SECTION II – SPECIFIC COMPLIANCE

CHARTER SCHOOL BOOKKEEPING

The State Board of Education has, in accordance with law, prescribed a uniform double-entry system of bookkeeping for use in all charter schools and is authorized to compel its use. (*N.J.S.A.* 18A:4-14 and *N.J.A.C.* 6A:23A-16)

The Uniform Minimum Chart of Accounts for New Jersey Public School (2008 Edition) (COA) was originally published in 1992 and revised effective July 1, 2009. The revised COA is available on the website http://www.nj.gov/njded/finance/fp/af/coa/.

GAAP distinguishes between funds which benefit the charter school (Permanent funds) and those for which the charter school acts as a trustee or agent, but where the resources benefit other governments, individuals, or organizations (Trust or Fiduciary funds). Governmental fund 50 should be used to record the accounting for Permanent funds. Expendable trusts that benefit the charter school should be included in the Special Revenue fund. The Proprietary funds use fund 60 and fund 70, and the Fiduciary funds use funds 80, 90, and 95. When the charter school uses the reimbursable or pay as you go method for unemployment, the Unemployment Compensation Trust would be included in fund 80. The resources and changes in net assets of a private purpose scholarship fund would also be reported here. The Fiduciary funds are not included in the accrual level statements (A - series) since they are not assets of the charter school.

The following is a listing of funds using the revised chart of accounts structure effective July 1, 2004:

Governmental Funds
Fund 10 (General fund)
Fund 20 (Special revenue fund)
Fund 30 (Capital projects fund)
Fund 40 (Debt service fund)
Fund 50 (Permanent fund)

Proprietary funds
Fund 60 (Enterprise fund)
Fund 70 (Internal service fund)

Fiduciary funds
Fund 80 (Trust funds)
Fund 90 (Agency funds)
Fund 95 (Student activity funds)

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SECTION II – SPECIFIC COMPLIANCE
FUND 10 –GENERAL FUND

Optional Treasurer of School Moneys

P.L. 2010, c.39, effective July 2, 2010, makes the position of treasurer of school moneys optional. Upon the board's election to eliminate the treasurer's position, the law requires a shifting of internal control and internal reporting responsibilities from the treasurer to the board secretary and chief school administrator/charter school lead person. Accordingly, Boards of Trustees electing to eliminate the treasurer's position must consider the impact of the law on the charter school's internal financial reporting.

P.L. 2010, c.39 amends *N.J.S.A.* 18A:17-9.2 to require that in a charter school which does not have a treasurer of school moneys, the board secretary shall keep a record of the sums received and paid out by him in accordance with the uniform system of bookkeeping prescribed by the State board.

P.L. 2010, c.39 amends *N.J.S.A.* 18A:19-9 to require that payrolls must be certified by the president and secretary of the board and the chief school administrator/charter school lead person. In a charter school which maintains the treasurer of school moneys, the payrolls shall be delivered to the treasurer of school moneys with a warrant made to his order for the full amount of each payroll.

P.L. 2010, c.39 amends *N.J.S.A.* 18A:19-10 to require charter schools to maintain separate bank accounts for net payroll and for payroll deductions and associated board contributions (agency account); and that authorized signatories on the payroll account must include the secretary and a board designee.

N.J.S.A. 18A:19-10 amended, provides that in a charter school that does not maintain the position of treasurer of school moneys, the secretary shall draw and deposit the warrants. Where the charter school maintains the position of treasurer of school moneys, the treasurer shall deposit the warrants.

Board Secretary and (Optional) Treasurer Reports
In accordance with *N.J.S.A.* 18A:17-9(a) amended, the board secretary shall report to the board at each regular monthly meeting the amount of total appropriations and the cash receipts for each account, the amount for which warrants have been drawn against each account, the amounts of orders or contractual obligations incurred and chargeable against each account year to date, and since the date of the last report, the cash and appropriation balances for each account and fund, and the reconciled bank account balances. At the close of each fiscal year, the board secretary shall present to the board a detailed report of its financial transactions during such year and file a copy with the executive county superintendent on or before August 1st of each year.

For a charter school that elects to maintain the treasurer's position, *N.J.S.A.* 18A:17-36 requires the treasurer to report to the board monthly a detailed account of all receipts, the amounts of all warrants signed by him/her since the date of the last report and the accounts against which the warrants were drawn, and the balance to the credit of each account. At the close of each fiscal year, the treasurer shall present an annual report showing the amounts received and disbursed for school purposes during said year and file a copy with the executive county superintendent on or before August 1st of each year.

The separate monthly board secretary and treasurer (where the charter school elects to maintain the position) reports must be reconciled on a monthly basis.

Cash Reconciliation

The cash accounts must be reconciled. *N.J.S.A.*18A:17-9 amended, provides that the chief school administrator or board designee other than the secretary must prepare the monthly reconciliations of all bank accounts prior to the completion of the secretary's monthly report. Reconciliation of payrolls and interest accounts are to be made in all charter schools maintaining such accounts and must be permanently recorded and filed for future reference. The auditor must verify the reconciliation of all cash accounts of the charter school.

Bank reconciliation statements are not required to be exhibited in the audit report. Workpapers must be available for review upon request.

Petty Cash Funds
N.J.A.C. 6A:23A-16.8 states "Pursuant to the provisions of *N.J.S.A.* 18A:19-13, a charter school board of trustees may establish on July 1 of each year, or as needed, a cash fund or funds for the purpose of making immediate payments of comparatively small amounts."

To be in compliance with the administrative code, the board must establish the amounts authorized for each fund, and set the maximum allowable individual expenditure. The board must designate custodians for each fund and must establish the minimum time period for the custodian to report on fund activity. Petty cash accounts must be closed out at year-end and unexpended cash deposited in the bank by June 30.

Summer Payment Plans

N.J.S.A. 18A:29-3 authorizes a charter school board of trustees to establish a Summer Payment Plan which will provide for withholding 10 percent of the salary of 10-month employees during the academic year. *N.J.A.C.* 6A:23A-16.9 states "The charter school board of trustees shall ensure that the amount withheld earns interest and is available to the employee either at the end of the academic year or in installments prior to September 1."

SAS #70 Reports

Depending upon the nature of the services provided, AICPA Statement on Auditing Standards No. #70 (as amended by SAS #88) reports may be required from software vendors, payroll service vendors, and other service organizations. SAS #88 clarified SAS #70 by stating that SAS #70 is applicable if an entity obtains services from a service organization that are part of the entity's information system. SAS #88 explains what constitutes "part of the entity's information system." If SAS #70 is applicable, the service organization auditor will issue one of the following two types of reports, depending upon circumstances and requirements:

- Type I – Report on policies and procedures placed in operation. This report may be an effective and efficient way for the charter school auditor to gain an understanding of the internal controls of the service organization.
- Type II – Report on policies and procedures placed in operation and tests of operating effectiveness. This report includes a description of the tests of operating effectiveness and the results of those tests. If the controls are present and operating effectively, the charter school's auditor may choose to assess control risk below the maximum for financial statement assertions

> related to the service organization transactions. This is a decision made by the charter school auditor.

Auditors are advised to review Chapter 4, Field Work Standards for Financial Audits, of the *Government Auditing Standards* available electronically at the website http://www.gao.gov/index.html for further guidance on internal controls.

Third Party Disbursements

N.J.S.A. 52:27D-20.1 *Contracts for third-party disbursement services*, gives the Local Finance Board, in consultation with the Commissioner of Education, the authority to adopt regulations permitting charter school boards of trustees to contract with a third-party disbursement service organization in order to make payments and execute financial transactions for those purposes.

The rules on third party disbursements can be found in *N.J.A.C.* 5:30-17 et seq. Charter school boards of trustees are advised to review the rules prior to engaging a third party disbursement service organization.

N.J.A.C. 5:30-17 et seq., Electronic Disbursement Controls for Payroll Purposes can be found at http://www.state.nj.us/dca/lgs/fiscal/generalpubs/payroll%20_agency_%20handbook_1.pdf

N.J.S.A. 18A:19-10 amended, requires charter schools to maintain separate bank accounts for net payroll, and for payroll deductions and associated board contributions (agency account). In a charter school that does not maintain the position of treasurer of school moneys, the secretary shall draw and deposit the warrants. Where the charter school maintains the position of treasurer of school moneys, the treasurer shall deposit the warrants.

N.J.S.A. 18A:19-10 amended, requires that authorized signatories on the payroll account must include the secretary and a board designee.

Investments

Several statutes govern permissible investment of school moneys by New Jersey charter schools. In a charter school which appoints a treasurer of school moneys, *N.J.S.A.* 18A:17-34 gives the treasurer of the charter school the authority to deposit school moneys in any bank or banking institutions of this state designated as a depository of school moneys. In a charter school that does not have a position of treasurer of school moneys, the board secretary when required by the board resolution has that authority (*N.J.S.A.* 18A:17-9.1). Under *N.J.S.A.* 17:9-41 et seq., the Governmental Unit Deposit Protection Act (GUDPA), a charter school may deposit public funds in a public depository if such funds are secured in accordance with GUDPA. This statute defines a public depository as:

> "a State or federally chartered bank, savings bank or an association located in this State or a state or federally chartered bank, savings bank or an association located in another state with a branch office in this State, the deposits of which are insured by the Federal Deposit Insurance Corporation and which receives or holds public funds on deposit."

N.J.S.A. 18A:20-37 provides for the specific types of securities that the board of trustees can authorize to be purchased and sets forth general investment practice requirements. It also provides for the specific types of securities which may be purchased and registered in a charter school's name. While the types of securities and requirements are too extensive to list, the statute includes governmental money markets funds and bonds or other obligations having a maturity date of not more than 397 days from the date of

purchase, approved by the Division of Investments in the Department of Treasury for investment by charter schools. The division does not publish a listing of approved investments but charter schools may request approval of a specific security by sending a letter to the address on the following page:

Director
Division of Investments
P.O. Box 290
Trenton, NJ 08625

The Department of Education does not have the authority to determine compliance with GUDPA or review and approve the types of securities a charter school can utilize. Charter schools should consult with their legal counsel and direct any questions on the permissibility of a specific security pursuant to N.J.S.A. 18A:20-37 to the Division of Investments in the Department of Treasury at the above address.

Further information on GUDPA or on banking institutions may be found at the Department of Banking and Insurance website http://www.state.nj.us/dobi/division_banking/depositories/gudpa.htm. A charter school which is unsure as to whether the bank/institution is certified as a depository should request from the bank/institution a copy of the "Notification of Eligibility" or may contact the Department of Banking and Insurance.

Charter schools were required to implement GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools," effective for fiscal year end June 30, 1998. This statement establishes fair value accounting and financial reporting standards for certain types of investments held by governmental entities other than external investment pools. This should have a limited impact on charter schools. For government entities other than external investment pools, this statement establishes accounting and financial reporting standards for the following investments: participating interest-earning investment contracts, external investment pools, open-end mutual funds, debt securities, and equity securities, option contracts, stock warrants and stock rights that have readily determinable fair values.

The implementation of GASB Statement No. 31 did not supersede the required disclosures included in the CAFR in accordance with GASB Statement No. 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements." It represents a change to the method at which investments are valued for accounting and financial reporting and provides for additional disclosures regarding the valuing of investments.

GASB Statement No. 40, "Deposit and Investment Risk Disclosures, an amendment of GASB Statement No. 3" is effective for financial statements for periods beginning after June 15, 2004 and states:

> "…disclosures generally referred to as category 1 and 2 deposits and investments are eliminated. However, this Statement does not change the required disclosure of authorized investments and it maintains, with modification, the level-of-detail disclosure requirements of Statement 3." Statement 40 is designed to inform financial statement users about deposit and investment risks that could affect a government's ability to provide services and meet its obligations as they become due. The reduction of existing custodial credit risk disclosures follow from federal banking reforms adopted since the release of Statement 3.

Charter school auditors should refer to the statement for further understanding and for illustrations of disclosures.

SECTION II – SPECIFIC COMPLIANCE
FUND 10 –GENERAL FUND

Revenues and Receipts

Revenues accruing to the charter school for the period under audit must be verified. Receipts for the year and accounts receivable at the close of the year must be verified as to source and disposition. Revenues must be delineated by type and recorded in the proper fund. Common revenues and the funds in which they are reported are included in *The Uniform Minimum Chart of Accounts Handbook for New Jersey Public School Districts*. The auditor must comment in detail on any irregularity in the method of handling receipts and revenues as a result of audit tests performed.

N.J.S.A. 18A:17-9.1 provides that for a charter school that does not maintain the position of treasurer of school moneys, the treasurer will receive and hold moneys. *N.J.S.A.* 18A:17-9.2 provides that in a charter school that does not have a treasurer of school moneys, the board secretary will keep a record of the sums received.

Extraordinary Aid

The awards for 2010-11 extraordinary aid (ExAid) have been calculated based on the percentages called for in the School Funding Reform Act (SFRA) for each of the three placement categories. These preliminary amounts will be reduced in order to match available funding as called for in the 2011-12 state budget. At the time of preparation of this Audit Program, the department anticipates issuing Notices of 2010-11 ExAid during May 2011.

Extraordinary Aid awards are recorded in the general fund, account 10-3131. Since actual payment will not be made until after the end of the fiscal year charter schools must also establish a receivable for the appropriate amount of anticipated payment (*N.J.S.A.* 18A:7F-55c). This amount can be excluded from the June 30, 2011 excess surplus calculation only if the charter school can clearly document that they did not budget this additional aid during the 2010-11 fiscal year for which they filed an application.

Audit procedures, similar to the ASSA, can be found in the *State Aid/Grants Compliance Supplement* at: http://www.nj.gov/education/finance/fp/audit/1011 . Extraordinary aid applications are made online, with the department's determination of aid based on the applications submitted for each individual student. Additional information on ExAid including a Frequently Asked Questions document can be found at http://homeroom2.state.nj.us/exaid.htm.

Tuition

The auditor should verify that the charter school charged no tuition for any student attending the charter school. Examination of before and after school care fees should be performed so as to determine that fees to students in these programs are only the reasonable and necessary amounts for the administration of these programs and must be accounted for in the enterprise fund. If the excess revenues over expenditures of before and after school programs are being utilized to offset general fund expenditures, this excess is determined to be tuition fees charged to the students in these programs. The auditor should document this finding in the Auditor's Management Report and make an appropriate recommendation for the discontinuance of this practice.

Reporting On-Behalf Payments

GASB Statement No. 24 requires that an employer government recognize revenue and expenditures for on-behalf payments for fringe benefits and salaries. On-behalf payments for fringe benefits and salaries are direct payments made by one entity (the paying entity or paying government) to a third-party recipient for the employees of another legally separate entity (the employer entity or employer government). In applying this accounting directive in New Jersey, charter schools are required to include in their CAFR as both a revenue and expenditure both the pension contributions made directly to the TPAF by the state on their behalf, as well as the reimbursed social security amounts related to its employees that are TPAF members. The department annually provides charter school information on the amounts paid on their behalf for employer contributions to the TPAF on the DOE website at http://www.nj.gov/education/finance/fp/audit/.

Charter schools should prepare a schedule of the amounts reimbursed by the state for the current year FICA employer contribution for its TPAF members on an accrual basis. That is, the current year amount equals total cash reimbursement received during the current year less the prior year June 30 receivable amount plus the current year June 30 receivable balance. **The on-behalf payments will be included in the CAFR as non-budgetary revenue and expenditure items, similar to the reporting of assets acquired under capital leases.** Charter schools are not required to include these amounts in their annual school budgets or monthly reports of the board secretary. These amounts should be excluded from the Type A programs threshold calculation. For further guidance, auditors should refer to Section II-SA, Federal and State Audit Requirements, of this Audit Program.

Compensation Reporting

N.J.S.A. 18A:23-2.1 requires that the annual audit include test measures to assure that documentation prepared for income tax related purposes complies fully with the requirements of federal and state laws and regulations regarding the compensation which is required to be reported. See the *State Aid/Compliance Supplement* available on the website http://www.nj.gov/education/finance/fp/audit/1011 for suggested audit procedures.

The following links are provided to assist auditors and charter schools in complying with this law: Internal Revenue Service Governmental Entities website - www.irs.gov/govt/fslg/index.html. At that site, select "FSLG Toolkit" for a listing of several tax guides for payroll and fringe benefits (FSLG Taxable Fringe Benefits Guide).

Information on tax filings for the State of New Jersey can be obtained through the website for Department of Treasury, http://www.state.nj.us/treasury/, the Division of Revenue link for "Tax and Employer Filings and Payments" http://www.state.nj.us/treasury/revenue/, or the Division of Taxation link http://www.state.nj.us/treasury/taxation/. Generally, anything regarded as "wages" for federal withholding purposes is subject to withholding for the NJ Income Tax. See also *N.J.S.A.* 54:A1-1 et seq. Auditors are advised to contact the NJ Department of Treasury directly for technical questions regarding taxable compensation for state reporting.

P.L. 2007, c.53 (*N.J.S.A.* 18A:17-14.4) requires the school business administrator, or any other person designated by the charter school, to certify to the Department of Treasury that all documentation prepared for income tax related purposes, in regard to and school business administrators, complies fully with the requirements of federal and state laws and regulations regarding the types of compensation which are

required to be reported. The certification is due annually on or before March 15 for the certification year (calendar year). The first year for this filing was December 31, 2007, and was due March 15, 2008. The form and instructions for this certification are available on the Department of Treasury's website http://www.nj.gov/treasury/taxation/pdf/other_forms/misc/e_cert1.pdf.

Pensionable Wages

All defined benefit plans administered by the NJ Division of Pensions and Benefits require that employee contributions be remitted regularly to the Division. For charter schools, these include the TPAF and PERS. Charter schools are issued a Quarterly Report of Contributions to report and reconcile employee pension information and moneys each calendar quarter. Charter Schools may only include pensionable wages as defined by the Division of Pensions and Benefits. The following discussion is provided to assist auditors when testing payroll and pensionable wages.

The Division of Pensions and Benefits defines pensionable wages or creditable compensation as the compensation of a member subject to pension and group life insurance contributions and creditable for retirement and death benefits administered by the Teachers' Pension and Annuity Fund (TPAF). Creditable compensation is limited to "base salary" which is defined under *N.J.A.C.* 17:3-4.1. Base salary means the annual compensation of a member, in accordance with contracts, ordinances, resolutions, or other established salary policies of the member's employer for all employees in the same position, or all employees covered by the same collective bargaining agreement, which is reported in regular, periodic installments in accordance with the payroll cycle of the employer. Creditable compensation does not include "extra compensation" which is defined in *N.J.A.C.* 17:3-4.1. The Board of Trustees may question the compensation of any member or retiree to determine its creditability where there is evidence that compensation reported as base pay includes extra compensation. The examples of extra compensation listed in the citation above are not meant to be all inclusive.

For the Public Employees' Retirement System (PERS), auditors should refer to *N.J.A.C.* 17:2-4.1, for a similar definition of creditable compensation.

For further guidance, refer to the Division of Pensions and Benefits Employer's Pensions and Benefits Administrative Manual at the website: http://www.state.nj.us/treasury/pensions/epbam/index.htm. Under the "Shortcuts" there is a toolbar "Employer Financial Services/Reporting Contributions." Within that link, The Quarterly Report of Contributions (ROC), column #6 defines base salary and extra compensation. The information contained in the manual should not be quoted as "law." For a ruling that involves pension law, please write to the Division of Pensions and Benefits. Inquiries may be made by email at the link in the above website or by writing to the following address:

The Division of Pensions and Benefits
Attn: EPBAM Editor
P.O. Box 295
Trenton, NJ 08625-0295

Refunds

Refunds on current year expenditures are a credit to the applicable expenditure line account. Refunds on prior year expenditures, and sales of books and manual training materials and products, are miscellaneous income, not refunds. Proceeds from the sale of land, buildings and equipment are other financing sources.

Telecommunications Act of 1996 – Universal Service Fund (E-rate)

The Schools and Libraries Universal Service Fund, known as the "E-rate" was created as part of the Telecommunications Act of 1996 to provide affordable access to modern telecommunications and information services to all eligible schools and libraries in the U.S. The School and Libraries Corporation (SLC) was established by the FCC to administer the Schools and Libraries Universal Service Fund. All public and private schools and libraries qualify for funding based on their level of economic disadvantage (based on the percentage of students eligible for the national school lunch program) and their location, rural or urban. The offset to the reduction in the expenditure is either to accounts receivable if a refund is due or to accounts payable if unpaid at June 30, 2011. Additional information is available at the Department of Education, Office of Technology website at www.state.nj.us/njded/techno/toc.htm and at the School and Libraries website at www.sl.universalservice.org.

Cancellations

Cancelled prior year contractual orders are reflected in the audit report as revenues and expenditures, respectively. Cancellations of prior year reserve for encumbrances increase the amount available for expenditure in the current year.

Travel Expenditures

N.J.S.A. 18A:.11-12 limits expenditures for travel. Travel regulations *(N.J.A.C.* 6A:23A:7.1 et seq.) provide rules on charter school travel policies and procedures. Charter school auditors can access this at http://www.state.nj.us/education/code/current/title6a/chap23a.pdf. Please note that the travel guidance is applicable to all funds. Charter school auditors should refer to *The State Aid/Compliance Supplement* for suggested audit procedures related to travel. Commissioner approval of requests for specific conferences is posted at this website: http://www.state.nj.us/education/genfo/travel/.

Travel Regulation Circular No. 11-05-OMB effective December 16, 2010 supersedes 08-19-OMB.

Entertainment, Meals, and Refreshments Circular No. 11-09-OMB effective January 5, 2011 supersedes 06-14-OMB.

Sale and Lease-back Contracts

*N.J.S.A.*18A:20-4.2(h) authorizes boards of trustees to enter into sale and lease-back contracts on certain instructional materials (i.e. textbooks). The charter school can acquire through sale and lease-back textbooks and non-consumable instructional materials provided that the sale price and principal amount of the lease-back do not exceed the fair market value of the textbooks and instructional materials and that the interest rate applied in the lease-back is consistent with prevailing market rates or is less. The lease-back can be for any term not exceeding in the aggregate of five years.

Proceeds from the sale and lease-back of textbooks and non-consumable instructional materials shall not be included in the calculation of excess undesignated general fund balance during the budget year in which they are realized.

Excess Surplus

Auditors are advised to analyze the charter school's ending fund balance to ensure that the charter school does not accumulate a sizable surplus. Pursuant to N.J.A.C. 6A:23A-22.4, after completion of the school year, the district board of education may petition the Commissioner for a lower rate for the charter school's per pupil amount for the specific grade level if the charter school spends significantly less than budgeted and has accumulated a sizable surplus. The Commissioner may reduce the rate based on a determination of excessive surplus. The criteria for excess surplus is determined by the Commissioner pursuant to N.J.S.A. 18A:7F-7. A charter school may submit comments to the Commissioner regarding the petition for a lower rate for the charter school's budget amount per pupil for the specific grade level from the district of residence of the charter school or non-resident district.

Fund Balance Classifications

In February 2009, the GASB issued GASBS No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. Available for purchase from GASB at https://gasb.org/store GASB No. 54 is effective for periods beginning after June 15, 2010 and establishes accounting and financial reporting standards for governmental funds (Refer to the *Governmental Funds Balance Sheet, B-1*, from the CAFR Outline). Under GASBS 54, general fund balances are further classified into five overarching categories:

- Nonspendable (assets that are not in spendable form; e.g. inventory)
- Restricted
- Committed
- Assigned
- Unassigned

Charter schools will continue to maintain the existing general ledger fund balance accounts (as appropriate) such as reserve for encumbrances, legal reserve, etc. For purposes of presentation in the *Governmental Funds Balance Sheet, B-1*, reserve balances are further categorized into one or more of the five fund balance categories according to the degree of restriction placed upon those balances. Unreserved general fund balance is further categorized as either "assigned" or "unassigned".

For purposes of presentation in the *Governmental Funds Balance Sheet, B-1*, GASB does not consider encumbrances to be a further restriction on fund balances that are already considered restricted, committed or assigned. Accordingly, the reserve for encumbrances account is not displayed as an individual component of overall fund balance. The general ledger balance in the reserve for encumbrances account is reported within the "other purposes" or other appropriate category of committed or assigned fund balance based on the degree of restriction. Significant encumbrances at year-end should be disclosed in the notes to the financial statements, along with other significant commitments. (Par. 24)

Fund balance in the *Governmental Funds Balance Sheet* (Exhibit B-1) reflects the modified accrual basis and under GASB No. 54 should be classified into nonspendable, restricted, committed, assigned or unassigned fund balance. In the accrual basis *Statement of Net Assets* (Exhibit A-1), there are three classifications of net assets: Invested in capital assets, net of related debt, Restricted net assets (with a

line item for each fund in which the net assets are restricted), and Unrestricted. Auditors and charter school staff should refer to GASB 34, paragraphs 30 – 37 for further clarification of these classifications.

> *Auditor's Note* – No appropriation of surplus after June 30, 2011 is to be reflected in the June 30, 2011 balance sheet as designated for subsequent year's expenditures. The department recommends footnote disclosure in the CAFR.

Under GASB No. 54, the reserved fund balance classification is further categorized as restricted, committed or assigned fund balance. Restricted fund balance will generally include amounts constrained for a specific purpose by external parties, constitutional provision, or enabling legislation, such as state or other government imposed fund balance restrictions. All other legal reserves/restrictions require departmental review and approval. The request for approval should state the amount, source, purpose and legal basis for the reserve/restriction (i.e., why the funds are not available for appropriation in the subsequent year) and the fiscal year in which it will be appropriated. Charter schools should submit requests to the Assistant Commissioner of Finance no later than September 30 if approval is required for the audit period under review.

Fund Balance Classifications – Reserved. Reserved fund balance is further categorized as "Restricted", "Committed", and/or "Assigned" on the *General Fund Budgetary Comparison Schedule*, C-1, and *Governmental Funds Balance Sheet* (B-1)

- The **reserve for encumbrances** is maintained in the charter school's general ledger and represents that amount of fund balance related to orders issued in the current year that will be honored in the subsequent year. In general, for other than construction projects, that liquidation must be made within 60 to 90 days of year-end to be a valid reserve at June 30. This should not include accounts payable, since those orders were charged as expenditures in the current year and should be included in the balance sheet as a liability. Separate lines are provided in the Audsum diskette for the reserve for encumbrances at June 30 for the general fund and capital projects fund. The department issued a Hotline on September 16, 2003 providing additional guidance on auditor reviews of encumbrances. Charter schools should not be encumbering goods and services that relate to the subsequent year. The Hotline is available on the department's website at http://www.state.nj.us/education/finance/fp/audit/0304/po.pdf.

- The reserve for encumbrances is not separately presented on the *Governmental Funds Balance Sheet* (Exhibit B-1). GASBS 54 provides that encumbrances are not considered to be an additional restriction on the fund balance where those funds are already restricted, committed, or assigned. Amounts encumbered for a specific purpose for which amounts have not been previously restricted, committed, or assigned, should be classified as either committed or assigned. (par. 24).

- On the fund balance recapitulation presented at the end of the *General Fund Budgetary Comparison Schedule* (Exhibit C-1), the reserve for encumbrances should be displayed as "Year-end encumbrances" and further categorized as "Committed" and/or '"Assigned" fund balance depending on the nature and degree of restriction(s).

- The **reserved fund balance-legally restricted account(s)** are maintained in the general fund. The legally restricted fund balance account(s) is used to report that portion of the general fund surplus that is legally reserved for specific purposes. In general, funds are legally restricted only when constraints placed on the use are externally imposed by creditors (such as through debt

covenants), grantors, contributors or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. This would include reserves established for register audit recoveries and restricted appropriations such as unspent funds from:

1) Sale/lease-back reserve *N.J.S.A.* 18A:7F-7(e)

Legal reserves that are for anything other than state imposed or other government imposed legal restriction must be approved by the Assistant Commissioner of Finance. Examples of state imposed legal restrictions include audited excess surplus, unspent separate proposals, legally established capital accounts, and a reserve established for the sale leaseback of textbooks in the year the proceeds are realized. **The request for approval should by submitted by the charter school to the Assistant Commissioner of Finance by September 30, 2011 for the June 30, 2011 year.** The request should state the purpose and legal basis for the reserve (e.g., the specific "constraint imposed on the use by external parties or by laws or regulations of other governments"). Approval will only be granted for those other legal obligations that are in conformity with GAAP.

Under GAAP, few items would constitute a legal reserve. Per GAAP, the basic concept of a legal reserve is that it is not unilaterally established by the charter school and it cannot be removed without the consent of those imposing the restriction or through formal due process. Charter schools do not have the authority to advance fund (accumulate resources) for a potential future liability by setting aside an amount as a legal reserve. Loss contingencies are not considered legal reserves but instead would be recorded as accrued liabilities if a loss is probable and reasonably estimable. For funds statements, only the amount due and payable with current resources is accrued. For the charter school-wide statements, the full amount is accrued. Contingent liabilities not required to be accrued should be disclosed in the notes to the financial statements. All significant facts with respect to the contingency should be disclosed. GAAP guidance is available in the GASB Codification chapter "Claims and Judgments" (C50).

- The notes to the financial statements must contain a discussion of all legally restricted balances, including the amount, source and fiscal year in which it will be appropriated. A separate line is provided in the Audsum data collection for legal reserves - general fund. These balances, if determined prior to the adoption of the budget, should have been anticipated in the 2011-12 " Charter School Budget Statement" and line 1660, "Amount Budgeted in FY 2011-12" in column 6, General Fund (Reserved) Legal Reserves of the Recapitulation of Balances. Amounts not anticipated in the 2011-12 budget must be shown as a legal reserve in the June 30 CAFR and appropriated in the 2011-12 budget. GASBS No. 54 requires the further categorization of the legal reserve account balance on the *Governmental Funds Balance Sheet* (Exhibit B-1). GASBS No. 54 paragraph 8 requires that amounts placed in legal reserve that are subject to:

    - External constraints externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or
    - Imposed by law through constitutional provisions or enabling legislation

  be further categorized as "Restricted" fund balance. The same categorization is applicable to the *General Fund Budgetary Comparison Schedule* (Exhibit C-1)

SECTION II – SPECIFIC COMPLIANCE
FUND 10 –GENERAL FUND

Fund Balance – Unassigned

All other fund balance is classified as "**Unassigned" fund balance** .Charter schools may reflect management's intent for use of the unassigned fund balance as separate lines in the equity section of the balance sheet under the heading unassigned fund balance. Each designation should be explained in the notes to the financial statements. All other unassigned fund balances should be presented as unassigned-undesignated. The amount of unassigned fund balance that has been included in the upcoming year's general fund budget as budgeted fund balance should be reported in the unassigned fund balance equity section as designated for subsequent year's expenditure. If the budgeted fund balance amount included in the approved budget contains an amount that has been shown in the reserved fund balance section of the balance sheet, do not include it as part of the unassigned designated for subsequent year's expenditure amount. Separate lines are provided in the Audsum data collection for unassigned-undesignated general fund balances and unreserved fund balance that is designated for subsequent year's expenditure. Include on the designated fund balance line only those amounts which were included in the 2011-12 certified budget as budgeted fund balance on lines 121, 122 and 123 that have not already been included on a reserved fund balance line. Include in the unassigned-undesignated line all other unassigned fund balance.

SECTION II – SPECIFIC COMPLIANCE
FUND 20 – SPECIAL REVENUE FUND

TPAF Reimbursement

N.J.S.A. 18A:66-90 requires that each charter school reimburse the state for the employer share of pensions, group life insurance, FICA and other benefits of the Teachers' Pension and Annuity Fund (TPAF) for TPAF members carrying out and paid from federally funded programs. The reimbursement, together with supporting documentation prescribed by the Director of Pensions, must be remitted to the Department of Education within 90 days after the close of the fiscal year. Auditors should refer to the updated letter and downloadable form on the NJDOE website:
http://www.nj.gov/education/finance/ba/tpafmemo.pdf
http://www.nj.gov/education/finance/ba/tpafform.pdf

Charter schools were given specific guidance in a hotline dated June 29, 1993 on accruing a liability for the TPAF Pension and Social Security related to salaries charged to federal grants. The reimbursement must be made by October 1 following the fiscal year end. Auditors are required to certify the accuracy of the reimbursement via their signature on the reimbursement form submitted by the charter school with the actual reimbursement. If submission of the reimbursement form is performed prior to the completion of audit procedures, the form may initially be submitted without the required auditor signature and a revised form reflecting the auditor signature may be subsequently submitted.

Auditors should also include in their audit procedures a test of the biweekly reimbursements filed electronically with the department for all TPAF employees.

ARRA Special Revenue Awards

ARRA Title I, ARRA IDEA or any other ARRA special revenue awards must be reported in separate columns in the *Combining Schedule of Program Revenues and Expenditures – Budgetary Basis* in the Special Revenue Fund section (Exhibit E) of the CAFR.

Acting Commissioner Cerf issued a memo on "Unspent ARRA Funds – in Jeopardy" in May 2011 regarding ARRA Title I, School Improvement and IDEA funds. There is no provision to carryover funds that have not been spent by August 31, 2011. This memo and a schedule of comparison of the allocations to amounts paid to date are available at this website:
http://www.state.nj.us/education/arra/allocation/

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SECTION II – SPECIFIC COMPLIANCE
FUND 30 – CAPITAL PROJECTS FUND

Capital Projects Fund

The proper accounting procedures related to capital projects are included in Chapter 11 of the GAAP Technical Systems Manual.

No transfer may be made under *N.J.S.A.* 18A:22-8.2 from appropriations or surplus accounts for:

a. Capital reserve account

b. Items classified as general fund except to other items so classified or to the capital projects fund to supplement the proceeds from lease purchase agreements

Transfers from appropriations or surplus accounts may be made within the general fund. When specifically approved by the Commissioner, charter schools may transfer surplus from the general fund to the capital projects fund to supplement the proceeds from a lease purchase agreement upon application to and a formal finding by the Commissioner that the transfer is in the best interests of both the students and the charter school after consideration of alternative correction actions.

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SECTION II – SPECIFIC COMPLIANCE
FUND 40 DEBT SERVICE FUND

This section not applicable to charter schools

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SECTION II – SPECIFIC COMPLIANCE
FUND 50 - PERMANENT FUNDS

The permanent fund is used to report resources that are legally restricted so that only the earnings they generate, and not the resources themselves, may be used to support the charter school's programs.

Examples of resources accounted for and reported in a permanent fund include:

- The charter school has received a large bequest from the estate of a wealthy benefactor. The corpus of the donation cannot be spent, but instead is required to be invested to provide earnings that are restricted for a special use identified by the benefactor, e.g., maintenance of the libraries.

- A local resident has donated investments with the stipulation that only the earnings of the investments may be used to purchase musical instruments for the schools.

A permanent fund does not include private-purpose trust funds, which are used to report situations in which the charter school is required to use the principal or earnings for the benefit of those outside the charter school (individuals, private organizations, or other governments), not for charter school purposes. See Section II-60 for treatment of trust funds in the fiduciary fund section of the financial statements.

GASB Statement No. 54 requires that permanent fund principal be reported in the nonspendable fund balance category and additional accumulated balances in the restricted fund balance category.

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SECTION II – SPECIFIC COMPLIANCE
FUND 60 PROPRIETARY FUNDS

Proprietary funds are used to account for charter school activities that are similar to business operations in the private sector. They are not used to account for the normal operations of a charter school regardless as to whether the operations include services provided to outside parties that are offset by revenues such as tuition or adult education fees. There are two categories of proprietary funds -- enterprise funds and internal service funds. The use of these fund types should be consistent with GAAP (GASB Codification 1300.104). Capital Contributions are not reported as a separate component of net assets in the *Statement of Net Assets*, but continue to be reported as such in the funds statements. Charter school staff and auditors should refer to GASB 34, paragraphs 91 through 105 for guidance on proprietary fund financial statements. Additional guidelines for charter schools using the internal service fund to account for shared services are outlined *N.J.A.C.* 6A:23A-16.11.

Enterprise funds:

Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business operations. The most common examples of enterprise funds in New Jersey charter schools are those established to account for the food services program of the charter school and latchkey programs**. All the expenses of these operations are accounted for in the funds with any board contribution shown as a transfer to cover deficit in the general fund and as an operating transfer in the enterprise fund.**

> *Auditor's Note* – The Transfer to Cover Deficit included in the general fund **must** reconcile to the Operating Transfer – Board Contribution reflected in the enterprise fund. The department has included an edit in the Audsum diskette to identify any discrepancy between the reported amounts and recommends completing the Audsum diskette prior to filing the CAFR. The Transfer to Cover Deficit should be reflected as an Other Financing Use on Exhibit B-2 in the general fund column of the Governmental Funds *Statement of Revenues, Expenditures, and Changes in Fund Balances* and an operating transfer out on the C-1 *General Fund Budgetary Comparison Schedule*.

Non Mandated Transportation – Enterprise Fund:

In accordance with *N.J.S.A.* 18A:39, public schools are prohibited from using public school funds to pay for non-mandated transportation (courtesy busing) of students. This service must be fully supported through fees collected from participating families or fundraising revenue. Transfers from the general fund to cover deficits in this fund are prohibited. Auditors are advised to review all invoices and payroll accounts to ensure that all non mandated transportation-related expenditures are properly accounted for in the Enterprise Fund. For additional information regarding eligibility for transportation, refer to the following website: http://www.state.nj.us/education/parents/transportation.htm

Auditor Note: Total non mandated transportation costs paid with public school funds must be treated as a disallowed cost.

SECTION II – SPECIFIC COMPLIANCE
FUND 60 PROPRIETARY FUNDS

Food Service – Enterprise Fund

The charter school is responsible for the administration and operations of the School Food Authority (SFA). Therefore, income from: daily cash sales, prepayment of meals, special functions, vended contracts, rebates, discounts, credits from vendors, and state and federal reimbursements, are school monies. As such, these funds must be under the control of the treasurer of school moneys (or school business administrator/board secretary in a charter school that elects not to maintain the position of treasurer of school moneys pursuant to P.L. 2010,c.39) and are subject to the state's school laws and federal regulations. Management companies may handle the preparation of food, placing of orders for food and supplies and other associated administrative duties, but they are not permitted under state law to administer or hold school funds.

Charter schools may contract with food service management companies (FSMC) to equip, supply and operate cafeterias without profit to the charter school pursuant to *N.J.S.A.* 18A:33-3. When the charter school participates in any federally funded Child Nutrition Program, the contract for the services of a food service management company must meet federal standards and procurement requirements pursuant to Title 7 of the Code of Federal Regulations [7 CFR Parts 210, 215 and 220]. All charter schools rebidding their FSMC contract must rebid pursuant to the Public School Contracts Law, *N.J.S.A.* 18A:18A-1 et seq. as amended; and where the charter school participates in any federally funded Child Nutrition Program(s), rebidding must also be pursuant to 7 CFR 3016.36.

The most widely used contract method in New Jersey is referred to by the *Accounting Guide for Government Contracts* as the "cost plus a fixed fee (management fee) contract." The food service management company receives a set fee for managing the food service operation and the board is liable for the reimbursement of all costs incurred. Regardless of the contract method, the charter school is considered the School Food Authority. Federal regulations prohibit contracts that permit all receipts and expenses to accrue to the food service management company. Even if federal reimbursements are not received, schools using management companies and retaining liability for costs incurred are considered the School Food Authority.

The following procedures should be implemented in order to comply with state laws for administering school moneys.

1. The income from: daily cash sales, prepayment of meals, special functions, vended contracts, rebates, discounts, credits from vendors, and state and federal reimbursements must be under the control of the treasurer of school moneys (or school business administrator/board secretary in a charter school that elects to not maintain the position of treasurer of school moneys pursuant to P.L. 2010,c.39) in any bank or banking institution of this state designated by the board of trustee as a depository of school moneys. Such funds may be deposited in the board's general operating account. A separate food service account is not required, (*N.J.S.A.* 18A:17-34) however, receipts and disbursements of food service funds must be separately accounted for in the records of the treasurer and board secretary. The board secretary should maintain the cash records in accordance with *The Uniform Minimum Chart of Accounts (2003 Edition).*

   When the board budgets funds in its general fund budget in account 11-000-310-930, Transfers to Cover Deficit, those funds may be transferred to the Enterprise Fund at the end of the year for the actual amount, if any. If made prior to the end of the year, any amount of the transfer not needed for a deficit may be refunded to the general fund.

2. The board may by resolution designate the board secretary or another person to approve payments without board approval to expedite the payment process. All such payments must be issued on properly signed warrants and subsequently ratified by the board. The board's resolution may limit the authorization to certain purposes such as the school food service reimbursements and may also limit the dollar amount per payment or month. (*N.J.S.A.* 18A:19-1, 2, 4 and 4.1)

3. Loans or advances from the board to a food service management company are prohibited. All claims and demands must state that articles have been furnished or services rendered before payment can be made. (*N.J.S.A.* 18A:19-3)

4. Food service management companies may negotiate the cost reimbursement dates with the board. However, no interest may be charged on payments that are not made within the negotiated dates.

5. The food service management company must provide itemized claims for services and goods to the board secretary for reimbursement.
    a) The food service management company should process payroll data in such a way that the board secretary can reimburse it in time for payroll checks to be issued. A one-week lag between payroll period and check disbursement should provide sufficient time for all necessary verifications and payments.
    b) The food service management company must submit an itemized claim for reimbursement for all goods and services. Reimbursement claims for payroll should include either a copy of the company's payroll for those employees providing service to the charter school or an itemized listing of employees, check numbers and date, hours worked and earnings. In the latter scenario, payrolls and support documentation must be made available whenever requested by the board secretary and for the annual audit.

    When the food service management company purchases specifically for the charter school, reimbursement claims for goods should list invoice numbers, dates, vendor names and amounts (Sample 1 on page II-60.5). If the food service management company purchases food in bulk for a number of charter schools/districts, it may use the above method allocating invoice amounts between the charter schools/districts based on the percentage of each charter school/district's student enrollment (or participation) to the total enrollment for all schools (Sample 2 in Section II, 60.6). It may also use a per-meal cost calculation based on the total amount of the invoices divided by the total meals served to all charter schools/districts. Each charter school/district pro-rata share of the costs would be the per-meal cost multiplied by the meals served in each charter school/district (Sample 3 in Section II, 60.8).

    When a food service management company submits an itemized claim for reimbursement, it is not necessary to provide vendor invoices. However, they must be made available whenever requested by the board secretary and for the annual audit.

6. The charter school and the food service management company should work closely to minimize the time of reimbursements and to avoid cash flow problems. However, a food service management company may need to establish a line of credit if the timing of reimbursements is not sufficient to make its payrolls. Interest is not an allowable expense that can be paid from the food service (enterprise) fund. If the FSMC insists on late fees or interest on late payments, the charter school can agree to this, but must pay the interest/late fees directly from the charter school's general/operating fund resources, not from the food service (enterprise) fund.

The foregoing procedures are recommended by the department to comply with the state's statutes for administering school funds. However, these procedures do not replace but rather supplement the requirement contained in 7 CFR 210.16 that all books and records of the food service management company pertaining to the school food service program shall remain the property of the charter school. Auditors must include appropriate comments and recommendation in the event that funds are not properly administered as described in Division of Finance Policy Bulletin 200-12.

SAS #70 (*Service Organizations*) Reports

In accordance with SAS #70, as amended by SAS #88, charter school auditors may evaluate the internal controls of a food service management company by relying upon the opinions of a "service auditor" of the food service management company's internal control system. To that end, charter schools must only contract with food service management companies that can provide an audit opinion (for 2010-11 a Type 1 or a Type 2 opinion) on said company's system of internal control. All food service management company bid specifications, contracts and/or addenda must include this requirement as a condition of bid qualification.

Finalized during May 2010, SAS no. 70 has been divided and replaced by two separate standards; one standard (SAS) for user (charter school) auditors and one standard (SSAE No. 16) for service organization (FSMC) auditors. To clarify, SSAE No. 16 is effective for service auditor's reports for periods ending on or after June 15, 2011. The SAS, *Audit Considerations Relating to an Entity Using a Service Organization* is applicable to the audit of charter schools that have contracted with a food service management company and is effective for audits of financial statements for periods ending on or after December 15, 2012.
The AICPA published the SAS at:
http://www.aicpa.org/InterestAreas/AccountingAndAuditing/Resources/AudAttest/AudAttestStndrds/ASBClarity/DownloadableDocuments/Clarified_SASs/Clarified%20SAS%20Service%20Organizations_Effective%20Date%20Change_Clean.pdf

SECTION II – SPECIFIC COMPLIANCE
FUND 60 PROPRIETARY FUNDS

SAMPLE 1

Foodland Food Services
123 Broad Street
Anytown, NJ 08000
609-123-4567

October 15, 200X
Invoice #123456

Any Charter School
Highland Street
Old Town, NJ 08111

For reimbursement of costs incurred related to the provision of food services for the Any Charter School during the month of September 200X. The costs incurred are listed below:

Invoice #	Date	Vendor Name	Amount
06932	8/31/0X	Bakeland	$2,398.61
12555X	9/02/0X	Murray's Meats	6,779.38
431182	9/03/0X	Polly's Produce	796.54
218812	9/07/0X	Dan's Dairy	877.32
06988	9/07/0X	Bakeland	531.89
12682X	9/07/0X	Murray's Meats	153.90
431906	9/13/0X	Polly's Produce	591.83
219601	9/24/0X	Dan's Dairy	877.32
		Total	$13,006.79

Please remit the above amount by November 15, 200X. The listed invoices are available for audit and review. I certify that the within invoice is correct in all its particulars, that the described goods or services have been furnished or rendered and that no bonus has been given or received on account of said invoice.

Franklin Chief
President
Foodland Food Services

SECTION II – SPECIFIC COMPLIANCE
FUND 60 PROPRIETARY FUNDS

SAMPLE 2 (1 of 2)

Foodland Food Services
123 Broad Street
Anytown, NJ 08000
609-123-4567

October 15, 200X
Invoice #123456

Any Charter School
Highland Street
Old Town, NJ 08111

For reimbursement of the Any Charter School's pro-rata share of costs related to the shared food services program provided by our company. The allocation is based on the number of students participating at each school. See the attached cost allocation detail supporting the amount charged.

For the month of September 200X $3,107.21

Please remit the above amount by November 15, 200X. The invoices listed on the attached cost allocation are available for audit and review. I certify that the within invoice is correct in all its particulars, that the described goods or services have been furnished or rendered and that no bonus has been given or received on account of said invoice.

Franklin Chief
President
Foodland Food Services

SECTION II – SPECIFIC COMPLIANCE
FUND 60 PROPRIETARY FUNDS

SAMPLE 2 (2 of 2)

NEW CITY CHARTER SCHOOL FOOD SERVICES ALLOCATION

Invoice #	Date	Vendor Name	New City	Upper	Lower	Middle	Total
			19.7%	14.1%	27.8%	38.4%	100.0%
6932	8/31/200X	Bakeland	$208.09	$148.94	$293.65	$405.61	$1,056.29
12555X	9/2/200X	Murray's Meats	689.23	493.31	972.62	1,343.48	3,498.64
431182	9/3/200X	Polly's Produce	176.45	126.29	249.00	343.94	895.68
218812	9/7/200X	Dan's Dairy	632.22	452.50	892.17	1,232.35	3,209.24
6988	9/7/200X	Bakeland	118.77	85.01	167.61	231.51	602.90
12682D	9/7/200X	Murray's Meats	692.86	49591	977.75	1,350.55	3,517.07
431906	9/13/200X	Polly's Produce	112.21	80.31	158.34	218.71	569.57
219601	7/13/200X	Dan's Dairy	477.38	341.68	673.66	930.52	2,423.24
		Total	$3,107.21	$2,223.95	$4,384.80	$6,056.67	$15,772.63

	No. of Students Participating	Percentage
New City	630	19.7%
Upper	452	14.1%
Lower	889	27.8%
Middle	1,230	38.4%
Total	3,201	100.0%

SECTION II – SPECIFIC COMPLIANCE
FUND 60 PROPRIETARY FUNDS

SAMPLE 3 (1 of 2)

Foodland Food Services
123 Broad Street
Anytown, NJ 08000
609-123-4567

October 15, 200X
Invoice #123456

Any Charter School
Highland Street
Old Town, NJ 08111

For reimbursement of the Any Charter School's pro-rata share of costs related to the shared food services program provided by our company. See the attached per meal cost calculation supporting the amount charged.

For the month of September 200X	
1,598 meals @ $2.45 meal	$3,910.60

Please remit the above amount by November 15, 200X. The invoices listed on the per meal cost calculation are available for audit and review. I certify that the within invoice is correct in all its particulars, that the described goods or services have been furnished or rendered and that no bonus has been given or received on account of said invoice.

Franklin Chief
President
Foodland Food Services

SAMPLE 3 (2 of 2)

NEW CITY ANY CHARTER SCHOOL FOOD SERVICES ALLOCATION

Invoice#	Date	Vendor Name	Invoice Amount
6932	8/31/200X	Bakeland	$ 2,398.61
12555x	9/2/200X	Murray's Meat	6,779.38
431182	9/3/200X	Polly's Produce	796.54
218812	9/7/200X	Dan's Diary	877.32
6988	9/7/200X	Bakeland	531.89
12682X	9/7/200X	Murray's Meat	153.90
431906	9/13/200X	Polly's Produce	591.83
219601	7/13/200X	Dan's Diary	877.32
		Total	$13,006.79

Charter School	No. of Meals	Price/Meal	Amount
New City	1,598	$ 2.45	$3,910.60
Upper	1,299	$ 2.45	3,178.89
Lower	1,243	$ 2.45	3.041.85
Middle	1,175	$ 2.45	2.875.44
Total	5,315	$ 2.45	$13,006.79

SECTION II – SPECIFIC COMPLIANCE
FUND 60 PROPRIETARY FUNDS

Child Nutrition Program Requirements

NJ OMB Circular 04-04 requires audits of recipients in accordance with the Single Audit Act, Amendments, OMB Circular No. A-133 Revised (OMB A-133) and state policy, or a financial statement audit performed in accordance with Government Auditing Standards (Yellow Book) depending on the amount of funds expended. NJ Circular 04-04 states "Auditors should use the same risk based approach to audit and monitor State financial assistance, as used for federal programs. This approach is described in OMB A-133 Revised." The charter school's independent auditor should refer to OMB A-133 paragraphs .520 and .525 to calculate whether the Child Nutrition Cluster programs meet the federal major program determination criteria. Auditors should follow the federal Compliance Supplement (Department of Agriculture) for the Child Nutrition Cluster (CFDA 10.553 School Breakfast Program, CFDA 10.555 National School Lunch Program, CFDA 10.556 Special Milk Program for Children, CFDA 10.582 Fresh Fruit and Vegetable Program, and CFDA 10.559 Summer Food Service Program for Children). The federal Compliance Supplement can be obtained at http://www.whitehouse.gov/omb/circulars/index.html. The Bureau of Child Nutrition Programs' audit policy complies with OMB A-133 with revisions published June 27, 2003 and June 26, 2007. The procedures below reflect the Compliance Supplement but are not intended to be all inclusive.

Charter Schools and their auditors should refer to the sample Proprietary Fund statements (Exhibits B-4, B-5, and B- 6) on the NJDOE website http://www.nj.gov/njded/finance/fp/cafr/ . When a charter school has more than two programs in the Proprietary Fund, combining statements should be prepared. The Proprietary Fund combining statements at this website are labeled Exhibits G-1, G-2 and G-3.

Auditors should report on the condition of the financial transactions and statistical records of the School Food Service Fund, including a review of monthly reimbursement vouchers, meal count records, Edit Check Worksheets, and eligibility applications. **Determine whether there are controls providing reasonable assurance that all meals reported to the state agency for reimbursement are <u>based on accurate counts</u> and are served to <u>eligible children</u>.**

Please Note: Effective with October 2007 monthly reimbursement claims were entered on-line using the School Nutrition Electronic Application and Reimbursement System (SNEARS) website via the myNewJersey portal. This on-line system provides payment status, payment logs and a monthly report summarizing meals claimed by site. The auditor may request these reports from the charter school.

1. Suggested audit procedures to ensure that reimbursement received is supported by source documents.

    a) <u>ELIGIBILITY APPLICATIONS</u> – Review household eligibility applications to evaluate completeness of required information and verify eligibility determination. Form number 63 provides guidance for the application approval process and is available on the NJ Department of Agriculture website at http://www.state.nj.us/agriculture/applic/forms/#6 . Any incomplete free or reduced price applications should be placed in the Paid (denied) category, and an overclaim must be assessed on the Schedule of Meal Count Activity. Incorrectly determined applications should be placed in the correct category, and the resulting overclaim/underclaim must be identified on the Schedule of Meal Count Activity. Additionally, audit findings related to the free and reduced eligibility determination must be reported in the Auditor's Management Report (AMR) in the School Food Service section.

SECTION II – SPECIFIC COMPLIANCE
FUND 60 PROPRIETARY FUNDS

NOTE:
Eligibility is also required to be determined through the Direct Certification Process. Please refer to the April 19, 2010 memo on Direct Certification Workshops and the July 9, 2010 Direct Certification memo. Copies of these memos should be available at the charter school. Schools can directly certify students as eligible for free school meals by uploading their student database via the SNEARS web-based system and the data is matched against the data from Food Stamps/TANF for the selected municipalities. Beginning with school year 2009-2010, direct certification eligibility can be extended to any other students living in the household; see memo dated September 8, 2009, "Important Changes in Determination of Eligibility for Free School Meals/Milk". In order for the charter school to identify newly eligible students, direct certification matching against updated Food Stamp/TANF data may be performed up to four times during the school year.

Schools participating in Provision I or II are not required to collect eligibility applications annually. Please refer to eligibility requirements set forth in the July 9, 2010 memo "Annual Application Process for Provisions I and II."

Eligibility Application: Household Application for Free and Reduced Price Meals and/or Milk. Auditors should verify for the sample selected that the correct eligibility applications have been utilized, fully completed, and properly supported and maintained.

- The Household Application for Free and Reduced Price Meals and/or Milk is the only eligibility application in use for this school year. Since a foster child is considered a family of one, he/she should be the only child listed on a separate household application. For example, a family with five children (3 of their own and 2 foster children), is required to complete three household applications – one application inclusive of their own three children, plus individual applications for each for the two foster children.
- Household applications must be maintained centrally. (The Department of Agriculture has strongly recommended that a representative from the charter school) attend a Determining Official Workshop.)
- Household applications must be on the correct state approved format for the school year being reviewed.
- If an application has food stamp or TANF case numbers for at least one student residing in the household; free eligibility can be extended to all students living in the household.
- Eligibility determination of a household application is effective for the entire school year with the exception of an income listed as zero. Zero income applications are placed on temporary status and must be updated as additional documentation is received by the charter school.
- Every household member listed on the application must either have an income reported **or** the box indicating zero income for that individual must be checked. Income must be listed by the amount received by each household member and the frequency of which the member received the income. Frequency is determined as weekly, every two weeks, twice monthly, or monthly. If more than one frequency is provided the total household income must be converted to annual.
- There is a section on the household application used to identify children who are homeless, migrant or runaway and categorically eligible. Charter schools must designate an Educational Agency Liaison for the homeless. This

liaison and the Migrant Coordinator are the only approved sources of supporting documentation for the application of homeless, migrant or runaway children.

b) MEAL COUNT RECORDS - Review meal count records on a school-by-school basis to verify meals claimed on reimbursement claim. Edit Check Worksheet(s) must be completed for every lunch reimbursement claim submitted and the required comparisons made before completing the reimbursement claim. Edit Check Worksheet(s) are optional for the breakfast program. Any meals denied free or reduced priced eligibility should be credited at the paid rate of reimbursement and overclaim/underclaim identified on the Schedule of Meal Count Activity.

A sample Schedule of Meal Count Activity is presented on page III-4.21 of this Audit Program and instructions for completion are as follows:

1. Most column headings are self-explanatory.

2. When less than 100 percent of the meals claimed for a program in any category (Paid, Reduced or Free) have been tested, the auditor should report the number of meals examined in the Meals tested column, and verified in the Meals Verified column. Eligibility application exceptions/reclassifications discovered must be factored into the "Verified" column over 180 operating days or, where known, the exact number of meals served to the reclassified student. For example, an auditor has tested less than 100 percent of meals claimed for the National School Lunch program and has found an error resulting in the reclassification from the "Free" category to the "Reduced" category for one student. The reclassification must be reflected in the "Meals Verified" column over 180 operating days or the number of actual meals served to that student, and will result in an adjustment to column 6 (Difference) and column 8 (Over/Under Claim) in both the "Free" and "Reduced" categories.

3. Column six (Difference) is the difference between the Meals Tested column and the Meals Verified column for each program

4. Column eight is the over/underclaim calculated as the Difference times the Rate for each program. A net over/underclaim for all meal programs combined is presented at the bottom of the (Over)/Under Claim column.

Unsupported reimbursement must be cited as a finding of noncompliance and a financial assessment identified on the Schedule of Meal Count Activity (Overclaim/Underclaim). Provide pertinent detail, i.e. school, month.

NOTE: Schools participating in the Seamless Summer Option feed all children at the free rate of reimbursement.

2. Verification Regulations issued by the United States Department of Agriculture require all sponsors of the National School Lunch and School Breakfast Programs to verify a minimum number of approved applications on file as of October 1 of each school year. Sample selection and verification may begin earlier based on projections done by school officials. However, the final sample size must be based on the actual number of approved applications on file as of

October 1. The independent auditor's review of eligibility applications should include an examination of the internal verification process and internal sampling records.

- The Sample Selection Method for Internal Verification of Applications is:

  a) Use all approved applications on file at October 1, to determine the appropriate sample size and to select the applications for verification. Note that sample size depends on the number of paper applications, NOT the number of children represented.

  b) The required sample size is the LESSER of:
     1. 3 percent of all approved applications*, or
     2. 3,000 approved "error prone" applications

     *Applications included in the sample must be selected from the pool of "error prone" applications, to the extent possible. If there are not a sufficient number of "error prone" applications to complete the sample, the remaining applications should be randomly selected from the pool of "non-error prone" applications.

  c) "Error prone" applications are those applications characterized by:
     - Annual income within $1,200 of the annual income guidelines
     - Monthly income within $100 of the monthly income guidelines
     - Twice a month income within $50 of the twice a month income guidelines
     - Every two weeks income within $50 of the every two weeks income guidelines
     - Weekly income within $25 of the weekly income guidelines

  d) Fractional sample size calculations are always rounded upward, increasing the sample size. Example: 340 approved applications are on file at October 1. (340 X 3% = 10.2 applications; sample size must be 11).

Note to auditor: Verify that internal verification procedures require that each application selected for internal verification be reviewed for error prone accuracy by charter school personnel other than by the individual who made the initial approval determination. The auditor should verify that the process used by the charter school resulted in approved applications being classified in the charter school records as "approved applications" considered in the internal audit sampling pool as described in (b) above. Verify that incorrectly approved applications discovered during the internal sampling process have been removed from the internal sampling pool of "approved applications;" the eligibility status changed, a formal notification sent to the family of a change in eligibility along with instructions for resubmission of their application including information regarding acceptable forms of income documentation in support of their application.

All internal verification activity must be completed by November 15 of each school year. Beginning with school year 2010-11, the charter school must electronically transmit the two parts of the Verification Summary Report. Part 1 of the Verification Summary Report transmits enrollment and total applications (by category) on file as of October 1and is due by October 15.

Auditors should be aware that the report electronically calculates the number of applications the charter school must verify. Part 2 of the Verification Summary Report is due by March 1, and includes the charter school's reporting of the results of the verification process performed pursuant to Part 1. Auditors should obtain a copy of the September 23, 2010 memo, "Verification Summary Report." Failure to complete verification will result in reimbursement being withheld by the Bureau. The auditor's review of eligibility applications should include a review of the verification files to ensure that the verification process was completed on a timely basis.

3. Expenditures of school food service revenues should be limited to allowable school food service direct and indirect costs. Review vendor invoices and verify labor costs. Determine that inventory records on food and supply items are currently maintained. Review time sheets and verify labor cost. Verify that payroll records are maintained.

4. A School Food Authority is required to maintain a nonprofit School Food Service. The nonprofit status of the School Food Service is determined by evaluating net cash resources. Net cash resources are defined as all monies that are available to, or have accrued to a School Food Authority's nonprofit school food service at any given time, less cash payable. Such monies may include, but are not limited to, cash on hand, cash receivable, earnings on investments, cash on deposit and the value of stocks, bonds or other negotiable securities. Net cash resources may not exceed three months average expenditures. In the event that net cash resources exceed three months average expenditures, the state agency may require the School Food Authority to reduce children's prices, improve food quality or take other actions designed to improve the nonprofit school food service. (REF 7CFR 210:15)

5. The auditor should comment on whether Food Distribution Program processed and warehoused U.S.D.A. commodities were received. If the charter school is utilizing a FSMC to provide meals, review evidence that the market value of Food Distribution Program processed and warehoused commodities was credited to the charter school. Year to date amounts must be provided.

6. Auditors should verify that financial arrangements (i.e. fee calculations, presentation of invoices, and other provisions) in the Food Service Management (FSMC) contract have been complied with; if not, cite exception:
   a) Is FSMC fee calculated in accordance with the contract provisions and properly reported in the year end operating statement?
   b) Has the FSMC met or exceeded the food service program operating results guarantee provision stated in the contract/addendum?

7. The United States Department of Agriculture does not permit increases in reimbursement for revised vouchers received after 60 days without proper verification. However, payment can be considered if the underclaim is verified in an audit or administrative review. **Auditors are instructed to verify any underclaims (identify in the Schedule of Meal Count Activity) as a result of late revisions**. Please note that such payment is subject to approval.

8. Federal procurement requirements for contracts with a FSMC are published in the Federal Register, Vol. 72, No 210, dated October 31, 2007. The state agency prototype that was approved as part of the annual FSMC registration process must be used in its entirety.
   - FSMC must either identify allowable and unallowable costs, OR must exclude all unallowable costs and certify that only allowable costs are submitted to the charter school for payment.

- FSMC must identify the amount of each discount, rebate and other applicable credit on bills and invoices presented to the charter school for payment. FSMC determines in contract the frequency of reporting such information (may not be less than annually).
- FSMC must identify the specific method(s) used to report discounts, rebates and other applicable credits that are not reported prior to conclusion of the contract.
- FSMC must maintain documentation of costs and discounts, rebates, and other applicable credits and must furnish such documentation upon request to the charter school, state agency or USDA.

9. For charter schools selected to participate in the Fresh Fruit and Vegetable Program (FFVP):
   - The charter school must have a signed Child Nutrition Program addendum for the FFVP.
   - Costs charged must be allowable according to rules of program outlined in the USDA FFVP Program Handbook that can be accessed at http://www.fns.usda.gov/cnd/ffvp/default.htm
   - Food costs, labor charges, and equipment purchases for this program must be identified as such, and must correspond to the appropriate FFVP reimbursement vouchers.

The following memorandums and attachments are for the school year 2010-2011 and should be available at local charter school offices:

1. January 4, 2010 – Upcoming Trainings for Contracting Food Service Operations
2. March 5, 2010 - Food Service Management Company contract Renewals
3. April 15, 2010 – Seamless Summer Option
4. April 19, 2010 – Fiscal year 2011 Direct Certification Process
5. May 14, 2010 – Child Nutrition Program Documents for School Year 2010-2011
6. June 1, 2010 – Fiscal 2011 Annual Agreement Packet for Child Nutrition Programs
7. June 7, 2010 – Training on Navigating the School Nutrition Electronic Application and Reimbursement System (SNEARS)
8. June 14, 2010 – State Law Regarding the School Breakfast Program in Public Schools
9. June, 2010 – Free and Reduced Price Application Workshops for Determining Officials
10. June, 2010 – Fiscal Year 2011 School Nutrition Required Materials
11. July 1, 2010 – Important Information Regarding State funding for School Breakfast and Lunch Programs
12. Fiscal Year 2011 Reimbursement Rates for Public and Charter Schools
13. Fiscal Year 2011 Reimbursement Rates for Non-public Schools and RCCIs
14. Maximum Price Schedule School Year 2010-2011
15. July 9, 2010 – Annual Application Process for Provisions I and II
16. July 21, 2010 – Allowable Costs for Meals in Accordance with N.J.A.C. 6A:23-4.5(a)(20)
17. August, 2010 – Fiscal Year 2011 Verification Workshops
18. August 23, 2010 – Important Back to School Information regarding School Nutrition Programs
19. October 21, 2010 – Important reminder of Required Tasks Related to child Nutrition Programs.
20. July 9, 2010 – Direct Certification for 10-11 School Year
21. Directory of FSMC for 2010-2011
22. Prototype FSMC Contract for 2010-2011
23. Prototype FSMC Addendum for 2010-2012

SECTION II – SPECIFIC COMPLIANCE
FUND 60 PROPRIETARY FUNDS

FISCAL YEAR 2011

JULY 1, 2010 - JUNE 30, 2011

REIMBURSEMENT RATE BREAKDOWN

NATIONAL SCHOOL LUNCH PROGRAM

REGULAR RATE Charter schools w/less than 60% of Free and Reduced			
	FEDERAL	STATE	TOTAL
FREE	2.72	0.00	$2.72
RED	2.32	0.00	$2.32
PAID	.26	0.00	$0.26

HIGH RATE (EXTRA .02 CENTS) Charter schools w/more than 60% of Free and Reduced			
	FEDERAL	STATE	TOTAL
FREE	2.74	0.00	$2.74
RED	2.34	0.00	$2.34
PAID	.28	0.00	$0.28

SCHOOL BREAKFAST PROGRAM

REGULAR RATES			
	FEDERAL	STATE	TOTAL
FREE	1.48	0.00	$1.48
RED	1.18	0.00	$1.18
PAID	0.26	0.00	$0.26

SEVERE NEED RATES			
	FEDERAL	STATE	TOTAL
FREE	1.76	0.00	$1.76
RED	1.46	0.00	$1.46
PAID	.26	0.00	$0.26

AFTER SCHOOL SNACKS

AT RISK/ AREA ELIGIBLE	$0.74
NON-AREA ELIGIBLE	
FREE	$ 0.74
REDUCED	$ 0.37
PAID	$ 0.06

SPECIAL MILK PROGRAM

FREE	Average cost per half pint *Based on Individual Charter School's costs
PAID	$ 0.1775

Commodity Value $ 0.2025

SECTION II- SPECIFIC COMPLIANCE
PROPRIETARY FUNDS
FUND 70 – INTERNAL SERVICE FUNDS

Internal Service Funds (*N.J.A.C.* 6A:23A-16.11)

Charter schools should use internal service funds to account for the financing of goods or services provided by one department or office to other departments or offices of the charter school, or to other charter schools or district boards of education and governmental units, on a cost-reimbursement basis. Internal service funds are cost accounting and distribution entities, and are intended to "break even" annually and/or over a period of years. The use of an internal service fund does not provide additional revenue or expenses to the charter school but acts as a means to document the sharing of the costs. Use of this fund replaces the prior common practice of "refunding" expenditure accounts for shared services. Some activities that may be accounted for in an internal service fund are central purchasing and warehousing, central motor pools, central printing and duplicating or central data processing departments.

Arrangements for sharing the costs of administrative and other non-instructional personnel and related costs under joint agreements where the employees remain under the employment of one lead school would also be accounted for in an internal service fund in the records of the lead school. Each of the "sharing" schools, including the employing lead school, should reflect their agreed-upon portion of the costs in the general fund. For the employing schools, that cost would be budgeted as a salary expenditure. The "sharing" schools would account for the payments made to the lead schools as a contracted service under the appropriate function. If the shared employees have employment contracts with each of the schools involved, each school's share of the employees' salary and related costs would be budgeted and expended against the appropriate salary and other accounts and there would be no need for any of the charter schools involved to establish an internal service fund.

- The board providing the shared service shall allocate the costs on a user charge basis to all participating entities on an annual basis at a minimum.
- User charges should be reported by entities or funds being serviced by the internal service fund in the applicable line item account for the goods or services received.
- Sales and purchases of goods and services for a price approximating their external exchange value should be reported as revenues ("Services Provided to Other Funds"). The total user charges should approximate the total costs of the internal service fund.

Auditors should refer to Chapter 14 of the GAAP Technical Systems Manual for additional guidance. As a reminder, the costs of instructional programs, including regular, or special, should be accounted for in the general fund.

Self-insurance (Risk Financing):

Self-insurance is the practice of a charter school controlling and self-directing the costs of administering an insurance program while retaining a risk of loss. GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, as amended by GASB 30, *Risk Financing Omnibus*, provides the accounting and financial standards for risk financing and self-insurance related activities. GASB 10 paragraph 63 permits the use of either the internal service fund or the general fund for such purposes. NJDOE has recommended using the internal service fund. The Government Finance Officers Association's publication *Governmental Accounting, Auditing, and Financial Reporting* (the "Blue Book") references GASB 10 paragraph 66 and states on page 101, "If a government chooses to use an internal service fund to account for its risk financing activities, interfund premiums should be classified as interfund services provided (a reciprocal interfund activity). As a result, premiums received

by the internal service fund should be reported as revenues. Unless excess revenues are justified, premiums in excess of probable and measurable losses incurred must be reported as an operating transfer (a nonreciprocal interfund activity) rather than as revenue."

The Internal Service Fund reports on the accrual basis and per GASB 10 paragraph 53 should limit liability recognition to probable and measurable losses as of the balance sheet date. For example, worker's compensation losses that have been incurred but not reported (event occurred, but no claim has been asserted at the balance sheet date), are accrued if a reasonable estimate of the loss can be made.

SECTION II- SPECIFIC COMPLIANCE
FIDUCIARY FUNDS
FUND 80 –TRUST FUND

Assets that are held in a trustee or agency capacity for external parties and that cannot be used to support the government's own programs are reported as fiduciary funds. Trust funds may be distinguished from agency funds by the existence of a trust agreement, a higher degree of management involvement, and a longer holding period of the fund resources. Agency funds report resources held by the reporting government in a purely custodial capacity.

Fiduciary trust and agency fund activity is not included in the charter school-wide financial statements (the Exhibit A series) but is reported in the fund statements (Exhibit B7 and B8) as described below. Inclusion of the trust or agency fund resources in the charter school-wide financial statements might mislead the reader about the financial position of the charter school since these funds are not available for use by the charter school.

Trust Funds:

There are three classes of trust funds:

- Pension and other employee benefit trust
- Investment trust funds
- Private-purpose trust funds

Pension and other employee benefit trust funds account for resources held in trust for the members and beneficiaries of the charter school's employee benefit plans. Investment trust funds report the resources of a combined investment effort among charter schools. Private-purpose trust funds encompass other trust fund arrangements for which principal and income benefit individuals or agencies outside of the charter school. Examples of a private purpose trust fund are a scholarship fund or a fund that reports the resources of an awards program, funded by contributions from local businesses to provide small cash awards to qualifying high school seniors.

When funds are legally restricted to the extent that only the earnings, and not the principal, may be used to benefit the charter school, those resources are reported in the permanent fund.

There are two required trust fund financial statements under GAAP:

- *Statement of Fiduciary Net Assets*
- *Statement of Changes in Fiduciary Net Assets*

Refer to the *Statement of Fiduciary Net Assets* and the *Statement of Changes in Fiduciary Net Assets* (Exhibits B-7 and B-8), the sample fiduciary fund statements, in the Sample Statements section on the NJDOE web site: http://www.state.nj.us/njded/finance/fp/cafr/ .

SECTION II- SPECIFIC COMPLIANCE
FIDUCIARY FUNDS
FUND 80 –TRUST FUND

Unemployment Trust Fund

When a charter school elects the reimbursement method (also called the payment in lieu of contributions or pay as you go method, i.e., the state pays the claim and invoices the charter school for the amount due) for unemployment compensation, the accumulation of funds is reported in a trust/fiduciary fund in the CAFR.

Effective January 1, 1999, a portion of the employee's deductions for unemployment compensation are required to be deposited in the Unemployment Compensation Insurance Trust Fund. This applies to charter schools that fund New Jersey Unemployment Compensation Insurance under the "Benefit Reimbursement Method". The percentage breakdown for the worker contributions is as follows:

	As of July 1, 2004
Worker Unemployment Contributions:	
	0.125% Submit with Quarterly Contributions Report
	0.300% ***Deposit into individual trust account***
	0.425%

Charter schools that fund New Jersey Unemployment Compensation Insurance under the "Contributory Method" (Agency fund) will continue to remit the entire employee deduction to the Commissioner of Labor. If you have questions that pertain to withholding and/or filing, it is recommended that you contact the New Jersey Department of Labor at (609) 633-6400.

Section 457 Deferred Compensation Plans

N.J.S.A. 18A:66-127 through 129 as amended by P.L. 2003, c.155, permits boards of trustees to establish tax-sheltered deferred compensation plans under section 457 of the federal Internal Revenue Code. Additionally, the act grandfathers any section 457 plan established by a charter schools prior to the effective date of this law.

GASB Statement No. 32 Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans as amended by GASB Statement No. 34 provides authoritative guidance on the reporting of 457 plans. Generally, the charter schools Board of Trustee must determine whether or not the charter school is acting in the capacity as trustee for the plan. Factors such as whether the Board has retained the power to make investment decisions for the plan, approves loans made from plan assets, and approves withdrawals for unforeseen emergencies suggest the charter school is acting in the capacity of a trustee.

If the charter school is acting as a plan trustee, then the assets of the plan are reported in the fiduciary fund under the category "pension and other employee benefit trust funds." If the charter school has established a 457 plan but does not hold the assets in a trustee capacity, then those assets are not included in the charter school's fiduciary fund financial statements.

SECTION II- SPECIFIC COMPLIANCE
FIDUCIARY FUNDS
FUND 90 –AGENCY FUND

Agency funds report resources held and administered by the reporting charter school in a purely custodial capacity for other governments, organizations, and/or individuals. These funds typically involve only the receipt, temporary investment, and remittance of the resources to external parties. Common examples of agency funds are payroll and student activity funds.

Agency funds are included in a separate column in the *Statement of Fiduciary Net Assets*. Because an agency fund does not have net assets, it is not included in the *Statement of Changes in Fiduciary Net Assets*. The charter school will continue to present the *Student Activity Agency Fund Schedule of Receipts and Disbursements* in Other Supplementary Information (Exhibit H-3).

Payroll funds: Where a charter school uses a central payroll system and reports all payroll deductions in an agency fund, the unremitted balances in the agency fund at year-end are reported by the agency fund as liabilities. Refer to Section II-10.3 for discussion on regulations related to third party disbursements (payroll service organizations). The regulations (*N.J.A.C.* 5:30-17 et seq.) are available on the DCA website.

Health Insurance Withholding

P.L.2010, c. 2 was signed into law on March 22, 2010 and effective May 21, 2010. This law changed various provisions of the State Health Benefits Program and the School Employees Health Benefits Program. Withholding from employees for this purpose should be accounted for in the Payroll Agency Fund as an employee payroll deduction. The withholding is not revenue to the charter school but offsets the cost of health benefits paid by the charter school. The Division of Pensions issued guidance in a Frequently Asked Questions and answer memo that can be found at http://www.state.nj.us/treasury/pensions/chapter2-faq.shtml. Other information from the division can be found in communication sent to certifying officers at http://www.state.nj.us/treasury/pensions/coltr10.shtml#ch2faq. Local Finance Notice (LFN) 2010-12 highlights important elements of the law, and has a Frequently Asked Questions document (FAQ) attached. LFN can be accessed at the link title Chapter 2 Health Benefits Reform Guidance at the Division of Community Affairs website http://www.state.nj.us/dca/lgs/. For clarification of provisions of the law, please contact the Division of Pension's Office of Client Services at (609) 292-7524, or email the Division at pension.nj@treas.state.nj.us.

Accounting and budgeting guidance provided to charter schools implementing 1.5% withholding for health benefits, was to reduce their appropriations for health benefits by the amount anticipated as the 2010-11 employee contribution by including estimates of the savings attributable to the 1.5% withholding. Actual withholdings from employees' payroll for this purpose should be recorded in the payroll agency fund as employee withholdings. Regarding the remittance of premiums to the insurer, charter schools were offered the flexibility to issue one general fund check comprised of both the employer and employees' share of health benefit cost, or to remit the employer share from the general fund and the employees' share from the payroll agency fund.

Student activity funds are reported as agency funds within the CAFR. An arrangement between a student organization and the charter school whereby the charter school maintains the cash raised by the student organization is a common example of a student activity fund.

SECTION II- SPECIFIC COMPLIANCE
FIDUCIARY FUNDS
FUND 90 –AGENCY FUND

Organizations under the Auspices of the School

Any organization which is officially recognized by the school as part of the activity program of the charter school, places at least indirect responsibility for supervision and control of that organization with the board of trustee. The board should formally approve each fund in the charter school. If any fund is an activity carried on by the charter school, an officer or employee of the charter school, or an organization of public school pupils conducted under the auspices of the charter school, the charter school must assure that financial and bookkeeping controls are established.

The State Board of Education has not prescribed a uniform system of bookkeeping for the activities funds of charter schools. *N.J.A.C.* 6A:23A-16.12(c) states, "Each district board of education and charter school board of trustees shall ensure through adoption of a formal board policy that all financial and bookkeeping controls are adequate to ensure appropriate fiscal accountability and sound business practices." This policy shall include but not be limited to, the following minimum requirements:

(1) Receipts shall be detailed showing date, sources, purpose and amount. All receipts should be promptly deposited in the bank. Bank deposits must agree with the receipts in the cash receipt book and must be traceable to definite receipts or groups of receipts.

(2) Disbursements shall be recorded chronologically showing date, vendor, check number, purpose and amount. All disbursements should be made by check and supported by a claim, bill or written order to persons supervising the fund. Checks should bear two or more authorized signatures.

(3) Book balances shall be reconciled with bank balances. Canceled checks and bank statements must be retained for examination by the auditor as part of the annual audit.

(4) Student activity funds shall be classified by school.

(5) Borrowing from the student activity is prohibited.

Charter school auditors should refer to Chapter 15 of the *GAAP Technical Systems Manual*.

Fund Raising in Schools by Outside Organizations

Organizations such as the United Fund, March of Dimes, etc., may request that moneys be collected. These funds <u>are not subject to audit</u>. Charter schools may give permission for the collection to be made in schools. Any teacher or pupil who serves as a collector does so as a private citizen and not as an employee of the charter schools. Accurate records must be kept but responsibility is to the organization and not to the charter school for the money collected.

In order to avoid misunderstanding, we advise that charter schools that give permission for soliciting in a school building by outside organizations make it clear that the charter school is not directing the teachers and pupils to collect funds, but merely granting permission to do so. The charter school is further advised to disclaim any responsibility for the protection of, and the accounting for, the funds to the outside organizations.

SECTION II- SPECIFIC COMPLIANCE
FIDUCIARY FUNDS
FUND 90 –AGENCY FUND

Any collector should understand that he/she is collecting voluntarily as a citizen and not as a teacher or pupil, and that the board of trustees has no responsibility for the protection of moneys so collected.

Some charter schools may have given permission for depositing funds collected in drives in a school activity account and the issuance of checks thereon to the outside organization. Although this might be a convenience to school personnel who are handling the money collected, it causes an undesirable commingling of funds for which the charter school should have no responsibility. The commingling of such funds is legally suspect. However, if it occurs the commingled funds are subject to audit by the charter school auditors.

Funds of Teacher Organizations and Parent/Teacher Organizations

The law provides that the books, accounts and moneys of any officer or employee of the charter school shall be audited. This does not mean that every time a school employee serves as treasurer of an organization that the account must be audited. It is only when money is held for which the charter school is directly or indirectly responsible that the accounts must be audited. The charter school has no responsibility for the funds of teacher organizations. A school employee who serves as a treasurer of such an organization does so as a citizen and not as an employee of the charter school. If moneys were deposited in a central school fund, they would be subject to audit.

Funds Collected by Teachers from Pupils for Immediate Purchase of Items

Teachers may receive money from children to buy magazines, tickets, etc., in bulk to save the children money. It is our opinion that in so doing the teacher represents the children and not the charter school.

Refer to Section I Chapter 1 for information on GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*.

SECTION II- SPECIFIC COMPLIANCE
FIDUCIARY FUNDS
FUND 90 –AGENCY FUND

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SECTION II – SPECIFIC COMPLIANCE
CAPITAL ASSETS

Overview

Capital assets include land and land improvements, buildings, furniture, fixtures and equipment, infrastructure items, works of art and historical treasures.

Effective July 1, 2001, the capitalization threshold used by school districts and charter schools in the State of New Jersey is increased to $2,000. This is a policy set for financial reporting and accounting purposes. Charter schools may use a lower threshold for asset management and insurance purposes.

The Uniform Minimum Chart of Accounts for New Jersey Public Schools(2003 Edition) (COA) was issued effective for July 1, 2004 and eliminated the GFAAG to be consistent with GASB 34 and the National Center for Education Statistics Chart of Accounts. Charter schools are still required to record capital assets and may designate a numeric or alpha fund number in their general ledger which is suitable for their software system (e.g., 100, 99 or CA) or use a separate fixed asset module. The fixed asset ledger should be updated monthly for internal control purposes.

Reporting Capital Assets

Capital assets are reported at historical cost, including ancillary charges necessary to place the asset into its intended location and condition for use. "Ancillary charges include costs that are directly attributable to asset acquisition – such as freight and transportation charges, site preparation costs, and professional fees. Donated capital assets should be reported at their estimated fair value at the time of acquisition plus ancillary charge, if any." (GASB 34, par. 18, as amended by GASB 37, par. 6).

The chart below highlights which statements report capital assets. "N/A" means that statement is not issued for that particular fund type, whereas "No" means that statement is issued for that particular fund type but capital assets are not reported.

Class of capital asset	Charter School-wide statements	Funds statements	Budgetary comparison schedules
Governmental	Y	No	No
Proprietary	Y	Y	N/A
Fiduciary	N/A	Y	N/A

Statement of Net Assets
Report capital assets within the governmental activities column in the charter school-wide *Statement of Net Assets*. Capital assets of proprietary funds are reported in the business-type activities column of the *Statement of Net Assets*.

Funds Statements
Capital assets used in governmental activities are not reported as assets in governmental funds statements since the governmental funds statements follow the modified accrual basis of accounting and capital assets are not current financial resources. Proprietary fund capital assets are reported in the fund statements since this fund uses the accrual basis of accounting (economic resources). Capital assets of fiduciary funds are reported in the fund level since the fiduciary funds statements use the accrual basis of accounting. The fiduciary assets are not considered available to the charter school and therefore are not reported on the charter school-wide statements.

SECTION II – SPECIFIC COMPLIANCE
CAPITAL ASSETS

Capital outlays of the governmental funds are reported as a reconciling item in the *Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities,* which reconciles the net change in government fund balances to the change in net assets of governmental activities.

Charter school staff and auditors may refer to the NJDOE CAFR web site for sample statements noted above http://www.state.nj.us/education/finance/fp/cafr/outline/ . Charter school staff and auditors should also refer to the Section II-30, Capital Projects Fund, of this *Audit Program* for related subjects

Capital Leases

Assets acquired under a capital lease are recorded at the inception of the lease. In order to convert the fund financial statements from a modified accrual basis to an accrual basis for the preparation of the government-wide financial statements, the expenditure must be capitalized, any related depreciation expense must be recorded, and the debt must be recognized along with the accrual of any related interest expense.

Construction in Progress

NOTE: Pursuant to N.J.S.A.18A:36A-10, a charter school shall not construct a facility with public funds.

Assets under construction are tracked through Construction in Progress until completion. *N.J.S.A.* 18A:18A-42 provides that purchase orders for construction, reconstruction or rehabilitation of any public building are valid for the length of time authorized for completion of the actual project.

Sample Format for the Capital Asset Subsidiary Ledger

As noted in Chapter I-1 of this Audit Program, schedules of capital assets should be prepared prior to audit. The following is a suggested minimum format for charter school's use in maintaining records of capital assets, including accumulated depreciation (Accum. Depr.) and depreciation (Depr.):

Classification	N1	N2	Date Placed in Service	Acquisition Cost	Method of Depr.	Life N3	6/30/xx Accum Depr.	7/1/xx-6/30/xx Depr. Expense	6/30/xx Accum. Depr.
Buildings:									
School #1			**7/1/xx**	**$5,000,000**	**S/L**	**35 yr**	**$1,285,715**	**$142,857**	**$1,428,572**
Furniture:									
Desks	**B2**	**P5**	**7/1/xx**	**$5,000**	**S/L**	**10 yr**	**$4,500**	**$500**	**$5,000**

N1 – Assets should be tagged and maintained by physical location.
N2 – Assets that can be specifically identified to a program or function should be noted with the program code. If assets are not specifically identifiable, the charter school should note "N/A" in the program column.
N3 - Charter schools may refer to the table of estimated useful lives (International ASBO) included in Section III-6 of this Audit Program.

Refer to III-6.8 (Audit Checklists and Questionnaire) for capital asset schedule requirements.

Depreciation Expense

The GASB Implementation Guides provide guidance on depreciation expense which is to be reported as a charter school expense of the function served. As the number of functions served by an asset increases, the ease, practicality, and usefulness of assigning depreciation to those functions decreases. Therefore, depreciation of assets serving many or essentially all functions is not required to be included in the direct expenses of those many functions. Depreciation of a shared capital asset used by only a few functions can be allocated to those functions using an objective measure for the assignment of cost. For example, building depreciation may be allocated based on square footage assigned to the respective functions. The department recommends charter schools use the straight line method of depreciation.

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SECTION II – SPECIFIC COMPLIANCE
LONG-TERM LIABILITIES

Overview

Long-term liabilities generally include mortgage issuances, the non-current portion of lease-purchase agreements, capital leases, operating leases with scheduled rent increases, compensated absences, claims and judgments and early retirement incentive programs.

The Uniform Minimum Chart of Accounts for New Jersey Public Schools (2003 Edition) (COA) was issued effective for July 1, 2004 and eliminated the GLTDAG to be consistent with GASB 34 and the National Center of Education Chart of Accounts. Charter schools must continue to record the long-term liabilities in the general ledger and may designate a numeric or alpha fund number which is suitable for their software system, e.g., 100, 99 or LT. The ledger should be updated on a periodic basis (e.g., monthly), for internal control.

Note: Pursuant to N.J.A.C. 6A:11-7.3(b), unless backed by an asset, all charter school loans are to be temporary debts in anticipation of the receipt of funds and must be repaid by the end of each fiscal year.

Statement of Net Assets
General long-term liabilities include mortgages, notes, and other long-term liabilities that are not directly related to and expected to be paid from proprietary and trust funds. Liabilities of the proprietary fund are reported in the proprietary fund *Statement of Net Assets*; liabilities of the trust fund are reported in the *Statement of Fiduciary Net Assets*. General long-term liabilities of the charter school should be reported in the governmental activities column of the charter school-wide *Statement of Net Assets*. Similar to the presentation of assets, liabilities are reported in the order of liquidity. "Liabilities with average maturities greater than one year should be reported in two components – the amount due within one year and the amount due in more than one year" (GASB 34, par. 31).

Interfund liabilities, even if non-current, are not long-term liabilities. Charter school staff and auditors should refer to the revised GASB Codification 1500.

Governmental Funds Statements
Governmental funds reporting focuses on current financial resources, hence the fund financial statements do not include long-term liabilities such as mortgage payable. The fund statements are intended to present a more detailed short-term view of basic education services with the most readily available assets and current liabilities. The governmental funds balance sheet includes a reconciliation of total governmental funds balance to the net assets of governmental activities. Long-term liabilities are a common reconciling item. The purpose of the reconciliation is to assist the reader to understand how the short-term financial information in the governmental funds statements differs from the more comprehensive financial information in the charter school-wide statements.

Disclosures
Refer to GASB 34, GASB 38, and the GASB Implementation Guides for guidance on disclosures including provisions for year-end accrual of interest, amortization of premium or discount over the life of the bonds and inclusion for discussion within the Management Discussion and Analysis.

SECTION II – SPECIFIC COMPLIANCE
LONG-TERM LIABILITIES

Compensated Absences

Statement No. 16 of the Governmental Accounting Standards Board (GASB), "Accounting for Compensated Absences", changed the method for calculation of a charter school's liability for compensated absences (e.g., vacation, sick leave). This Statement supersedes the instructions shown on pages 13.4 and 13.5 of the GAAP Technical Systems manual regarding calculation of this liability for inclusion in the general long-term debt account group. By memo of May 15, 1995, this department advised School Administrators and Public School Accountants of the change. Auditors should refer to GASB 16 and the Codification of Governmental Accounting and Financial Reporting Standards, Section C60, for further explanation and illustrations of calculations of vacation leave and sick leave.

The inclusion of the long term portion of compensated absences in the charter school-wide Statement of Net Assets may generate a deficit in unrestricted net assets. This occurs because the pre-GASB 34 fund balance is based on current resources, whereas the GASB 34 net assets is based on economic resources and includes both long term assets and long term liabilities. When the long-term portion of compensated absences exceeds all other unrestricted net assets, a deficit will occur.

Pension and Other Postemployment Benefits (OPEB)

For purposes of the charter school's accrual and modified accrual statements, the annual pension (PERS) expense/expenditures is generally equal to the charter school's contractually required contributions to the plan defined as the "contributions assessed by a cost-sharing pension or OPEB plan to the participating employers for the periods to which the contractual requirement relates." GASB issued Technical Bulletin (TB) 2004-2, *Recognition of Pension and Other Postemployment Benefit (OPEB) Expenditures/Expense and Liabilities by Cost-Sharing Employers*, in December 2004 to clarify the application of requirements regarding accrual issues related to GASBS 27 and 45. GASB 45 has phase-in periods for implementation beginning with reporting periods after December 15, 2006 and based on the criteria used for GASB 34. Examples of OPEB include healthcare benefits, life insurance, and long-term care. Due to the technical nature and level of detail of GASB 45, charter school staff and auditors should refer to TB 2004-02 and the GASB 45 available through GASB's website (www.gasb.org) for further guidance.

Early Retirement Incentive Programs (PERS/TPAF and Other Offers)

Legislation enacted in 1991, 1993 and 2002 provided early retirement incentives (ERIP) for certain members of TPAF and PERS who met certain age and service requirements and who applied for retirement between certain dates in that fiscal year. The ERIP was subject to Board approval. Charter schools are assessed annually for their actuarially determined contribution to fund this program. Each participating charter school was given several options as to the length of time it desired to fund this liability.

Under GAAP, the charter school ERIP liability is considered a contractual obligation. The liability is calculated for each participating charter school and billed to the charter school separately from its normal pension obligation, if any. For fund statement purposes, advance payments made against that contractual obligation are considered GAAP expenditures in the year of payment. The department recommends proper footnote disclosure and a supplemental exhibit identifying the annual maturities.

Termination Benefits

Termination benefits may be voluntary (early-retirement incentives) or involuntary (severance benefits). GASB Statement 47 *Accounting for Termination Benefits* was issued in June 2005, and is effective for periods beginning after June 15, 2005 for termination benefits offered outside of an existing defined benefit or other postemployment benefit (OPEB) plan. Benefits effecting an employer's obligations for defined benefit pension or other postemployment benefits should be accounted for and reported under the requirements of GASB 27, *Accounting for Pensions by State and Local Governmental Employers*, or GASB 45 *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* (OPEB).

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SECTION II – SPECIFIC COMPLIANCE
SINGLE AUDIT

Federal and State Audit Requirements

Federal Single Audit Act

The Single Audit Act Amendments of 1996 (Act) establishes uniform requirements for audits of federal awards administered by non-federal entities. The Act promotes sound financial management, including effective internal controls, with respect to federal awards administered by non-federal entities. The Federal Office of Management and Budget (US OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, provides the government wide guidelines and policies on performing audits to comply with the Single Audit Act and requires the use of generally accepted government auditing standards (GAGAS). Non-federal entities that expend $500,000 or more in a year in federal awards are required to have a Single Audit in accordance with provisions in Circular A-133. The revised version of Circular A-133 is available through the website, at http://www.whitehouse.gov/sites/default/files/omb/assets/a133/a133_revised_2007.pdf.

The Act requires that GAGAS be followed in audits of state and local governments. *Government Auditing Standards (The 2007 Revision)* issued by the Comptroller General of the United States specifies the standards and guidance generally known as GAGAS. This document is commonly known as the Yellow Book and is available in electronic format through the GAO website www.gao.gov. The printed version of the July 2007 revision of *Government Auditing Standards* can be purchased through the Government Printing Office (GPO) online or by calling 202-512-1800 or 1-866-512-1800 toll free or via the GPO website at http://bookstore.gpo.gov (type in "Yellow Book" at the search box).

When auditing federal programs for the fiscal year ending June 30, 2011, auditors are required to follow the provisions of *OMB Circular A-133* available at:
http://www.whitehouse.gov/sites/default/files/omb/assets/a133/a133_revised_2007.pdf
The 2011 edition of *OMB A-133 Compliance Supplement* (Supplement) is not available at the time of publication of this Audit Program. Auditors should check for availability at:
http://www.whitehouse.gov/omb/circulars/a133_compliance_supplement_2011

Auditors should select from a list of departments in Part 4 of the Supplement, (e.g., Dept. of Agriculture, Dept. of Education, Dept. of Health and Human Services) to determine compliance requirements for a specific program or grant. Appendix 5 of the document contains a list of changes in the 2011 Supplement. The 2011 Compliance Supplement will be available for sale from the Government Printing Office by calling (202) 512-0132. The stock number for this document is 041-001-00687-7.

The 2011 Supplement, Appendix VII "Other OMB Circular A-133 Advisories", section I. "American Recovery and Reinvestment Act" (ARRA), contains background and guidance on how ARRA funds impact single audits. The Appendix VII is available on this website: http://www.whitehouse.gov/sites/default/files/omb/circulars/a133_compliance/2010/app_7.pdf.

Background

- The ARRA imposes certain transparency and accountability requirements on federal awarding agencies and their recipients.
- Auditors should be alert to determine whether auditees have properly identified ARRA awards.

SECTION II – SPECIFIC COMPLIANCE
SINGLE AUDIT

CFDA Numbers

- Federal agencies use CFDA numbers for new ARRA programs or for existing programs for which the ARRA provides for compliance requirements that are significantly different for the ARRA funding. ARRA awards to existing federal programs may or may not have a new CFDA number.

Clusters of Programs

- Many ARRA awards will have new CFDA numbers even though they are additions to and share common compliance requirements with the existing program. Therefore, the OMB will update the clusters of programs described in Part 5 of the Supplement. Any changes will be posted on the OMB Management website http://www.whitehouse.gov/omb/management under Grants Management as addenda to the Supplement.

- The auditor is responsible for using the cluster list that matches the auditee's fiscal year end. For example, OMB plans to post an addendum for changes to clusters applicable to an audit of the fiscal period ending June 30, 2011, and posted on the OMB Management website under Grants Management by that date.

Effect of Expenditures of ARRA awards on Major Programs Determination

- Due to the inherent risk with the transparency and accountability requirements over expenditures of ARRA awards, the auditor should consider all Federal programs with expenditures of ARRA awards to be programs of higher risk in accordance with §___.525(c)(2) and §___.525(d) of OMB Circular A-133. Accordingly, when performing the risk-based approach under §___.520(c)(1) of OMB Circular A-133, Type A programs with expenditures of ARRA awards should not be considered low-risk except when the auditor determines, and clearly documents the reasons, that the expenditures of ARRA awards is low-risk for the program.

- Clusters to which a federal program with a new ARRA CFDA number has been added should be considered a new program and would not qualify as a low-risk Type A program under §___.520(c)(1) of OMB Circular A-133 (i.e., the cluster will not meet the requirement of having been audited as a major program in at least one of the two most recent audit periods as the federal program funded under the ARRA did not previously exist.)

- Auditors should:
  (1) Review the award documents, including the terms and conditions;
  (2) Check the OMB Management website under Grants Management for any addenda to the Supplement, and
  (3) Use the framework provided by the Supplement (e.g., in Parts 3, 4, 5, and 7) as guidance to identify ARRA compliance requirements material to the federal program and determine the appropriate audit procedures.

The NJ Department of Education website, http://www.state.nj.us/education/arra/ includes a May 2, 2011 memo on Unspent ARRA Funds – in Jeopardy from the Acting Commissioner regarding ARRA Title 1, SIA and IDEA, a ARRA Entitlement Funding Comparison of allocation to Paid to Date as of May 1, 2011, charter school ARRA allocations, fiscal monitoring reports and links to the U.S. Department of Education ARRA documents and guidance.

The applicable Catalog of Federal Domestic Assistance (CFDA) number for a federal grant or federal aid can be found on the New Jersey Department of Education (NJDOE) Contract. A listing

of grants available through NJDOE with their CFDA numbers can be found on pages II-SA.9 and .10 of this Audit Program and the auditor can look up a program at the CFDA website: http://www.cfda.gov. Click the heading "Search For Assistance Programs (HTML)." Here there are several different ways to search for programs including by number, or if necessary you can click on the heading of All Programs Listed Numerically.

State of New Jersey Single Audit Act

NJ State Office of Management and Budget (NJOMB) Circular Letter 04-04, *Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid* (NJOMB 04-04) supercedes NJOMB 98-07 and establishes state policy and procedures regarding audits of grant and state aid recipients, and outlines the responsibilities of state agencies and grant recipients to ensure that recipient audits are performed according to federal and state requirements. NJOMB 04-04 is available on the website: http://www.state.nj.us/infobank/circular/cir0404b.htm. The revision raises the threshold for a single audit to $500,000 or more expended in federal financial assistance or state financial assistance within the recipient's fiscal year. This revision did not change the requirement that recipients which expend less than the threshold of $500,000 in federal or state financial assistance within their fiscal year, but expend $100,000 or more in state and/or federal financial assistance within their fiscal year, must have either a financial statement audit performed in accordance with *Government Auditing Standards (Yellow Book)* or a program-specific audit performed in accordance with the Act, Amendments, OMB A-133 Revised and State policy. Compliance requirements for the Department of Education (and other departments) are contained in the *State Grant Compliance Supplement* which is published to assist auditors in testing recipient compliance with state grant and state aid financial assistance programs and applicable laws and regulations which is available on the Internet at http://www.state.nj.us/treasury/omb/ (see Highlights).

AICPA Single Audit Guidance

The AICPA audit guide, *Government Auditing Standards and Circular A-133 Audits (Guide)* provides guidance on the auditor's responsibilities when conducting a single audit or program specific audit in accordance with the Single Audit Act Amendments of 1996 and USOMB Circular A-133. The *Guide* incorporates guidance from the following:

- The Single Audit Act Amendments of 1996,
- OMB Circular A-133,
- AICPA Statement on Auditing Standards (SAS) No. 117, *Compliance Audits* (supersedes SAS No. 74 *Compliance Auditing Considerations in Audits of Government Entities and Recipients of Governmental Financial Assistance),*
- *Government Auditing Standards,* and
- OMB Circular A-133 Compliance Supplement.

Risk-based Approach

Revision of the single audit threshold to $500,000 or more expended in federal financial assistance or state financial assistance within the recipient's fiscal year did not impact major program determinations. Section .520 of Circular A-133 requires auditors to utilize the following criteria to identify major programs:

§___.520 Major program determination.

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(a) **General**. The auditor shall use a risk-based approach to determine which federal programs are major programs. This risk-based approach shall include consideration of: Current and prior audit experience, oversight by federal agencies and pass-through entities, and the inherent risk of the federal program. The process in paragraphs **(b)** through **(i)** of this section shall be followed.

(b) **Step 1**.

(1) The auditor shall identify the larger federal programs, which shall be labeled Type A programs. Type A programs are defined as federal programs with federal awards expended during the audit period exceeding the larger of:

(i) $300,000 or three percent (.03) of total federal awards expended in the case of an auditee for which total federal awards expended equal or exceed $300,000 but are less than or equal to $100 million.

(ii) $3 million or three-tenths of one percent (.003) of total federal awards expended in the case of an auditee for which total federal awards expended exceed $100 million but are less than or equal to $10 billion.

(iii) $30 million or 15 hundredths of one percent (.0015) of total federal awards expended in the case of an auditee for which total federal awards expended exceed $10 billion.

(c) **Step 2**.

(1) The auditor shall identify Type A programs which are low-risk. For a Type A program to be considered low-risk, it shall have been audited as a major program in at least one of the two most recent audit periods (in the most recent audit period in the case of a biennial audit), and, in the most recent audit period, it shall have had no audit findings under **§___.510(a)**. However, the auditor may use judgment and consider that audit findings from questioned costs under **§___.510(a)(3)** and **§___.510(a)(4)**, fraud under **§___.510(a)(6)**, and audit follow-up for the summary schedule of prior audit findings under **§___.510(a)(7)** do not preclude the Type A program from being low-risk. The auditor shall consider: the criteria in **§___.525(c)**, **§___.525(d)(1)**, **§___.525(d)(2)**, and **§___.525(d)(3)**; the results of audit follow-up; whether any changes in personnel or systems affecting a Type A program have significantly increased risk; and apply professional judgment in determining whether a Type A program is low-risk.

The Report on the National Single Audit Sampling Project issued by the President's Council on Integrity and Efficiency in June 2007 indicated numerous errors in the single audits. To address single audit deficiencies and to enhance the overall quality of single audits, the NJDOE Office of Fiscal Accountability and Compliance (OFAC) designed the Single Audit Summary Sheet. This Summary replaces the Type A Programs Worksheets, and the CAFR Submission Checklist and is required as part of the CAFR Reporting Package submitted to New Jersey Department of Education. Shaded areas are entered by the department or are automatically calculated. The auditor must complete sections A, C and F for every charter school and Section D of the

SECTION II – SPECIFIC COMPLIANCE
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Summary for charter schools that have a federal and/or state single audit. The form is accessible through the FY11 Single Audit Summary link at the OFAC website:

http://www.state.nj.us/education/business/audit.htm

If a charter school is being audited for the second time under Circular A-133 the auditor must follow the risk-based approach to determine major programs in accordance with section .520 of Circular A-133. Section .520(i) of Circular A-133 allows auditors to deviate from the use of the required risk-based approach when determining major programs during the first year that an entity is audited under the revised Circular A-133 or the first year of a change of auditors. The AICPA's Guide *Government Auditing Standards and Circular A-133 Audits* and the USOMB Circular A-133 (Section .520) should be referenced for further guidance on this approach.

NJOMB Circular Letter 04-04 also requires the use of the same risk-based approach to audit and monitor state financial assistance as used in federal programs. The inclusion of on-behalf pension contributions should not result in the exclusion of other programs as Type A programs. Since the department publishes the dollar amounts provided by the NJ Division of Pensions of on-behalf pension contributions for all charter schools on an annual basis and no other audit procedures are performed, these amounts should be excluded from the Type A programs threshold calculations. This does not impact the compliance requirements for Reimbursed TPAF Social Security Contributions.

Schedules of Expenditures of Federal Awards and State Financial Assistance

All special projects including those funded by pass-through monies, other than those funded locally under the general fund, must be separately accounted for in the charter school accounting records. The CAFR must include a separate *Schedule of Expenditures of Federal Awards* (Schedule A) and a separate *Schedule of Expenditures of State Financial Assistance* (Schedule B). The format of the schedules included in the sample CAFR was designed to provide the history of a grant from its initial award to the final disposition of the funds through either their expenditure or their refund to the grantor. Instructions regarding schedule preparation are included in this section of the Audit Program. Please note the titles of these schedules are as indicated in USOMB Circular A-133 and NJOMB Circular Letter 04-04.

Federal Awards: Carryover/Deferred Revenue/Due Back to Granter

If the budgetary expenditures incurred by the charter school are less than the amount of federal aid cash received (special revenue only), the charter school shall apply for carryover where permissible by statute after completion of the project period. Excess cash received is reported as deferred revenue on the *Schedule of Expenditures of Federal Financial Assistance* (Schedule A) in the single audit section of the CAFR, in the column titled "Deferred Revenue." For many federal grants, the grant period ends August 31, therefore, deferred revenue at June 30 may still be used during July and August.

Upon approval of the final report by the NJDOE Office of Grants Management (OGM), any unexpended funds a charter school elects to carry over are identified as prior year carryover funds and are brought forward into a separate line in the Allocation section of the subsequent year grant application on the Electronic Web Enabled Grant (EWEG) system. In addition, any funds paid in excess of expenditures, are brought forward into a separate line marked "Overpayment" in the Allocation section of the subsequent year grant application. At this point, if the subsequent year application has final NJDOE approval, the charter school must submit an amendment application to budget the prior year carryover and overpayment funds.

When the charter school elects not to carry over the unexpended current year balance approved through the final report, or when prior year carryover funds are expired, the funds shall be refundable to the department and shall be reported on Schedule A, in the column entitled "Due to Grantor." All funds that have been refunded during the fiscal year shall be shown on Schedule A, in the column entitled "Repayment of Prior Year Balances." Where a charter school has determined that unexpended and unpaid funds will not be claimed, and the charter school has agreed to release the charter schools right to such funds, the amount released should be presented on Schedule A, in the column entitled "Adjustments".

In January 2009, the NJDOE moved to a reimbursement method of payment. If a charter school submits for reimbursement of current year (2010-2011) expenditures and has carryover from the prior year (2009-2010) grant, the balance of the prior year carryover funds is offset against the reimbursement until the prior year carryover funds have been fully expended. Generally, a charter school submits for reimbursement by the 15th of the month for expenditures incurred as of that date or anticipated to be incurred by the end of the month. The reimbursement for that month will be made in the subsequent month. When the amount of cash received is less than budgetary expenditures, a receivable shall be shown as a negative amount on Schedule A, in the column entitled "(Accounts Receivable)." No negative cash balances are permissible in the balance sheet. There should be an interfund payable set up to reflect advances from the General Fund.

Example
An NCLB award for the period September 1, 2009 to August 31, 2010 must be obligated by August 31, 2010 and liquidated by November 30, 2010. Funds that were unexpended or unencumbered at June 30, 2010, should have been reported as deferred revenue in the June 30, 2010 *Schedule of Expenditures of Federal Awards*. Unexpended/unencumbered funds remaining at August 31, 2010 (the end of the grant period), are considered carryover or overpayment funds. When the final report for the 2009-2010 grant period is approved by OGM, the carryover and/or overpayment funds are made available for budgeting in the current year (2010-2011) project period. The charter school may budget carryover and/or overpayment funds in the original grant application, or where the original grant application has received final NJDOE approval as recorded in the EWEG System, in an amendment application. The carryover funds are considered expended first during the current grant period. In the rare situation where a charter school does not obligate the full amount of the prior year carryover (2009-2010) by August 31, 2011 and liquidate the full amount of the prior year carryover (2009-2010 grant) by November 30, 2011, the difference will be due back to the grantor. If payment has not been made by June 30, 2012, the amount should be reported in the June 30, 2012 *Expenditures of Federal Awards* as Due to Grantor and every year until the funds are repaid to the grantor.

The following state/federal guidelines are applicable for grant close out procedures:

> Code of Federal Regulations: Title 34 Education [Part 80 – Sec. 80.50 Closeout]
> (d)(2): "The grantee must immediately refund to the Federal agency any balance of unobligated (unencumbered) cash advanced that is not authorized to be retained for use on other grants."

The No Child Left Behind Act (NCLB) of 2001 (P. L. No. 107-110) reauthorized the Elementary and Secondary Education Act of 1965 (ESEA). NCLB contains fiscal compliance issues including, but not limited to, supplement not supplant, commingling of funds, allowable costs, administrative costs caps, maintenance of fiscal effort, comparability, transferability, and schoolwide programs. NCLB Policy

Guidance is available at http://www.nclb.gov. Fiscal guidance on the FY 2011 NCLB Application can be found in the New Jersey NCLB Reference Manual Section IV "Fiscal Regulations and Responsibility" available at http://www.nj.gov/njded/grants/entitlement/nclb/.

It should be noted that pursuant to the *Elementary and Secondary Education Act* (ESEA) as amended by NCLB, the U.S. Department of Education has provided guidelines for preparing the schedule of expenditures of federal financial awards when grantees transfer amounts between ESEA programs, consolidate administrative funds of ESEA programs or combine ESEA funds in a schoolwide program.

Preparing the Schedules of Expenditures of Federal Awards and State Financial Assistance

Two separate schedules, the *Schedule of Expenditures of Federal Awards* and the *Schedule of Expenditures of State Financial Assistance*, are prepared from the charter school records and must include all active (i.e. - not closed) financial assistance programs in which a charter school is participating regardless of the fund in which they are accounted. Each schedule must reflect the current fiscal year's activity as well as total disbursements by program in the format presented in this chapter of the Audit Program (II-SA-18). The information presented on these schedules must agree with the amounts reported in the *Budgetary Comparison Schedules* and the *Combining Schedule of Program Revenues and Expenditures, Special Revenue Fund – Budgetary Basis*. Explanations of the information required to be included are presented below.

These schedules are prepared using budgetary expenditures which must be reconciled to the *Balance Sheet – Governmental Funds* on the *Budget to GAAP Reconciliation in the Notes to RSI*. The adjustment for the state aid payments made in July 2010 (recognized on GAAP in 2010-11) and July 2011 (not recognized on GAAP until 2011-12) (general and special revenue fund) as well as encumbrances in the special revenue fund will be reported as reconciling items. See Section I-8 and III-3 for additional guidance.

The schedules of expenditures of federal awards and expenditures of state financial assistance must be in the same format as those shown in the sample schedules in this chapter. The prior year carryover grant funds and the current year grant funds may be combined on a single line of the *Schedule of Expenditures of Federal Awards* if the final report has been approved. The carryover portion of the approved grant amendment is considered expended first. See the guidance and illustration in the beginning of this chapter under the header Carryover/Deferred Revenue/Due Back to Grantor. Schedules must be subtotaled by grantor and reflect grand totals for the following columns: Budgetary Expenditures, (Intergovernmental Accounts Receivable), Deferred Revenue and Due to Grantor. The value of noncash assistance must be included on the applicable schedule or a note in the schedule. In addition, federal programs included in a cluster of programs must be listed individually.

Funds paid in excess of expenditures, are brought forward into a separate line marked "Overpayment" in the Allocation section of the subsequent year grant application. When the charter school elects not to carry over the unexpended current year balance approved through the final report, or when prior year carryover funds are expired, the funds shall be refundable to the department and shall be reported on Schedule A, in the column entitled "Due to Grantor." All funds that have been refunded during the fiscal year shall be shown on Schedule A, in the column entitled "Repayment of Prior Year Balances." Where a charter school has determined that unexpended and unpaid funds will not be claimed, and the charter school has agreed to release the charter school's right to such funds, the amount released should be presented on Schedule A, in the column entitled "Adjustments".

SECTION II – SPECIFIC COMPLIANCE
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Definitions/Headers

1) **Grantor/Program Title:** This column designates the original grantor department/agency (grantor) of the financial assistance and the name of the assistance program. Programs are classified by grantor and are further delineated within grantor as to direct or pass-through programs. The schedule must identify the program as direct or pass-through. When there are several active grants within the same program they will be presented separately within the schedule.

2) **Federal CFDA Number:** This is applicable to the *Schedule of Expenditures of Federal Awards* only and represents the federal program number obtained from the Catalog of Federal Domestic Assistance (CFDA). When the CFDA number is not available, this fact should be noted and the program should be identified by another identifying number, if available.

3) **Grant (Contract) or State Project Number (State Aid NJCFS Number):** This is applicable to the *Schedule of Expenditures of State Financial Assistance* only and is the state identifying number that can be obtained in a latter page of this chapter of the Audit Program (II-SA) or from the NJ State Appropriations Handbook. It is used by the NJ Department of Education for monitoring and reconciling state awards.

4) **Grant Period:** Represents the initial period for which the program was awarded.

5) Program/Award Amount: Designates the amount of the initial program award. The full amount of the award or grant agreement should be reported in this column. **Noncash awards such as a state grant for facilities (EDA/SCC grants) which are paid directly by the EDA/SCC to the vendors are included in this column and may be notated (NC).**

6) **Balance at June 30, 2010:** This is used to report deferred revenue, intergovernmental accounts payable (due to grantor), or intergovernmental accounts receivable for those prior year programs which have balances as of the end of the prior fiscal year. On the *Schedule of Expenditures of Federal Awards* these amounts are shown netted in one column, but the charter school may separate them into multiple columns. On the *Schedule of Expenditures of State Assistance* a separate column is presented for Due to Grantor. A positive amount reflects deferred revenue or intergovernmental accounts payable. A negative amount for unrestricted revenue sources represents an intergovernmental accounts receivable and a negative amount for restricted revenue sources represents a deficit in the program attributable to the deferral of the last state aid payment as required GAAP reporting under GASB 33. The budgetary receivable included in the 2009-10 *Schedule of Expenditures of State Assistance* is not included in this column.

7) **Carryover/(Walkover) Amount:** Reflects the movement of award proceeds which have been approved for carryover into a carryover program code. Note that any walkover amount must be reflected as a negative amount on the line from which it was transferred, and a positive amount on the grant/aid program line to which it was transferred. Prior year state restricted formula aids would be reflected in this column.

8) **Cash Received:** Reflects the amount of cash received during the current fiscal year for the applicable financial assistance program.

9) **Budgetary Expenditures:** Represents the total costs chargeable to the program during the current fiscal year. The budgetary expenditures amount must agree with the *Budgetary Comparison Schedules* (General Fund (GAAP) and Special Revenue Fund (Grant Accounting)) and the

Budgetary Comparison Schedule, Note to RSI and the *Special Revenue Combining Schedule of Program Revenues and Expenditures – Budgetary Basis*.

10) **Adjustments:** In instances where a grant period overlaps fiscal years and the grant has not closed out as of the end of the current fiscal year, favorable differences incurred in the liquidation of encumbrances charged as budgetary basis expenditures in the prior fiscal year should be included in the *Schedule of Expenditures of Federal Awards* (Schedule A) and *Schedule of Expenditures of State Financial Assistance* (Schedule B) in a column entitled "Adjustments." This column would not be used for differences in the liquidation of encumbrances on grants which have closed out as of the end of the current fiscal year since these differences would affect current year expenditures. Reporting this information separately from current year expenditures will provide a clearer indication of the grant activity during a period of time. Any amount reported as an adjustment in the Schedule A or Schedule B must be fully explained in the *Notes to the Schedules of Expenditures of Awards and Financial Assistance*, including the reason for the adjustment and the period to which it pertains. The charter school should include a column for Adjustments only if it is applicable.

11) **Repayment of Prior Years' Balances:** Repayments are made during the current fiscal year to a grantor for unexpended funds on a program whose grant period has expired and no carryover was granted or allowed. Do not list Repayment of Prior Years' Balances unless refunds have been sent to the grantor during the current year. The charter school should include a column for Repayment of Prior Years' Balances only if it is applicable.

12) **(Intergovernmental Receivable) at June 30, 2011:** Amounts due from the grantor, as of fiscal year end, are reflected here. The amounts reported must agree with the amounts reported in the Balance Sheet (Exhibit B-1) for the governmental funds or with the Food Service column in the Statement of Net Assets (Exhibit B-4) for the Proprietary Funds.

13) **Deferred Revenue at June 30, 2011:** Unexpended award proceeds as of fiscal year end which are expendable in the subsequent fiscal year are reflected here.

14) **Due to Grantor at June 30, 2011:** Unexpended award proceeds which are due back to the grantor as of fiscal year end are listed here. These amounts are reflected in the general ledger as Intergovernmental Accounts Payable and should reconcile to the amounts reported in the *Basic Financial Statements* and in the *Combining Schedules* by the amount of the state aid payment (general and special revenue fund) made in July of the subsequent year. This column will be utilized by the Department of Education to identify and collect moneys due to the state for federal and state programs. If a charter school has amounts due back to the grantor at the end of the fiscal year, that amount must appear in the Due to Grantor column of the current fiscal year, and also in each subsequent year's CAFR as a balance at June 30 of the prior year until the amount is ultimately repaid. If a charter school has no unexpended award proceeds due back to the grantor, show the column heading and leave the column blank. See the discussion on pages II-SA.4 and 5.

15) **Budgetary Receivable**: The amount reported in the first MEMO column on Schedule of Expenditures of State Financial Assistance is computed using the Program/Award amount less the cash received. A deficit in a program cannot exceed this amount.

16) **Cumulative Total Expenditures:** This column is a memo only column, used on the *Schedule of Expenditures of State Financial Assistance*, and reports the cumulative expenditure of a grant. If the

grant crosses fiscal years the amount may differ from the budgetary expenditures since the budgetary expenditures represents expenditures for only the current fiscal year. These amounts will most likely be the same for most forms of state aid reported by NJ charter schools.

Specific Program Information

The award amount and budgetary expenditure figures for general fund state aids other than TPAF/Social Security reimbursements should be equal and agree with the amount shown as revenues for the applicable state aid in the budgetary statements/schedules. This also applies to on-behalf TPAF Pension amounts which must be included in the *Schedule of Expenditures of State Financial Assistance*.

TPAF/Social Security reimbursements must be reflected on the *Schedule of Expenditures of State Financial Assistance*. Any receivable outstanding from the prior year should be shown on a separate line. The current year award and expenditure amount represents the total of the amounts submitted for reimbursement during the current year. The uncollected balance (cash received minus amount billed) is shown as intergovernmental accounts receivable at year-end.

Food Distribution Program (formally USDA Commodities) should be presented in the schedule at the full cash equivalent value. The award and cash received amounts should be the value of the commodities distributed during the year. The budgetary expenditures amount is the amount of inventory consumed and the deferred revenue amount is the ending inventory amount.

The expenditures for federal awards under the ARRA should be reported separately on the Schedule of Expenditures of Federal Awards (SEFA) and the Data Collection Form (SF-SAC). The prefix ”ARRA” should be used to identify the name of the federal program on the SEFA and as the first characters in Item 9d of Part III on the SF-SAC.

Audit Findings

The identification of major programs with an asterisk (*) in the schedule of expenditures of federal awards and state financial assistance is not required. This information is included in the Schedule of Findings and Questioned Costs prepared by the auditor.

The department’s Office of Fiscal Accountability and Compliance (OFAC) acts on the Commissioner’s behalf in the receipt, exchange, review and investigation of information relevant to the efficient supervision of all schools in the state receiving support or aid from federal and state appropriations, NJSA 18A:4-23. The office performs investigations and many auditing functions, including the coordination of monitoring activity related to allowable uses of American Recovery and Reinvestment Act of 2009 (ARRA) funds and other federal funds. The auditor is required to perform follow-up tests/procedures, as necessary, to ensure that all the findings contained in audit reports issued by the OFAC have been properly resolved. The conclusions drawn from the follow-up tests/procedures performed by the auditor are to be summarized on the Schedule of Findings and Questioned Costs.

The Auditor’s Management Report and the Schedule of Findings and Questioned Costs must indicate whether the charter school has not complied with federal and state regulations in a timely manner. Grant refunds are to be submitted with the Final Expenditure Reports. Discretionary grant refunds are required by the department upon approval of the final expenditure report. If grant periods extend beyond the audit deadline of June 30, unexpended funds should be listed as Deferred Revenue and refunded with the Final

SECTION II – SPECIFIC COMPLIANCE
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Expenditure Reports. Do not list Repayment of Prior Years' Balances unless refunds have been sent to the grantor. If the school charter school Schedule of Finding and Questioned Costs or Audit Findings indicate that refunds are due, the refunds are to be submitted promptly with an explanation regarding the findings.

Corrective Action Plans filed by the charter school with the grantor indicate noncompliance issues. Auditors should review the charter school's Findings, the Schedule of Findings and Questioned Costs and the schedules listed above. When a Corrective Action Plan has been adopted by the charter school, the auditor must consider the impact of the potential noncompliance with the grant terms on the financial statements (CAFR).

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FEDERAL PROGRAM NUMBERS
FROM CATALOG OF FEDERAL
DOMESTIC ASSISTANCE
(List Not All Inclusive)

CFDA #	
10.553	School Breakfast Program
10.555	National School Lunch Program
10.556	Special Milk Program for Children
10.558	Child and Adult Care Food Program
10.579	2010 School Food Service Equipment Grant
10.559	Summer Food Service Program for Children
10.582	Fresh Fruits and Vegetable Program
84.010A	Title I Part A Grants to Local Educational Agencies
84.011A	Title 1, Part C Education of Migrant Children
84.027	Individuals with Disabilities - States Grant
84.040	Impact Aid – Facilities Maintenance
84.041	Impact Aid
84.048A	Perkins Vocational Education - Basic Grants
84.173	Preschool Grants for Children with Disabilities
84.186A	Safe and Drug-Free Schools and Communities (SEA Portion)
84.186B	Safe and Drug-Free Schools and Communities (GOV Portion)
84.196	Education for Homeless Children and Youth
84.213C	Title 1, Part B Even Start
84.125V	NJ Character Pilot Program

SECTION II – SPECIFIC COMPLIANCE
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FEDERAL PROGRAM NUMBERS (cont'd.)

CFDA #	
84.243A	Perkins Voc Tech Prep Education
84.282	Public Charter Schools
84.287C	21st Century Community Learning Centers
84.318X	Enhancing Education through Technology [Title IID]
84.357A	Reading First
84.358B	Rural Education
84.365A	English Language Acquisition (Title III)
84.367A	Improving Teacher Quality State Grants [Title II Part A]
84.377A	School Improvement Grants
84.386	ARRA – Educational Technology State Grants
84.387	ARRA – Homeless
84.388	ARRA – School Improvement Grants
84.389	ARRA- Title I Part A
84.391	ARRA – IDEA Part B
84.392	ARRA – Preschool Grants
84.394	ARRA-SFSF-ESF (Educ. State Grants)
84.397	ARRA-SFSF-GSF (Government Services)
84.410A	Education Jobs Fund
93.778	Medical Assistance Program
93.938	Comprehensive School Health/HIV
94.004	Learn and Serve

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STATE AID AND STATE GRANT
STATE ACCOUNT NUMBERS

GENERAL FUND

11-495-034-5120 -078	Equalization Aid
11-495-034-5120 -083	Education Adequacy Aid
11-495-034-5120 -089	Special Education Categorical Aid
11-495-034-5120 -084	Security Aid
11-495-034-5120 -085	Adjustment Aid
11-495-034-5120 -068	School Choice Aid
11-495-034-5120 -014	Transportation Aid
11-495-034-5120 -077	Adult and Postsecondary Education Grants
11-495-034-5120 -078	Payment for Institutionalized Children- Unknown District of Residence
11-495-034-5095 -001	Teachers' Pension and Annuity Fund – Post Retirement Medical
11-495-034-5095 -002	Social Security Tax
11-495-034-5095 -006	Teachers' Pension and Annuity Fund
11-495-034-5095 -007	Teachers' Pension & Annuity Fund – Non-contributory Insurance
11-100-034-5062 -032	Vocational Education
11-495-034-5120 -071	Charter School Aid

SPECIAL REVENUE FUND

11-495-034-5120 -086	Preschool Education Aid
11-100-034-5120 -064	N.J. Nonpublic Textbook Aid
11-100-034-5120 -066	N.J. Nonpublic Handicapped Aid
11-100-034-5120 -067	N.J. Nonpublic Auxiliary Services Aid
11-100-034-5120 -068	N.J. Nonpublic Auxiliary/Handicapped Transportation Aid
11-100-034-5120 -070	N.J. Nonpublic Nursing Services
11-100-034-5120 -373	N.J. Nonpublic Technology Initiative
11-100-034-5120 -074	Educational Information and Resource Center (EIRC)
11-100-034-5062 -032	Vocational Aid

DEBT SERVICE FUND

11-495-034-5120 -017	Debt Service Aid – State Support

ENTERPRISE FUND

11-100-010-3350 -021	State School Breakfast Program
11-100-010-3350 -022	Nonpublic Nutrition Aid
11-100-010-3350 -023	State School Lunch Program

SECTION II – SPECIFIC COMPLIANCE
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INSERT *SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS*
SCHEDULE A/ EXHIBIT K-3

Schedule of Expenditure of Federal Awards

To display the K-3 illustration, click on the following link:

Single Audit

Select the tab entitled "Schedule A"
Selecting print will produce page II-SA.15 of The Audit Program.

SECTION II – SPECIFIC COMPLIANCE
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INSERT *SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE*
SCHEDULE B/ EXHIBIT K-4

Schedule of Expenditure of State Financial Assistance

Single Audit

To display the K-4 illustration, click on the following link:

Select the tab entitled "Schedule B"
Selecting print will produce page II-SA.16 of The Audit Program.

SECTION II – SPECIFIC COMPLIANCE
SINGLE AUDIT

_____ CHARTER SCHOOL
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 20__

Section I --Summary of Auditor's Results

Financial Statements
[Reference – Section .510 and .520 of Circular OMB-133]

Type of auditor's report issued: _____

Internal control over financial reporting:

1) Material weakness(es) identified? _____ yes _____ no

2) Significant deficiencies identified? _____ yes _____ none reported

Noncompliance material to basic financial statements noted? _____ yes _____ no

Federal Awards

Internal Control over major programs:

1) Material weakness(es) identified? _____ yes _____ no

2) Significant deficiencies identified? _____ yes _____ none reported

Type of auditor's report issued on compliance for major programs: _____

Any audit findings disclosed that are required to be reported in accordance with section .510(a) of Circular A-133? _____ yes _____ no

Identification of major programs:

CFDA Number(s)	**Name of Federal Program or Cluster**
_____	_____
_____	_____
_____	_____
_____	_____

Dollar threshold used to distinguish between type A and type B programs:[520] $_____

Auditee qualified as low-risk auditee? _____ yes _____ no

SECTION II – SPECIFIC COMPLIANCE
SINGLE AUDIT

_____ CHARTER SCHOOL
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 20__
(continued)

Section I --Summary of Auditor's Results (cont'd.)

State Awards

Dollar threshold used to distinguish between type A and type B programs: $_____

Auditee qualified as low-risk auditee? _____ yes _____ no

Internal Control over major programs:

1) Material weakness(es) identified? _____ yes _____ no

2) Significant deficiencies identified that are not considered to be material weaknesses? _____ yes _____ none reported

Type of auditor's report issued on compliance for major programs: _____

Any audit findings disclosed that are required to be reported in accordance with NJOMB Circular Letter 04-04? _____ yes _____ no

Identification of major programs:

State Grant/Project Number(s)	Name of State Program
_____	_____
_____	_____
_____	_____
_____	_____

Note to Preparer: When a federal or state single audit is not required -- do not include that Awards Section.

SECTION II – SPECIFIC COMPLIANCE
SINGLE AUDIT

_____ CHARTER SCHOOL
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 20__
(continued)

Section II -- Financial Statement Findings

[This section identifies the significant deficiencies, material weaknesses, fraud, illegal acts, violations of provisions of contracts and grant agreements, and abuse related to the financial statements for which Government Auditing Standards requires reporting in a Circular A-133 audit. See paragraphs 13.15 and 13.35. See the AICPA Audit Guide *Government Auditing Standards and Circular A-133 Audits* for further guidance on this schedule]

(Note to Preparer -- Identify each finding with a reference number and present in the following level of detail, as applicable. If there were no findings, state that no matters were reported.)

Finding XX-X

Criteria or specific requirement:

Condition:

Context:

Effect:

Cause:

Recommendation:

Views of responsible officials and planned corrective actions:

SECTION II – SPECIFIC COMPLIANCE
SINGLE AUDIT

_____ CHARTER SCHOOL
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 20__
(continued)

Section III -- Federal Awards and State Financial Assistance Findings and Questioned Costs

[This section identifies audit findings required to be reported by section .510(a) of Circular A-133 and NJOMB Circular Letter 04-04.]

(Note to Preparer -- Identify each finding with a reference number. If there are no findings, state that no matters were reported. Findings that are required to be included in both Section II and Section III may be summarized in one section with a reference to the detailed reporting in the other section. When a federal or state single audit is not required -- do not include that Awards Section. Refer to the AICPA Guide *Government Auditing Standards and Circular A-133 Audits)*

FEDERAL AWARDS

Finding XX-X

Information on the federal program(1):

Criteria or specific requirement:

Condition (2):

Questioned Costs (3):

Context (4):

Effect:

Cause:

Recommendation:

Views of responsible officials and planned corrective actions (5):

SECTION II – SPECIFIC COMPLIANCE
SINGLE AUDIT

_____ CHARTER SCHOOL
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 20__
(continued)

Section III -- Federal Awards and State Financial Assistance Findings and Questioned Costs (cont'd.)

STATE AWARDS

Finding XX-X

Information on the state program (1):

Criteria or specific requirement:

Condition (2):

Questioned Costs (3):

Context (4):

Effect:

Cause:

Recommendation:

Management's response (5):

(1) Provide the federal program (CFDA number and title) and state program (NJCFS number) and agency, the federal/state awards number and year, and the name of the pass-through entity, if applicable.
(2) Include facts that support the deficiency identified in the audit finding.
(3) Identify questioned costs as required by section .510(a)(3) and .510(a)(4) of Circular A-133 and NJOMB Circular Letter 04-04.
(4) Provide sufficient information for judging the prevalence and consequences of the finding, such as the relation to the universe of costs and/or number of items examined and quantification of audit findings in dollars.
(5) To the extent practical, indicate when management does not agree with the finding and/or questioned cost. For further guidance, auditors should refer to *Government Auditing Standards*, par. 5.26

through 5.30, Chapter 4 and par. 12.34 and 12.38 of the AICPA Guide *Government Auditing Standards* and Circular A-133 Audits.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Charter schools which are required to have a federal and/or state single audit conducted in accordance with USOMB Circular A-133 and/or NJOMB 04-04 are responsible for preparing the summary schedule of prior audit findings and the corrective action plan as part of the Reporting Package required to be submitted to the Federal Clearinghouse and/or state funding departments. Charter schools should refer to USOMB **Circular A-133 ¶ .315** for guidance on preparing these schedules.

As reference, the following excerpts from USOMB Circular 133 are provided:

- OMB 133, 500(e) states "The auditor shall follow-up on prior audit findings, perform procedures to assess the reasonableness of the summary schedule of prior audit findings prepared by the auditee in accordance with ¶ 315(b) and report, as a current year audit finding, when the auditor concludes that the summary schedule of prior audit findings materially misrepresents the status of any prior audit finding. The auditor shall perform audit follow-up procedures regardless of whether a prior audit finding relates to a major program in the current year."
- OMB 133, 315 (b)(1) states "When the audit findings were fully corrected, the summary schedule need only list the audit findings and state that corrective action was taken."
- OMB 133, 315 (b)(2) states "When the audit findings were not corrected, or were only partially corrected, the summary schedule shall describe the planned corrective action as well as any partial corrective action taken."
- OMB 133, 315 (b)(2) states "When corrective action taken is significantly different from corrective action previously reported in a correction action plan or in the federal agency's or pass-through entity's management decision, the summary schedule shall provide an explanation."

Below is a sample of the summary schedule of prior audit findings.

_____ CHARTER SCHOOL
SUMMARY SCHEDULE OF PRIOR-YEAR AUDIT FINDINGS
AND QUESTIONED COSTS AS PREPARED BY MANAGEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 20__

[This section identifies the status of prior-year findings related to the basic financial statements and federal and state awards that are required to be reported in accordance with Chapter 6.12 of *Government Auditing Standards*, USOMB **Circular A-133 (¶.315 (a)(b))** and NJOMB's Circular 04-04.]

[Note to Preparer -- Identify each prior-year finding with its prior-year reference number and present in the following level of detail. The NJ Department of Education requests that repeat audit findings be cross referenced to the current year number. If there were no findings, state that no matters were reported.]

STATUS OF PRIOR YEAR FINDINGS

Finding #_____

SECTION II – SPECIFIC COMPLIANCE
SINGLE AUDIT

Condition

Current Status

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