



Monterey County Office of Education

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District Advisory and Financial Services
Finance and Business Services

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TO: Fiscal Directors, Business Managers
FROM: Karen Hennessy, Director
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DATE: August 20, 2013
RE: Closing the Books

As we close the books on 2012-13 we do so during an era of revenue limit, categorical funding and many other school finance funding models as we know them. Along with having provided the year end workshop I also wanted to provide you with this School Services of California publication "Considerations for Closing the Books" for your convenience.

Considerations for Closing the Books

Accounts Receivable

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 district's accounts receivable, review the large entries recorded in the accounts receivable ledger to ensure they are accurate and meet the 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 the CSAM. If not, then an adjusting entry should be made before closing to clear that item from the accounts receivable balance.

Accrual of Certain Revenue Sources

This year, once again, LEAs that have chosen to continue to file mandate claims should not be accruing any revenues from this source, as the State Budget continues to leave these claims as essentially unfunded and the revenues do not meet the CSAM criteria for recognition.

LEAs that have submitted claims for reimbursement from the federal Medi-Cal Administrative Activities (MAA) program that are now part of the suspended payments should also not be accrued, as the timing and certainty of these payments would not meet the criteria in the CSAM.

Although it is mostly funded by a 2012-13 State Budget appropriation, Common Core State Standards funding is to be expended during 2013-14 and 2014-15. Even though the California Department of

Education (CDE) has announced that the new Resource Code for this funding source is 7405, they also issued guidance specifying that if the revenues are accrued for 2012-13 year-end closing, this program is subject to deferred revenues, and therefore there would be no net effect on the restricted General Fund balance.

Accounts Payable

The 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.

One way to ensure your accounts payable are reasonably complete is to review all large 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 the closing year.

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 before closing to clear that item from the accounts payable balance.

Closure of Inactive Fund

Year-end closing is a good time to close out a fund that is no longer in use. Begin this process by inquiring to 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.

We have attached a copy of a sample resolution for your reference. Also, if there is a remaining balance, the LEA should clearly state where the funds will be transferred.

Be sure to also close any bank accounts associated with that fund.

Restricted Lottery Funds

Year-end closing presents one last chance to maximize the use of your LEA's Resource Code 6300, Lottery: Instructional Materials. E.C. 60010(h) and 60010(m) provide detailed definitions for instructional materials and technology-based materials respectively.

Business Services should meet with the appropriate district staff to review any instructional and technology material expenditures made from the unrestricted General Fund to determine if they qualify as an appropriate use of the Lottery: Instructional Materials Resource. If any General Fund expenditures qualify, they should be transferred to this restricted Resource Code 6300 before closing.

Education Protection Account (EPA)

This is the first year of the closing process for Proposition 30's EPA, Resource Code 1400. LEAs should determine their final amount of revenues from this source for 2012-13 and ensure that expenditures from this source are in accordance with the board-adopted plan for 2012-13. Neither expenditures for

administration nor indirect costs are allowed, and further detail is available on the CDE website at: <http://www.cde.ca.gov/fg/ac/ac/sacsfaq.asp>. There is a requirement 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 would be reported on the website.

Indirect Costs

Also, year-end closing is the time LEAs calculate the indirect costs and post the entries to the applicable state and federal programs. Before the calculation, there is value in performing one last review of the categorical programs to ensure the indirect cost is an allowable cost and, if so, the district is charging the correct rate. For example, LEAs need to be aware that the EPA fund lists indirect cost as not an allowable use.

A review of the indirect costs ensures the programs reflect the true cost of operation and minimizes the chances of an audit finding.

Clearing Funds

As stated in their title, clearing funds are cash conduits used by the LEA to account for receipts due to agencies such as the Internal Revenue Service (IRS), the California Public Employees' Retirement System (CalPERS), and the California Teachers' Retirement System (CalSTRS). The clearing funds should have a zero balance after the payment has been sent to the agency. Over the course of the year, best practices 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.

Any journal voucher (JV) used to reset a clearing fund's balance should be reviewed and signed by the department head. All JVs should be filed with the clearing fund's reconciliation to ensure an audit trail exists for the auditors.

Special Education's Maintenance of Effort (MOE)

Each year, districts must demonstrate they are sustaining the same level of state and local support to the special education program. Year-end closing presents an opportunity to determine if the district meets its MOE requirement. A preliminary assessment of MOE can be accomplished by running the Form SEMA and the Form SEMB after the financial information has been loaded in to the SACS software.

If the forms reveal the district 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.

Adult Education and Regional Occupational Centers/Programs (ROC/Ps)

The 2013-14 State Budget contained a surprise that may impact the year-end closing procedures for the Adult Education Fund or for adult education expenditures recorded in the General Fund, as well as expenditures for ROC/Ps. LEAs must maintain the same level of expenditures for these two programs in 2013-14 and 2014-15 as were expended in 2012-13.

During the closing process, review how the program expenditures were coded in the Adult Education fund and/or in the General Fund as adult education expenditures, and move any expenditure inadvertently coded to the Adult Education program that should have been charged to another program. The goal is to ensure that only adult education expenditures are counted toward the program's MOE requirement in 2013-14 and 2014-15.

For ROC/Ps, examine the expenditures recorded to this program during 2012-13 and perform the same review, moving any expenditures that do not belong in that program over to the appropriate General Fund program in order to ensure that the MOE requirement is correct. For those LEAs participating in an ROC/P joint powers authority (JPA) and are recording transfers of funds to the JPA, the transfers should be reviewed to ensure that they are correct for 2012-13, as this is how the MOE level will be determined for 2013-14 and 2014-15.

Transportation

The State Budget for 2013-14 also included an MOE requirement for transportation programs, which includes both regular and special education home-to-school transportation. As LEAs close the books for 2012-13, expenditures recorded against the transportation programs (Resource Codes 7230 and 7240) should be reviewed to ensure that they are all appropriate for setting the benchmark for the level of expenditures required for these programs after 2012-13.

Capitalize or Expense?

In 2001, GASB 34 introduced LEAs to the challenge of capitalizing assets in all funds. The CSAM defines capitalization as the accounting treatment whereby an item of property is accounted for as an asset rather than as an expense. LEAs were required to set a capitalization threshold, which is a per-unit cost at which a given item qualifies for capitalization.

During the closing process, review the activity in Object Codes 4400 - Non-capitalized Equipment and 6400 - Equipment to determine if all charges are appropriate and the items are recorded correctly according to the LEA's capitalization threshold. Reclassify any entries between the two object codes that were inadvertently charged and do not meet the threshold criteria. The process improves the accuracy of the Schedule of Capital Assets and minimizes the number of reclassification entries made by the external auditors.