



FISCAL REPORT

PUBLIC EDUCATION'S POINT OF REFERENCE FOR MAKING EDUCATED DECISIONS

Considerations for Closing the Books for 2024-25

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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 the tremendous task of closing the books and 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.

Key Takeaways

The 2024-25 fiscal year included the expiration of multiple federal and state grants including, but not limited to, Elementary and Secondary School Emergency Relief III and several resource codes that make up the Expanded Learning Opportunities Grant. Those two grants amounted to more than \$17 billion, and for LEAs that used the grants to cover ongoing expenditures, those expenditures must either be moved to other funding sources or removed from the 2025-26 budget. The grants expired September 30, 2024, which means that all expenditures had to be properly incurred by that date. LEAs should review 2024-25 expenditures closely to ensure that the grants were appropriately and fully expended to avoid audit findings and/or accounting adjustments that require the return of the funds back to the respective governmental agency.

SACS Software

LEAs are now fully transitioned into the web-based Standardized Account Code Structure (SACS) software and will use the web-based SACS software to complete the unaudited actuals reporting. For those who are new to the web-based reporting, the link for the Unaudited Actuals, and other required reporting periods, can be found here.

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 2024-25. 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.

- The final statutory cost-of-living adjustment for the 2024-25 fiscal year is 1.07%
- LEAs should update 2024-25 tax receipts based on the most recent information from their county office/tax assessor
- LEAs should verify both Second Principal Apportionment (P-2) and Annual Apportionment attendance records, along with unduplicated pupil counts, ensuring that all required documentation is properly filed

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 (\$1,043/ADA).

A separate calculation must be completed just for TK to verify compliance of two metrics: (1) average enrollment, by school site, of no more than 24; and (2) average pupil-to-adult ratios, by school site, of no more than 12:1. If any TK classroom included an “early enrollment” child, the ratios in those classes decline to a hard cap of 20 students and a pupil-to-adult ratio of 10:1. School districts that find themselves out of compliance risk losing a portion of their K-3 GSA funding (\$1,043/ADA) and/or TK add-on funding (\$3,077/TK ADA).

For LEAs with 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. LEAs must report the estimated carryover of supplemental and concentration grant funds, if any, and add that amount to the 2025-26 proportionality requirement. To accommodate this requirement, as well as comply 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

LEAs should determine their final amount of revenues from this source based on the [most recent correspondence from the California Department of Education \(CDE\)](#) for 2024-25 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.

Special Programs

Child Nutrition

Determine the cash value of commodities on hand as well as the physical food and supplies inventory as of June 30, 2025, 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 six 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.

Federal Programs

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 only need to complete semi-annual certifications. Check with your auditors and the California School Accounting Manual (CSAM) Procedure 905 to ensure you are using the proper reporting method.

Calculate any interest earned on federal funds and, if not remitted by June 30, 2025, record as accounts payable. More information on calculating the interest can be found on the CDE website by clicking [here](#).

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, 2025. 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.

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.

Indirect Costs

Year-end closing is when LEAs calculate the actual 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. 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 for the most common categorical programs.

Even if it is allowable to charge indirect costs to a resource code, not all object codes are included in the calculation of indirect costs. The CSAM Procedure 915 excludes expenditures in the following object codes from the indirect cost calculation:

- Object Code 4700—Food
- Object Code 5100—Subagreements for Services
- Object Codes 6000-6999—Capital Outlay

- Objects Codes 7000-7499 and 7600-7699—Other Outgo and Other Financing Uses

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, and the final rate as published by CDE. The final rate is typically available in early July and can be found [here](#). 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 S) 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.

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: 3213, 3214, 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 and the Form Special Education MOE Budget after the financial information has been loaded into the SACS software for school districts. We recommend 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. The expenditures used to determine if MOE requirements are met include those support costs allocated in the PCR. 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](#).

Additionally, the excess cost calculation for special education is performed annually 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 2024-25 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

School districts and COEs are reimbursed for 60% of prior-year home-to-school transportation costs, less any prior-year 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 appropriately coded as the expenditures included in the reimbursement will be audited so school districts and COEs are encouraged to review CSAM Procedure 640 for examples about allowable and unallowable expenditures for Function Code 3600.

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, or updated, a plan by April 1, 2025, or risk losing the additional funding generated through the reimbursement. For more information on the topic, please see our *Fiscal Report* article, "[Transportation Reimbursement—What Will Be Audited?](#)"

Charter Schools

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. Also, determine if a renewal of the funding determination is due.

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.

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, 2025.

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.

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, 2025, 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

CSAM Procedure 770 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 2024-25, 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). For a deeper explanation, and illustrative example of unearned revenues, see the August 2021 *Fiscal Report* article "[Unearned Revenue—What Is It?](#)"

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 information can be found [here](#), and CalPERS information can be found [here](#).

Other Considerations

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 are not cleared 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.

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.

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 the March 2025 *Fiscal Report* article, "[Form CEA Noncompliance Rates](#)"

Alternatively, [EC § 41374](#) exempts a district if it 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?”).

Reserves

Entering the 2023-24 fiscal year, it appeared that the cap on school district reserves would be triggered for the foreseeable future. However, sub-par revenue collections from the 2022-23 fiscal year coupled with lagging tax receipts for the first half of the 2023-24 fiscal year resulted in the Governor and Legislature spending down all of

the rainy-day fund reserves in the 2023-24 fiscal year to continue funding K-14 at the levels included in the 2023-24 Enacted Budget. Looking forward to 2025-26, the proposed budget continues to maintain a zero balance in the rainy-day fund.

As a reminder, if the reserve cap is triggered, it is measured for compliance at the Adopted Budget or 45-day revise periods.

For additional information on the reserve cap and how to manage local reserves when the reserve cap is in force, please refer to the Fiscal Alert published by the Fiscal Crisis and Management Assistance Team by [clicking here](#).