPA payments had their Second Principal (P-2) Apportionment adjusted accordingly. While this has no impact on overall revenues, LEAs should be mindful of this adjustment.

LEAs should determine their final amount of revenues from this source for 2022-23 and ensure that expenditures from this source are in accordance with the board-adopted plan.

Remember that expenditures for administration and indirect costs are not allowed. Further detail is available on the CDE website. LEAs are required to post the final revenues and expenditures each year on the LEA's website, so the final activity as the books are closed on Resource Code 1400 should be reported on the website.

Mandate Reimbursement Claims

LEAs that have chosen to continue to file mandate claims should not accrue any revenues from this source, as the State Budget continues to leave these claims as essentially unfunded, and the revenues do not meet the California School Accounting Manual (CSAM) criteria for recognition.

Special Programs

Indirect Costs

Year-end closing is the time that LEAs calculate the indirect costs and post the entries to the applicable state and federal programs. Before completing the calculation, there is value in performing one last review of categorical programs to ensure that the indirect cost is an allowable cost and, if so, that the LEA is charging the correct rate. For example, LEAs need to be aware that indirect costs may not be charged to EPA funds. Also, LEAs should be careful because it is not uncommon for a categorical program to specify that the LEA may charge the lower of a set percentage rate or the LEA's state-approved rate.

There are some programs that may cross multiple fiscal years. Be sure to charge the appropriate rate for each year of expenditures as you finalize any reports for these programs. A review of the indirect costs ensures that programs reflect the true cost of operation and minimizes the chances of an audit finding. The most recent indirect costs for each LEA can be found on the CDE website here. In addition, SSC's CATQuest provides an easy, user-friendly look-up tool of the most common categorical programs.

Federal Programs

Many LEAs are in the midst of spending one-time federal stimulus dollars. The close of the fiscal year provides an opportunity for LEAs to journal costs to the appropriate resource code. If costs are journaled to federal programs, there are some additional reporting requirements that must be considered when expending federal dollars.

Ensure that all required personnel activity reports or substitute systems for time accounting of federal programs for multi-funded personnel have been completed. Additionally, employees working on a single cost objective, or funded entirely with one federal resource, must complete semi-annual certifications. Check with your auditors and the CSAM to ensure you are using the proper reporting method.

Calculate any interest earned on federal funds and, if not remitted by June 30, 2023, record as accounts payable.

California's fiscal year ends June 30, but the federal fiscal year runs from October 1 to September 30. Most federal grants allow for this by extending the grant period to 15 months. As you close the books, expenses should be booked only for items physically received and services rendered through June 30. If funds are carried over to expend in the following year, be sure claims and reports for the programs reflect the actual expenses and encumbrances, if allowed, through September 30, 2023. Specific programs, such as Title I, Part A, apply an 85/15 rule—ensuring that 85% of the grant funds are expended in the first 15 months from when the grant was issued, and that the carryover is limited to 15% for the remaining 12 months. Waivers for this were provided in previous fiscal years, but no such waiver was provided in 2022-23.

The Every Student Succeeds Act (ESSA) includes a requirement that per-pupil expenditures be reported LEA-wide and school by school, separated by federal, state, and local expenditures. Per-pupil expenditures reporting is collected through an online portal maintained by the CDE. To view the format for reporting the data in the ESSA Reporting System provided by the CDE, click here. The guidance from the federal government and the CDE states that the LEA has authority to determine which expenditures to include and exclude. Once the Unaudited Actuals are complete, LEAs should review their expenditures to determine which expenditures should be included in the calculation. Guidance provided by the CDE can be found here.

Ensure that all year-end reports are completed and that documentation is maintained. It is important to have detailed expenditure records in order to satisfy audit requests and revise long-term plans, if necessary.

RRMA

The Routine Restricted Maintenance Account (RRMA) contribution is calculated as 3% of total General Fund expenditures, including other financing uses. The contribution has been modified in recent years to exclude a series of Resource Codes including the following: 3210, 3212-3216, 3218, 3219, 3225-3228, 5316, 5632-5634, 7027, and 7690. LEAs should ensure that their calculation accounts for these exclusions, and note that the rule establishes the minimum contribution, not the minimum expenditures. The contribution must occur whether or not all the funds are spent.

Although the actual contribution may not be audited for several years, the audit requirement will be triggered by the receipt and expenditure of funds through the School Facility Program. The Criteria and Standards (C&S) within SACS will continue to be the medium for monitoring the budgeted contribution to the RRMA during the appropriate budget periods—Adopted Budget and First and Second Interims. There is no C&S at the Unaudited Actuals period.

Special Education

Each year, school districts and charter schools must demonstrate that they are sustaining the same level of state and local expenditures—either in the aggregate or on a per-pupil basis—to the special education program as was provided in the prior year. Year-end closing is the time to measure if the LEA met this maintenance of effort (MOE) requirement. A preliminary assessment of the MOE can be accomplished by running the Form Special Education MOE Actuals (SEMA) and the Form Special Education MOE Budget (SEMB) after the financial information has been loaded into the SACS software for school districts. We recommend maintaining a spreadsheet version of the SACS forms and monitoring your MOE throughout the year to avoid any unwelcome surprises. Although it is not required to use the state-provided form for the MOE, charter schools are expected to apply an identical methodology and adhere to reporting deadlines.

Completing the SACS forms (Program Cost Report Schedule of Allocation Factors [PCRAF] and Program Cost Report [PCR]) are more than just a means to distribute support costs among programs. Support costs are the costs related to peripheral services necessary to maintain the instructional programs, including supervision of instruction, libraries, classroom technology, school administration, pupil support services, plant maintenance and operations, and facilities rentals and leases. They may have a significant impact upon an LEA's federal funding, such as with special education. The Individuals with Disabilities Education Act requires, among other things, that LEAs spend as much, or more, in state and local—or local only—funds as they did in subsequent years. The expenditures used to determine if this requirement is met include those support costs allocated in the PCR. For instance, an LEA may have $200,000 in direct charges and another $20,000 in allocated charges included in its SEMA report. This $220,000 is then compared to the LEA's subsequent year's expenditures. Therefore, a poorly completed or inaccurate PCRAF and PCR could result in a financial penalty and an audit finding for an LEA.

If the forms reveal that the LEA does not meet its MOE, review the special education expenditures and, when appropriate, correct improper charging of expenses between special education and general education, and adjust for allowed conditions under 34 Code of Federal Regulations (CFR), Section 300.204.

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

Perform the excess cost calculation for special education after closing, which is due by October 15 to your Special Education Local Plan Area (SELPA). Remember to indicate which methodology you have selected for separating costs between elementary and secondary grade levels. Contact your local SELPA for the 2022-23 excess cost calculation form. It is important for LEAs to recognize the value of this form in determining the true General Fund contribution. The form specifies the cost of education for all students, and then calculates the excess cost associated with special education.

Transportation

Beginning in 2022-23, school districts and COEs will be reimbursed for 60% of home-to-school transportation costs, less any funds already apportioned through the LCFF specific to transportation. Expenditures recorded for the home-to-school transportation program, Function Code 3600, should be reviewed to ensure that they are all appropriate.

School districts and COEs that are eligible for the reimbursement—those with an LCFF add-on that is less than 60% of eligible expenditures or that have eligible expenditure and do not receive an LCFF add-on—must have completed a plan by April 1, 2023, or risk losing the additional funding generated through the reimbursement. Eligible expenditures used to calculate the 2022-23 reimbursement were not audited, but expenditures supporting the 2023-24 reimbursement will be audited. For more information on the topic, please see our April 2023 *Fiscal Report* article, "Transportation Reimbursement—What Will Be Audited?"

In addition, school districts and COEs still have an MOE requirement. The MOE is measured by the lesser of the following:

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

For most LEAs, the second will be the operative test. The penalty for noncompliance 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?"

Child Nutrition

Determine the cash value of commodities on hand as well as the physical food and supplies inventory as of June 30, 2023, and record the value in the stores account.

Year-end closing is the time to evaluate the child nutrition program's net cash resources (NCR). The NCR is defined as the amount of funding in the LEA's cafeteria fund at any one time, including accounts receivable. The cafeteria fund's NCR must stay below a level equal to three months' operating expenditures. If the NCR exceeds this limit, the LEA should work with the CDE to determine if a spending plan is needed to reduce the NCR to the appropriate level.

Lottery

Lottery revenues, in Resource Codes 1100 and 6300, should be calculated using current year reported annual ADA, adjusted for an enrollment factor of 1.04446. When preparing your closing entries, consideration should be given for total expected revenues—using the aforementioned factors—less cash received to date for the current year.

Year-end closing presents one last chance to maximize the use of your LEA's restricted Lottery: Instructional Materials (Resource Code 6300) funds. Education Code Sections (EC §) 60010(h) and 60010(m) provide detailed definitions for instructional materials and technology-based materials, respectively. LEAs should review any instructional materials and technology-based material expenditures made from the unrestricted General Fund to determine if they qualify as an appropriate use of Lottery: Instructional Materials funds. If so, the appropriate expenditures should be transferred to this program before closing.

Charter Schools

In Lieu of Property Taxes

Object Code 8096—Transfers to Charter Schools In Lieu of Property Taxes is used to record the payments in lieu of property taxes. LEAs should ensure that the amounts in Object Code 8096 are based on Annual Apportionment taxes and P-2 ADA and, between the charter school(s) and authorizing agency, net to zero.

Facilities Grant

Whether your LEA operates a charter school or is an authorizing agency of a charter school, expenditures in Resource Code 6030 must be in accordance with EC § 47614.5 for costs associated with facilities. If you determine that any expenditures are not compliant, use this time to implement expenditure transfers to move these expenditures to another resource code.

Funding Determination

Verify that the funding determination for nonclassroom-based charter schools has not changed due to corrections in attendance or expenditures.

Assets

Cash in Banks

Calculate the interest earned on any scholarship funds or other cash in banks throughout the year, and record the interest earned in the general ledger for these accounts. Ensure all accounts have been properly reconciled through June 30, 2023.

Accounts Receivable

The CSAM defines accounts receivable as amounts due from private persons, firms, corporations, state agencies, and federal agencies. First, any unresolved accounts receivable from the prior year should be investigated to determine whether they are still valid and collectible according to the CSAM. For any accounts receivable posted during the current year, review the significant entries to ensure they are accurate and that they meet the CSAM's criteria for an accrual. If any items do not meet the CSAM requirements, then an entry should be made before closing to write off the item from the accounts receivable balance.

Most LEAs will see an increase in accounts receivable resulting from the unpaid portion of the Arts, Music, and Instructional Materials Discretionary Block Grant. LEAs may also see an increase due to unreimbursed expenses of Elementary and Secondary School Emergency Relief (ESSER) II and ESSER III funds.

Inventory

Ensure that the physical inventory of all items in the stores warehouse has been completed and make the appropriate entries to the stores account.

Complete the updated inventory as of June 30, 2023, for all capitalized and noncapitalized equipment (see next section) and update the depreciation schedules accordingly. Record separately any items purchased through special grants in compliance with grant requirements so that they can be easily identified in an audit, if needed.

If the equipment was charged to a federal resource, and the cost exceeded $5,000, it must be capitalized in accordance with CFR, Title 2, Part 200, even if the LEA's capitalization threshold exceeds $5,000. Refer to the CSAM (pages 770-2/770-3) for more details.

Capital Assets

The CSAM specifies when an item of property is accounted for as a capital asset rather than as an expense. LEAs are required to set a capitalization threshold, which is a per-unit cost threshold over which a given item qualifies for capitalization.

During the closing process, review the activity in Object Codes 4400 (Noncapitalized Equipment) and 6400 (Equipment) to determine if all charges are appropriate and that the items are recorded correctly according to the LEA's capitalization threshold. Reclassify any expenditures between the two object codes that were inadvertently charged. This process improves the accuracy of the Schedule of Capital Assets and minimizes the number of reclassification entries made by the external auditors.

Liabilities

Accounts Payable

The CSAM defines accounts payable as amounts due to private persons, firms, corporations, state agencies, and federal agencies for services rendered and goods received on or before the close of the year. LEAs often inadvertently understate the balance of their accounts payable by failing to accrue an amount due to an outside vendor. First, review any accounts payable items remaining that were accrued in the prior year to ensure that they are still outstanding. If not, then an adjusting entry should be made before closing to clear that item from the accounts payable balance.

Review all significant payments made to vendors between June 30 and the final date that the books are closed. If a payment during this period is for services rendered or goods received on or before the close of the year, ensure there is a corresponding entry in the accounts payable ledger for 2022-23, or separate ledger noting the payment was made, but the books are already closed.

Unearned Revenue

The CSAM defines unearned revenue as a liability for resources received prior to revenue recognition. Said another way, LEAs are not allowed to recognize revenue just because cash has been received. This principle applies to grants which generally have a period of availability to spend the funds, or a list of specific allowable uses. Many LEAs are familiar with this principle relative to federal funds (e.g., Title I).

The influx of one-time federal and state sources as a result of the pandemic will likely increase the use of unearned revenues for LEAs during the close of the 2022-23 fiscal year. For a deeper explanation, and illustrative example of unearned revenues, see "Unearned Revenue—What Is It?" in the August 2021 *Fiscal Report*.

Compensated Absences

Calculate and record the value of compensated absences and other short- and long-term debt as of June 30. Be sure to include any time provided to employees as compensatory time off (in lieu of paid overtime) in addition to vacation time.

Net Pension Liability

Governmental Accounting Standards Board Statements (GASB) 67 and 68 specify reporting requirements for defined benefit plans, including recording the net pension liability. The net pension liability actuarial amounts from the California State Teachers' Retirement System (CalSTRS) and the California Public Employees' Retirement System (CalPERS) are needed for the LEA's conversion entries. This amount represents the total pension liability less the fiduciary net position of the pension plan. Changes in the net pension liability will be immediately recognized as pension expenses or reported as deferred outflows/inflows of resources depending on the nature of the change. CalSTRS will provide the information to LEAs at no cost, while CalPERS continues to charge to provide the data.

CalSTRS information can be found here, and CalPERS information can be found here.

Other Considerations

Inactive Funds

Year-end is an opportune time to close out a fund that is no longer in use. Begin this process by asking your COE about the necessary paperwork to close a fund. Generally, a COE requires a resolution approved by the governing board to close the fund. If there is a remaining balance, the LEA should clearly state to which fund the balance will be transferred. Also, be sure to close any bank accounts associated with the fund.

Clearing Funds

Clearing funds are cash conduits used by the LEA to account for deposits into the clearing account due to agencies such as the Internal Revenue Service, CalSTRS, and CalPERS. The clearing funds should have a zero balance after the payment has been sent to the agency. Over the course of the year, best practice would reflect that the clearing funds have been reconciled and cleared on a monthly basis. The LEA should ensure that any remaining balances clear before the books are closed at year-end.

Any balances that do not clear should be supported and documented on the clearing fund's reconciliation as valid outstanding balances. In some instances, health and welfare benefit contributions are made in June for the July payment, and may require an entry for a prepaid expense to clear the account and balance the transaction. All documentation should be filed with the clearing fund's reconciliation to ensure that an audit trail exists for the auditors.

Minimum Classroom Compensation (Form CEA)

If an LEA finds itself out of compliance with the Form CEA, it should evaluate expenditures for assignment to the appropriate function, resource, and object codes, for example:

- Use Function Code 1000-1999 for all classroom teachers and other classroom staff (e.g., aides, tutors, etc.).
- Review any Function Code 2100, 2130, and 2140 transactions to be sure no classroom salaries, including for staff development, are included that should be in Function Code 1000-1999.
- Evaluate any costs that could be attributed to those goals and/or functions that are deducted in Part I of the form, but may be coded in error (e.g., food service, transportation, childcare, and nonagency).
- Utilize Object Code 5750 to transfer program costs between funds rather than recording a fund transfer (Object Code 5750 reduces total costs).
- Use manual override when appropriate to reverse out federal pandemic funds from the calculation as found in our July 2021 *Fiscal Report* article, "Form CEA and Federal Funds."

Alternatively, EC § 41374 exempts a district if the district maintains "individual class sessions" under specific thresholds:

- Elementary School District—28 pupils
- High School District—25 pupils
- Unified School District—28 pupils in grades K-8, and 25 pupils in grades 9-12

The phrase "individual class session" shall not include any class session held in grades K-8, inclusive, in courses in visual and performing arts, industrial arts, and physical education. The phrase shall not include any class session held in grades 9-12, inclusive, in courses in commercial arts, visual and performing arts, industrial arts, vocational arts, and physical education.

CalSTRS On-Behalf Payments

LEAs are required to record the state's payment to CalSTRS in Resource Code 7690. The information necessary to calculate this entry is available to LEAs on the CalSTRS website—which can be found here (see question "How do I calculate my proportionate share of the State's on-behalf contributions under GASB 85?").

LEAs that record information in the fund financial statements must now make two entries: one in Resource Code 7690, and an adjusting entry in the governmentwide financial statements utilizing conversion entry 025.

Reserves

All four criteria to require a deposit into the Public School System Stabilization Account were met in 2022-23 and are projected to be met through 2024-25. The sum of the deposits—approximately 10.7% of the K-12 portion of the minimum guarantee—is sufficient to trigger the reserve cap for school districts in 2023-24. SSC has always encouraged LEAs to maintain sufficient reserves to meet their LEA-specific needs, which is invariably higher than the state-required minimum. Given the triggering of the reserve cap, school districts might consider taking board action to commit funds for special education cost increases, increasing CalSTRS/CalPERS contributions, or other LEA priorities in order to maintain a sufficient fund balance.

Although the reserve cap is measured for compliance at the Adopted Budget or 45-day revise, LEAs should maintain continuity of any such commitments at Unaudited Actuals, as appropriate.

For additional information on the reserve cap please refer to the Fiscal Alert published by the Fiscal Crisis and Management Assistance Team by clicking here.