

**FINANCIAL ACCOUNTING  
FOR  
NEW JERSEY CHARTER SCHOOLS**

**THE AUDIT PROGRAM**

**2011-12**

**STATE OF NEW JERSEY  
DEPARTMENT OF EDUCATION  
OFFICE OF SCHOOL FINANCE  
PO BOX 500  
TRENTON, NEW JERSEY 08625-0500**

**Christopher D. Cerf, Acting Commissioner  
State Board of Education**

**Yut'se O. Thomas  
Director  
Office of School Finance**

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## **SIGNIFICANT CHANGES FOR 2011-12**

- Audit Summary (Audsum) for June 30, 2012 is an electronic submission of audited data that will be completed through a web application available in NJDOE Homeroom beginning September 2012. Charter school auditors must request a web user name and password from each of their charter school clients' web administrators in order to access Audsum.
  - The Audsum numbering system has been revised so that there are adequate lines for sequential programs and the line numbers agree with the line numbers used by the budget program. There will be a column with the old numbering system next to the new line numbers.
- In response to a recent Office of Legislative Services audit of Preschool Education Aid (PEA) which reported a discrepancy rate of 16%, expanded guidance for the recording and reporting of PEA expenditures and carryover has been included. All discrepancies between PEA expenditures reported on the Schedule of Preschool Education Aid (Exhibit-2) and PEA expenditures reported in Audsum must be resolved by resubmission/retransmission of the Exhibit-2 and/or Audsum.
  - A line has been added in Audsum for the reporting of PEA carryover. Auditors must verify the accuracy and agreement of the PEA carryforward reported on the Exhibit E-2 and in Audsum.
- Charter schools entering into a contract with a food service management company (FSMC) were provided with Sample 2011-12 FSMC Contract, Clause M, requiring the FSMC to obtain a Type 2 report.
- The sample Schedule of Meals Served and Overclaim/Underclaim has been modified to present separate federal and state reporting of meals under/overclaims. Separating the schedules will facilitate verification of the schedule with the Schedule of Expenditures of Federal Awards. Federal (and state) Schedule(s) are presented only where the Child Nutrition Program is a major program audited in the current audit period in accordance with federal OMB Circular A-133.

## OTHER CHANGES / UPDATES FOR 2011-12

The following is a summary of changes / updates:

1. General changes are found throughout the document and include:

- Change Division name to Division of Administration and Finance.
- Audsum line number changes.
- Code references have been updated where appropriate.

2. Specific changes are found in the following sections/chapters:

### Introduction

- The deadline for submission of June 30, 2012 audits is Wednesday, December 5, 2012.

### Section I-2

- Added annually updated Anti-bullying policy as required by P.L. 2010, c. 122 to list board of trustee's policies.

### Section I-3

- Emphasized that beginning with the July 2011 cycle submission of the "Program Plans for Bilingual, ESL-only and ELS" to the department is no longer a requirement. The current three-year cycle began July 2011 and will end in 2014. The auditor should verify that the charter school maintains a current Bilingual, ESL or ELS plan on file.
- Added that the Centers for Medicare and Medicaid Services (CMS) instituted several reporting requirements designed to document a charter school's compliance with federal reimbursement regulations. Compliance with these requirements is required for charter schools to maximize SEMI funding.
- Updated 3<sup>rd</sup> party SEMI program administrator contact information.
- Updated contract bid threshold for transportation contracts for 2011-12 to \$17,500 (from \$17,200).

### Section I-5

- P.L. 2011, c.139 amended *N.J.S.A. 52:34-6.2* to permit charter schools to make purchases and to contract for services through the use of a nationally-recognized and accepted cooperative purchasing agreement. Provided link to Local Finance Notice 2012-10 *Using National Cooperative Contracts: Application of P.L. 2011, c. 19* issued by the DCA on May 14, 2012.
- Added reference to LFN 2011-38 "Limits on Bid Acceptance Dates 2012 Federal and State Holidays".
- Revised the threshold for bidding of transportation contracts to \$17,500 from \$17,200
- Updated text for fund balance categories pursuant to a review of purchase orders to include the restricted, committed, and assigned fund balance classifications (GASB Statement No. 54).

Section I-6

- Statement on Standards for Attestation Engagements (SSAE) No. 16, *Reporting on Controls at a Service Organization* supersedes Statement of Auditing Standards No. 70 (SAS 70).

Section I-8

- No change.

Section II-10

- SSAE No. 16 supersedes Statement of Auditing Standards No. 70 (SAS 70).
- Added that effective June 4, 2012, *N.J.A.C. 6A:27-7.10, 7.11 and 7.12* have been amended to permit boards of education to enter into a contract for the sale of advertising space on the exterior sides of school buses.

Section II-20

- Updated the maximum salary subject to FICA for the 2012 calendar year to \$110,100.
- Noted that an estimated rate has been used to complete the sample “TPAF and FICA Reimbursement” form.
- Beginning with the June 30, 2012 Audsum, there is a separate data entry line for Preschool Education Aid (PEA) budgetary carryover. Auditors must verify agreement between the new Audsum carryover entry and Line 8 – (2011-12 PEA Carryover) presented on the E-2 Schedule of Preschool Education Aid.
- Added link to OLS audit report on Preschool Education Aid for the period July 1, 2009 through October 14, 2011.

Section II-30

- No Change.

Section II-40

- No Change.

Section II-50

- No Change.

Section II-60

- Emphasized that for 2011-12 all charter schools entering into a FSMC contract must do so pursuant to the Public School Contracts Law, *N.J.S.A. 18A:18A-1 et seq.* as amended; and the applicable rules under *N.J.A.C. 5:34-1 et seq.* Where the charter school participates in any federally funded Child Nutrition Program(s), procurement of the FSMC contract must also follow the standards prescribed in 7 CFR 3016.36.
- Incorporated SSAE No. 16 *Reporting on Controls at a Service Organization* and the new *SAS Audit Considerations Relating to an Entity Using a Service Organization* into the guidance regarding the responsibilities of the school charter school and the charter school auditor when the charter school enters into a contract with a FSMC.
- Clarified that effective for school year 2011-12, the CNP Direct Certification Process must be done three times per school year in accordance with timelines established by the NJDA Division of Food and Nutrition.
- Clarified that to facilitate the identification of newly eligible students, direct certification matching against updated SNAP (Food Stamp)/TANF data may be performed monthly during the school year.

- Added that effective for school year 2011-12, only one Household Application for Free and Reduced Price Meals and/or Milk is filed for a household with foster children. Foster children are no longer considered to be a family of one and no longer file a separate application.
- Added that effective for school year 2011-12, foster children are categorically eligible for free school meals.
- Clarified that because foster children are categorically eligible for free school meals, a single Household Application may have two different eligibility determinations; one for the foster child/children and a second for all other students in the household.
- Added that effective for the 2011-12 school year, only one SNAP (Food Stamp)/TANF case number is required for the entire household, when applicable.
- Added that beginning with the 2011-12 school year, the eligibility determination associated with a Household Application is effective for the entire school year.
- Added that beginning with the 2011-12 school year, there is no provision for “temporary” eligibility status for zero income Applications.
- Clarified that Seamless Summer Option (SSO) provides for all children at the “free” rate of reimbursement. SSO schools receive only federal reimbursement – no state subsidy is provided.
- Updated lunch/breakfast/snack/milk reimbursement rate schedule for school year 2011-12.

#### Section II-70

- No Change.

#### Section II-80

- Provided link to Department of Labor and Workforce Development publication of special reimbursable account rates.

#### Section II-90

- Emphasized that P.L. 2011 c.78 requires charter schools to establish a cafeteria plan (Section 125 Flexible Spending Accounts) for employee medical or dental expenses not covered by a health benefits plan.

#### Section II-CA

- No Change.

#### Section II-LT

- No Change.

#### Section II-SA

- Provided that the AICPA audit guide, Government Auditing Standards and Circular A-133 Audits (Guide) has been updated through February 2012.
- Added the AICPA issuance of SAS No. 119, *Supplementary Information in Relation to the Financial Statements as a Whole*.
- Clarified that for the “2012 Single Audit Summary” auditor must complete all questions in sections A, C and F for every charter school, and all questions in Section D for charter schools that have a federal and/or state single audit.
- Clarified the reporting of unexpended federal grant funds on the *Schedule of Expenditures of Federal Financial Assistance* (Schedule A):
  1. Funds “released” by the charter school to the DOE should be presented on Schedule A, in the column entitled “Adjustments”

2. Funds that have been received by the charter school but are no longer available for expenditure by the charter school are reported on Schedule A in the column entitled, "Due to Grantor."
  3. 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"
- Clarified that Individuals with Disabilities Education Act (IDEA), expends funds on a first-in-first-out basis. Charter schools should expend available carry-over funds first during the fiscal year before expending current year IDEA funds.
  - Included an enhanced discussion of the process for determining the distribution of unexpended IDEA funds.
  - Presented an updated listing of common CFDA numbers and State Grant Account Numbers.

#### Section III-1

- Transmission to the OFAC CAFR Repository is required for the fiscal year ending June 30, 2012. The charter school must utilize the OFAC CAFR Repository to upload the entire June 30, 2012 audit reporting package to the NJDOE -OFAC. Access is through the NJDOE Homeroom.
- Added link to November 7, 2011 explanatory memo regarding the OFAC CAFR Repository.
- Added table of required file extensions.
- Clarified that the Audit Reporting Package must be filed with the NJ Department of Agriculture only if the charter school received total combined funding in excess of \$100,000 from the State Child Nutrition Programs and/or USDA Foods.

#### Section III-2

- Referenced update of the AICPA Audit Guide *Government Auditing Standards and Circular A-133 Audits (AICPA Audit Guide – February 1, 2012)*.
- Referenced SAS No. 119, *Supplementary Information in Relation to the Financial Statements as a Whole (AICPA, Professional Standards, AU sec. 551)* and provided a link to AICPA sample report 13-1A issued in relation to SAS No. 119.

#### Section III-3

- Updated sample Post Retirement Benefit footnote using data presented in the State of NJ June 30, 2011 Basic Financial Statements.

#### Section III-4

- Updated the sample AMR verbiage to reflect the change in bid threshold for public school student transportation contracts under N.J.S.A. 18A:39-3 to \$17,500.
- Clarified the sample AMR verbiage to reflect current trends in School Food Service Management Company contract performance clause.
- Enhanced the sample Schedule of Meals Served and Overclaim/Underclaim to include a separate line for the state reimbursement in each category (Paid, Reduced, and Free).

#### Section III-5

- Referenced Audsum is no longer transmitted through DOENET. Audsum is now transmitted using a web application.
- Added a memo collection account for Preschool Carryover in Audsum. This amount must agree with what is reported on the Schedule of Preschool Expenditures as carryover.

Section III-6

- Added to the Checklist for the Annual Audit, evidence of compliance with the requirements for maximum participation in the SEMI program established by the Centers for Medicare and Medicaid Services (CMS).
- Food Services Checklist – Deleted reference to grant award agreement for Food Service Equipment Grant.
- Food Services Checklist – Added requirement to provide documentation supporting current status of all prior year CNP findings (if applicable).
- Added Harassment, Intimidation or Bullying Policy (*N.J.S.A. 18A:37-15*) to list of required policies.
- Added evidence of establishment and maintenance of a cafeteria plan for health benefits required by *N.J.S.A. 18A:16-19.1* as amended by P.L. 2011c.78, section 44 to the Checklist for the Annual Audit (number 23c.).
- Added question number 30 to the Audit Questionnaire, “Does the charter school’s actual audited per pupil legal costs for the year ended June 30, 2011 exceed 130% of the 2010-11 audited statewide average?”

Section III-7

- Added that Certification of Implementation of Corrective Action Plan may be mailed or scanned and emailed to OFAC

Section III-8

- Revised auditor’s report references in the QAR to reflect name change to Division of Administration and Finance, New Jersey Department of Education
- Updated item number 18 of the QAR to include reference to SAS No. 119 (Auditor’s report under Circular A-133 that reflects updated reporting on the schedule of expenditures of federal awards under SAS No. 119)

## OVERVIEW

*Financial Accounting for New Jersey School Charter Schools (The Audit Program)* is updated annually and includes instructions for both charter school personnel and public school accountants regarding preparing for and performing the annual audit. The full text of *The Audit Program* is available on the web site <http://www.state.nj.us/education/chartsch/audit/>.

The *Comprehensive Annual Financial Report* (CAFR) is the basis for the annual audit. New Jersey state law and administrative code (*N.J.S.A.18A:4-14* and *N.J.A.C. 6A:23A-16*) require charter schools to follow generally accepted accounting principles (GAAP). These principles are augmented with the release of statements from the Governmental Accounting Standards Board (GASB). The Outline for Comprehensive Annual Financial Report section at the end of this introduction provides additional information on the CAFR.

### Reference Materials

Reference materials published by outside organizations are available to provide guidance in report preparation. The Government Finance Officers Association (GFOA) publishes *Governmental Accounting, Auditing and Financial Reporting*, commonly known as the "blue book" that is used nationwide as a reference tool for CAFR preparation. The American Institute of Certified Public Accountants (AICPA) issues *Checklist and Illustrative Financial Statements for State and Local Governmental Units* that is a recommended reference for disclosure requirements. The Association of School Business Officials International offers a Certificate of Excellence in Financial Reporting by School Systems Program that awards certificates to those annual reports that fully meet the requirements established by GAAP and publishes a self-evaluation worksheet that may also be used as a tool in report preparation.

### Responsibility/Government Auditing Standards

*N.J.A.C. 6A:23A-16.2(i)* requires the issuance of a CAFR by every charter school along with interim financial statements to facilitate management control of financial operations. Financial statements are the responsibility of the charter school's management and are its representation of the financial position at a given point in time and the operations of the charter school during a period of time.

The federal Single Audit Act requires that organizations that expend \$500,000 or more in federal financial assistance have an audit conducted in accordance with guidance provided in the Office of Management and Budget Circular A-133. NJ Circular Letter 04-04-OMB requires that New Jersey school charter schools that expend \$500,000 or more in State and/or federal financial assistance in their fiscal year have an annual single audit performed in accordance with the Single Audit Act, OMB Circular A-133 and State policy. *Government Auditing Standards July 2007 Revision*, commonly referred to as the "Yellow Book", established generally accepted government audit standards (GAGAS) and is available through the website: <http://www.gao.gov/govaud/govaudhtml/index.html>

### **Submission/Reporting Package**

The Department of Education requires the submission of the reports described below on or before the statutory deadline. The statutory submission date is the fifth day after five months (*N.J.S.A. 18A:23-1*) after the end of the school fiscal year. Accordingly, the deadline for submission of June 30 audits is **Wednesday, December 5, 2012**. The Commissioner has statutory authority (*N.J.S.A. 18A:23-6*) to appoint auditors for charter schools failing to meet the statutory due date or invoke other administrative actions but the Commissioner does not have discretion to change a statutory requirement, such as the due date. *N.J.S.A. 18A:7A-55* includes late submission of the annual audit as one of the conditions for appointment of a state monitor.

#### **1. The CAFR**

The CAFR is the charter school's official annual report. It should include all funds of the charter school. It is organized into three primary sections: 1) an introductory section, 2) a financial section, and 3) statistical section. If a charter school falls under the reporting requirements of the Single Audit Act of 1984, as amended by the Single Audit Act Amendments of 1996 and the revised OMB Circular 133, and/or the reporting requirements under NJOMB Treasury Circular Letter 04-04, the CAFR will also contain a single audit section. The CAFR will strictly adhere to the Outline of the CAFR located at the end of this introduction. The report must include all sections, letters and exhibits in the applicable sample CAFR as they apply to each charter school as well as any additional statements, schedules, and disclosures required under the circumstances of the charter school. The report must also include all applicable single audit opinion letters prepared by the charter school's auditor in the single audit section. Links to sample single audit letters and New Jersey specific reference are provided in Section III – Chapter 2 of *The Audit Program*.

#### **2. The Auditor's Management Report on Administrative Findings, Financial, Compliance and Performance (AMR)**

This separate report will serve as the auditor's report to management. This report must be submitted together with the CAFR to the Department of Education in order to comply with Finance Policy Bulletin 200-1. A sample Auditor's Management Report is located in Section III – Chapter 4.

#### **3. Audit Summary (Audsum)**

The Audit Summary (Audsum) for June 30, 2012 is an electronic submission of audited data that will be completed through a web application available in NJDOE Homeroom at <http://homeroom.state.nj.us/> beginning September 2012. Beginning with the year ending June 30, 2012 charter school auditors must obtain a web User ID and Password through each web administrator at each of their client charter schools. Once the web user ID and Password for a charter school is obtained, Audsum for that charter school may be accessed by the auditor. The auditor is responsible for the entry of data into electronic Audsum and the board secretary/business administrator is responsible for carefully reviewing the reports generated by Audsum. The charter school auditor and the board secretary/business administrator are required to indicate their respective approval of the entered Audsum data through the electronic signature process available on the web application transmittal screen. The charter school's board secretary/business administrator is responsible for the transmission of the Audsum data via the web application to the Department of Education no later than the CAFR due date (December 5, 2012). This information is used by the Department of Education for a variety of purposes, including downloading into the actual column of the budget software issued by the department. **It is very important that auditors and charter school personnel pay particular attention to the accuracy of the**

**data to avoid having to resubmit the data. If data is resubmitted due to an error in the CAFR, revised pages of the CAFR must be sent.**

Transmission of the reporting package to the OFAC CAFR Repository is mandatory for year end June 30, 2012. The OFAC CAFR Repository may be accessed through NJDOE Homeroom at <http://homeroom.state.nj.us/>. The procedure for submission of the CAFR and the AMR was adopted by the Department of Education to conform to the common practice for CAFR presentation followed by other charter schools throughout the country. The two reports have separate, distinct purposes. The CAFR is the financial report presented to the board for conformance with GAAP. The AMR is the auditor's report to the charter school board of trustee of his/her findings and recommendations as a result of the audit. In accordance with OMB Circular A-133, the CAFR will also be submitted to the Federal Audit Clearinghouse as part of the reporting package along with the data collection form in cases where a federal single audit of the charter school is required. In conformity with the federal due date, the Federal Data Collection Form (SF-SAC) may be submitted to the New Jersey Department of Education within 30 days after the audit report is filed with the charter school board of trustee Accordingly, CD-ROMs, associated audit items, and the upload of audit files transmitted to the OFAC CAFR Repository may be submitted on time without including the archived copy of the SF-SAC. When available, the archived copy of the SF-SAC must be submitted on a CE-ROM under separate cover, and also uploaded to the OFAC CAFR Repository.

USOMB Circular A-133 and NJOMB Circular Letter 04-04 require that the Schedule of Findings and Questioned Costs contain, but not be limited to, significant deficiencies in internal control over major programs, material non-compliance with the provisions of laws, regulations, contracts, or grant agreements related to a major program, and known questioned costs which meet the threshold as defined in Circular A-133. *N.J.S.A.* 18A:23-9 states that the auditor "...report any error, omission, irregularity, violation of law, together with recommendations, to the charter school of each charter school Accordingly, the AMR must include **all** findings, including any items contained in the Schedule of Findings and Questioned Costs.

## OUTLINE FOR COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR)

New Jersey statute (*N.J.S.A.18A:4-14*) requires that charter school maintain bookkeeping consistent with generally accepted accounting principles (GAAP) established by the Governmental Accounting Standards Board (GASB). The financial reporting requirements of GAAP include the issuance of a CAFR.

The financial statements are the responsibility of the charter school's management. The General Accounting Office (GAO) *Government Auditing Standards* (see the Introduction to this *Audit Program*) provide that an auditor may not audit financial statements prepared by that same auditor.

Charter schools should reference the NJ Department of Education (NJDOE) website at [www.state.nj.us/njded/finance/fp](http://www.state.nj.us/njded/finance/fp) (click on CAFR) for selected sample statements, including the basic financial statements and budgetary comparisons which are in excel files that can be downloaded by charter school staff. Information on Management Discussion and Analysis (MD&A) requirements and guidance on financial reporting for charter schools required to use school-based budgeting are also available at that web site to assist auditors and charter school staff. **The illustrative statements and schedules are not intended to be boilerplate nor inclusive of every situation.**

The NJDOE requires that each governmental fund be treated as a major fund in the fund statements for GASB 34 presentation. Questions relating to the preparation of NJ charter school CAFRs may be emailed to [charterfinance@doe.state.nj.us](mailto:charterfinance@doe.state.nj.us).

The format of the CAFR should adhere to the Outline and numbering of the exhibits as shown on the following pages. If a section or exhibit is not applicable to the charter school, the notation "N/A" should be indicated against that item in the Table of Contents.

The CAFR includes the Introduction, Financial, Statistical, and Single Audit Sections. The contents of each section are as follows:

**Introductory Section** – Although not required by GAAP, this section is used by the GFOA “Blue Book” and is intended to familiarize the reader with the organizational structure of the charter school and information useful to the reader to evaluate the charter school's financial condition. It is important that the letter of transmittal avoid duplicating information already provided in detail elsewhere in the CAFR.

**Financial Section** – This section includes the: 1) independent auditor's report, 2) MD&A, 3) basic financial statements including the charter school-wide statements (accrual basis for governmental and business-type activities), fund statements (modified accrual basis for governmental funds, accrual basis for proprietary funds and for fiduciary funds), and notes to financial statements, 4) Required Supplementary Information (RSI) other than MD&A including budgetary comparison schedules, 5) Other Supplementary Information including combining and individual fund statements, and additional schedules. Certain combining schedules may not be applicable. For example, if a charter school has only two programs in the Proprietary Fund, a combining schedule would not be necessary.

**Statistical Section** – This section is intended to provide CAFR users with a broader and complete understanding of the charter school and its financial matters than is possible from the financial statements and supporting schedules included in the financial section. GASB Statement No. 44 (GASB 44) revised the statistical schedules effective for the June 30, 2006 CAFRs. Sample schedules and guidance for preparing the schedules can be found on the NJDOE web site [www.state.nj.us/njded/finance/fp](http://www.state.nj.us/njded/finance/fp) (click on CAFR). The Outline of the CAFR reflects these revisions. Statistical information to assist charter schools and auditors in preparing this section is posted on that web site (click on Audit Information, and then 2011-12 Audit Program).

**Single Audit Section** – This section includes independent auditor’s reports on compliance and internal control, schedules of expenditures for federal and state grants, notes to the schedules of expenditures of federal and state grants, schedule of findings and questioned costs, and a summary schedule of prior audit findings. This information is required by OMB Circular A-133 and New Jersey OMB Circular Letter 04-04.

**OUTLINE OF CAFR**

Page

**INTRODUCTORY SECTION**

Letter of Transmittal  
 Organizational Chart  
 Roster of Officials  
 Consultants and Advisors

**FINANCIAL SECTION****Independent Auditor's Report****Required Supplementary Information – Part I  
 Management's Discussion and Analysis****Basic Financial Statements**

## A. Charter School-Wide Financial Statements:

- A-1 Statement of Net Assets
- A-2 Statement of Activities

## B. Fund Financial Statements:

## Governmental Funds:

- B-1 Balance Sheet
- B-2 Statement of Revenues, Expenditures, and Changes in Fund Balances
- B-3 Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities

## Proprietary Funds:

- B-4 Statement of Net Assets
- B-5 Statement of Revenues, Expenses, and Changes in Fund Net Assets
- B-6 Statement of Cash Flows

## Fiduciary Funds:

- B-7 Statement of Fiduciary Net Assets
- B-8 Statement of Changes in Fiduciary Net Assets

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## C. Budgetary Comparison Schedules:

- C-1 Budgetary Comparison Schedule – General Fund
- C-1a Combining Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual (**if applicable**)
- C-1b Education Jobs Fund Program – Budget and Actual (**if applicable**)
- C-2 Budgetary Comparison Schedule – Special Revenue Fund

**Notes to the Required Supplementary Information**

- C-3 Budget-to-GAAP Reconciliation

**Other Supplementary Information**

- D. Not Applicable
- E. Special Revenue Fund:
  - E-1 Combining Schedule of Program Revenues and Expenditures – Budgetary Basis
  - E-2 Preschool Education Aid Schedule(s) of Expenditures – Budgetary Basis
- F. Capital Projects Fund:
  - F-1 Summary Schedule of Project Expenditures
  - F-2 Summary Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budgetary Basis
  - F-2(x) Schedule(s) of Project Revenues, Expenditures, Project Balance, and Project Status – Budgetary Basis
- G. Proprietary Funds:
  - Enterprise Fund:
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    - G-3 Combining Schedule of Cash Flows
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- H. Fiduciary Funds:
  - H-1 Combining Statement of Fiduciary Net Assets
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  - H-3 Student Activity Agency Fund Schedule of Receipts and Disbursements
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- I. Long-Term Debt:
  - I-1 Schedule of Mortgage Obligations
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- J-1 Net Assets by Component
- J-2 Changes in Net Assets
- J-3 Fund Balances – Governmental Funds
- J-4 Changes in Fund Balances – Governmental Funds
- J-5 General Fund Other Local Revenue by Source

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- J-6 to J-9 Not Applicable

**Debt Capacity**

- J-10 Ratios of Outstanding Debt by Type
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**Demographic and Economic Information**

- J-14 Demographic and Economic Statistics
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- J-16 Full-time Equivalent Charter School Employees by Function/Program
- J-17 Operating Statistics
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by School Facility
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- K-1 Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*
- K-2 Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133 and New Jersey OMB Circular Letter 04-04
- K-3 Schedule of Expenditures of Federal Awards, Schedule A
- K-4 Schedule of Expenditures of State Financial Assistance, Schedule B
- K-5 Notes to the Schedules of Awards and Financial Assistance
- K-6 Schedule of Findings and Questioned Costs
- K-7 Summary Schedule of Prior Audit Findings

**SECTION I – GENERAL COMPLIANCE**  
**CHAPTER I**

**APPOINTMENT, SCOPE AND DECLARATION**

**Appointment of Auditor**

*N.J.S.A.* 18A:23-8 requires that an audit of the accounts of a charter school be made only by a registered municipal accountant or a certified public accountant of New Jersey who holds an uncanceled registration license as a public school accountant for New Jersey.

A charter school should refer to *N.J.A.C.* 6A:23A-16.2(i)(1), for regulations on obtaining audit firm peer reviews <http://www.nj.gov/education/code/current/title6a/chap23a.pdf> . The code requires that charter schools engage only licensed public school accountants who have had a peer review performed in accordance with *Government Auditing Standards, (Yellow Book)* and that charter schools obtain a copy of the audit firm's peer review and letter of comment. The charter school is required to review the report prior to the engagement of the annual audit, and to acknowledge its review of the report in the minutes that authorizes the engagement of the public school accountant. Generally when a request for proposal (RFP) is issued for annual audit services, audit firms will submit their peer review with the RFP. A returning audit firm will generally submit their peer review with the engagement letter.

*Government Auditing Standards July 2007 Revision (The Yellow Book)* updates the quality control and peer review sections in Chapter 3 and is applicable for financial audits of periods beginning on or after January 1, 2008. Earlier implementation is permitted and encouraged. *The Yellow Book* is available in electronic format at the Government Accountability Office (GAO) website <http://www.gao.gov/govaud/govaudhtml/index.html>. The website also contains a link to a summary of major changes. Printed versions of the July 2007 Yellow Book can be ordered through the Government Printing Office (GPO) online or by calling 202-512-1800 or 1-866-512-1800 toll free. Guidelines for audits of federal awards include the requirement that generally accepted government auditing standards (GAGAS) be followed when a Single Audit is required (See Section II-SA of this Audit Program for further information on Single Audits).

**Rules of Professional Conduct**

The public school auditor must follow the rules of professional conduct required by *N.J.A.C.* 13:29-3 et seq. and promulgated by the Board of Accountancy, Department of Law and Public Safety.

**Cooperation with the Auditor**

Because the compensation of the auditor is determined by the amount of time required to complete the audit, the auditor should not perform routine office work. Charter school personnel are expected to perform certain actions and have certain documents ready in advance of the audit. See Section III-6 for a copy of the Board Secretary/Treasurer Checklist. The Auditor Questionnaire incorporates those actions and documents listed in the Board Secretary/Treasurer Questionnaire. Irregularities shown by answers given to questions in the Auditor Questionnaire must be covered by a comment and recommendation in the Auditor's Management Report.

## Scope of Audit

The audit shall include an audit of the books, accounts, and moneys and a verification of all cash and bank balances of the charter school, and of any officer or employee thereof, and of any organization of public school pupils conducted under the auspices of the charter school.

1. General Fund
2. Special Revenue Funds
3. Capital Projects Funds
4. Permanent Funds
5. Enterprise Funds and Internal Service Funds
6. Private Purpose Trust and Agency Funds
7. Student Activity Funds

GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*. Auditors should consider the materiality of closely related organizations such as an education foundation or booster club, when determining whether to discretely present the statements of that organization in the charter school's CAFR as a component unit. Paragraph 6 of GASB 39 states, "It is a matter of professional judgment to determine whether the nature and the significance of a potential component unit's relationship with the primary government warrant inclusion in the reporting entity."

The areas of responsibility concerning completion of the audit and timely submission of the CAFR, the Auditor's Management Report, the Data Collection Form (if applicable) and the Audit Summary Worksheet diskette are as follows:

Responsibility for the preparation of the CAFR rests with the charter school. A sample CAFR is available on the website <http://www.nj.gov/education/finance/fp/cafr/>.

The Audit Summary (Audsum) for June 30, 2012 is an electronic submission of audited data that will be completed through a web application available in NJDOE Homeroom at <http://homeroom.state.nj.us/> beginning September 2012. Prior to gaining access to a client charter school's Audsum, auditors must obtain a unique web user identification code and password through each web administrator at their client charter school(s). The auditor is responsible for the entry of data into electronic Audsum and the board secretary/business administrator is responsible for carefully reviewing the reports generated by Audsum. The charter school auditor and the board secretary/business administrator are required to indicate their respective approval of the entered Audsum data through the electronic signature process available on the web application transmittal screen. The charter school's board secretary/business administrator is responsible for the transmission of the Audsum data via the web application to the Department of Education no later than the CAFR due date (December 5, 2012).

The auditor's responsibility is to perform an audit for the purpose of rendering an opinion on the fairness of the basic financial statements. The audit is to be performed in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; the Single Audit Act of 1984 as amended by the Single Audit Act Amendments of 1996; USOMB Circular A-133, NJOMB Circular Letter 04-04, and audit requirements as prescribed by the Division of Finance, Department of Education, State of New Jersey. The auditor is also responsible for reviewing the unaudited sections of the CAFR. Adjustments required as a result of the audit procedures performed should be reflected in the CAFR issued by the charter school. See Section II-SA for required submission of reports.

## **Risk Assessment/Internal Controls**

The AICPA's Statement on Auditing Standards (SAS) No. 105 *Amendment to Statement on Auditing Standards No. 95, Generally Accepted Auditing Standards* supercedes SAS No. 1 section 150. This has been codified as AU 150.02 and states that an auditor "must adequately plan the work and must properly supervise any assistants. The auditor must obtain a sufficient understanding of the entity and its environment, including its internal control, to assess the risk of material misstatement of the financial statements whether due to error or fraud, and to design the nature, timing, and extent of further audit procedures." SAS No. 99 established standards and provides guidance to auditors in fulfilling that responsibility, as it relates to fraud, in an audit of financial statements conducted in accordance with generally accepted auditing standards. Guidance includes additional inquiries of management, not just the business office, additional documentation of the auditor's work in consideration of fraud, and identifying and assessing risks of fraud –incentives/pressures, opportunities, and attitudes/rationalizations.

The AICPA issued eight risk assessment standards SAS 104 through SAS 111; collectively known as the Risk Assessment Standards, in March 2006. These standards are first effective for June 30, 2008 school charter school audits.

According to the AICPA, "the primary objective of these Statements is to enhance auditors' application of the audit risk model in practice by specifying, among other things:

- More in-depth understanding of the entity and its environment, including its internal control, to identify the risks of material misstatement in the financial statements and what the entity is doing to mitigate them.
- More rigorous assessment of the risks of material misstatement of the financial statements based on that understanding.
- Improved linkage between the assessed risks and the nature, timing, and extent of audit procedures performed in response to those risks."

Charter schools that expend \$500,000 or more in federal financial assistance or state financial assistance are required to have an annual single audit performed in accordance with the federal Single Audit Act and the OMB Circular No. A-133 and state policy. Charter schools that expend \$100,000 or more in state and/or federal financial assistance 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 Single Audit Act and OMB Circular A-133 and state policy.

The federal Circular A-133 has included guidance for single audits and defines internal control as a process, affected by an entity's management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- (1) Effectiveness and efficiency of operations,
- (2) Reliability of financial reporting, and
- (3) Compliance with applicable laws and regulations.

Section -500(c) of Circular A-133 under "Scope of Audit" states (1) "In addition to the requirements of GAGAS [generally accepted government auditing standards] the auditor shall perform procedures to obtain an understanding of internal control over federal programs sufficient to plan the audit to support a low assessed level of control risk for major programs."

The Circular A-133 further states at (d)(1)- "In addition to the requirements of GAGAS - the auditor shall determine whether the auditee has complied with laws, regulations, and the provisions of contracts or grant agreements that may have a direct and material effect on each of its major programs" and at (d) (4)

“The compliance testing shall include tests of transactions and such other auditing procedures necessary to provide the auditor sufficient evidence to support an opinion on compliance.”

Significant deficiencies or material weaknesses must be communicated to the board of trustees and must be followed up with a corrective action plan prepared by the board. The increased understanding of the audited charter school’s internal controls will also enhance management’s efficiency and effectiveness.

*The Yellow Book* requires that when an opinion or disclaimer is expressed on financial statements, auditors must also report on internal control over financial reporting and on compliance with laws, regulations and provisions of contracts or grant agreements.

In October 2008, the AICPA Auditing Standards Board (ASB) issued Statement on Auditing Standards (SAS) No. 115, *Communicating Internal Control Related Matters Identified in an Audit*, which supersedes SAS No. 112 of the same title. This SAS is effective for audits of financial statements for periods ending on or after December 15, 2009. SAS No. 115 amends SAS No. 112 and was issued by the Auditing Standards Board to provide guidance to auditors with respect to what should be communicated to management and those charged with governance in an organization. The key differences between SAS No. 115 and SAS No. 112 are revisions to the definitions of material weaknesses and significant deficiencies to better align them with PCAOB Auditing Standard No. 5; with the most significant change being to the definition of significant deficiencies. Guidance for making the determination as to whether a deficiency is a material weakness or significant deficiency has also been updated. SAS No. 115 requires the auditor make communications, in writing, to management and those charged with governance regarding significant deficiencies and material weaknesses in internal controls that you note in your audits.

<http://www.aicpa.org/Research/Standards/AuditAttest/DownloadableDocuments/AU-00325.pdf>

During December 2009, the AICPA Auditing Standards Board (ASB) issued Statement on Auditing Standard (SAS) No. 117, *Compliance Audits*. SAS No. 117 supersedes SAS No. 74, *Compliance Auditing Considerations in Audits of Governmental Entities and Recipients of Governmental Financial Assistance*. It applies to single audits and other similar compliance audits for fiscal periods ending on or after June 15, 2010. The SAS was developed in response to findings in a federal study on single audit quality that showed improvements were needed in many areas. SAS No. 117 is available from the AICPA.

### **Declaration of Accountant**

*N.J.S.A. 18A:23-9. Declaration of Accountant.* "No person shall undertake the auditing of the accounts of any school district (charter school) unless he shall have qualified as a public school accountant for New Jersey upon proof that he is either a registered municipal accountant or a certified public accountant, of New Jersey, and by subscribing to the following declaration:

- a. That he is fully acquainted with the laws governing the fiscal affairs of charter schools of New Jersey and is a competent and experienced auditor; and
- b. That he will honestly and faithfully audit the books and accounts of any charter school when engaged to do so, and report any error, omission, irregularity, violation of law, discrepancy or other nonconformity to the law, together with recommendations, to the board of trustees of such charter school."

**SECTION I – GENERAL COMPLIANCE**  
**CHAPTER 2**

**MEETINGS AND MINUTES**

**Meetings of Public Bodies - The Sunshine Law**

In enacting the Open Public Meetings Act, the legislature declared that secrecy in public affairs undermines public faith in government and that the right of the public to witness in full detail all phases of the deliberation, policy formulation and decision-making of public bodies is vital to the proper functioning of the democratic process. (*N.J.S.A.* 10:4-6 et seq.)

In general, the statute requires that the public be given advance notice of and the right to attend meetings of public bodies and that all discussions and official actions, unless specifically exempted, take place in public.

Minutes must be kept of all meetings, which at a minimum must include the announcement of the presiding person at the commencement of the meeting, the time and place of the meeting, and the names of the members present, the subjects considered, the actions taken and the vote of each member on any items voted upon. The following should be detailed in the minutes.

- a. A list of all employees, salaries and wages approved by the board.
- b. The final approved budget.
- c. Details of the annual organization meeting of the board.
- d. Lists of claims approved for payment by the board.
- e. Summary of monthly financial statements of the secretary and the treasurer (if the charter school has a treasurer).
- f. Authorization for advertising for bids, with summary of the bids received and subsequent award of same.
- g. Full detail of budget transfers, including affirmative vote by two thirds of board for applicable transfers.
- h. Capital Improvement Authorizations, Proposals and/or Adoptions.
- i. Required Board of Trustees Policies (including but not limited to the following):
  - Travel and expense reimbursement
  - Public Relations and Professional Services
  - SEMI Reimbursement
  - Nepotism
  - Anti-Bullying (updated annually)
  - Contributions and Contracts Awards
  - Policy on Exceeding Purchase Order Amounts

### **Minute Records**

The proceedings of the meeting of the board of trustees should be recorded in a bound or an acceptable loose-leaf type minute book and signed by the secretary. The minutes should be reviewed by the auditor. This procedure is necessary to check on the actions of the board of trustees, particularly with respect to the submission of monthly financial reports, the approval of claims, adoption of the budget, budget amendments, advertisements for bids and other financial matters of importance to the auditor. Minutes must include as a minimum the requirements of the “Sunshine Law” per *N.J.S.A. 10:4-6 et seq.*

**SECTION I – GENERAL COMPLIANCE**  
**CHAPTER 3**

**CHARTER SCHOOL AID**

Pursuant to *N.J.S.A.* 18A:36A-12(b), the school district of residence shall pay directly to the charter school for each student enrolled in the charter school who resides in the district an amount equal to 90% of the sum of the budget year equalization aid per pupil and the prebudget year general fund tax levy per pupil inflated by the CPI rate most recent to the calculation. In addition, the school district of residence shall pay directly to the charter school the security categorical aid attributable to the student and a percentage of the district's special education categorical aid equal to the percentage of the district's special education students enrolled in the charter school and, if applicable, 100% of preschool education aid.

Pursuant to *N.J.S.A.* 18A:36A-12(d), first year charter school students who attended non-public schools and students that were home schooled last year are funded by the state with direct payments to the charter school.

**School Register**

The school district of residence must enroll charter school students in the school register and treat them as resident students for purposes of state aid. The charter school's responsibility is to ensure the attendance of those students enrolled in their school in accordance with *N.J.A.C.* 6A:23A-15. A student who has been absent 10 days for an unknown reason must be reported as a dropout and the charter school must immediately notify the school district of this condition in writing.

All copies of source documents related to the determination of state aid (i.e. Application for Free and Reduced Meals and Free Milk, workpapers listing bilingual education students) must be maintained in both the school district of residence and the charter school.

The auditor is required to review the charter school's registers, workpapers and supporting documentation for all registered students for accuracy.

**Enrollment Counts**

Pursuant to *N.J.A.C.* 6A:23A-15 charter schools are required to conduct enrollment counts on October 15 and the last day of the school year. A charter school shall submit each count through the live web-based Charter School Enrollment System, available through the NJ Homeroom website, for the purposes of determining average daily enrollment. Accurate maintenance of the enrollment system is vital so that the resident districts can rely on the accuracy of the payment schedules.

The requirements for the auditors will be to conduct an audit of the two enrollment counts. The importance of these counts was discussed previously concerning the fact that the school register is the source document for which revenue is derived in a charter school.

The Schedule of Audited Enrollments is included in the Auditors' Management Report as a supplementary schedule and is subjected to the same auditing procedures applied in the examination of the charter school's basic financial statements.

Charter schools must complete the enrollment count submission, which documents the compilation of register data for the purposes of charter school aid calculation and provides an audit trail for the auditor to use as a basis for testing. Charter schools are required to prepare written internal procedures, which

should provide a description of the count process for the two required enrollment counts. The procedures should describe how the count was taken, who was responsible for compiling the data, completing the enrollment count submission, and detail the various assigned responsibilities for collection of the data and the follow-up procedures to identify student information to be corrected in the subsequent count. The workpapers, original supporting documentation and internal procedures should be maintained on file for a period of seven years.

### **Sampling Methods/Sizes - Audit Procedure**

Testing should include samples from each of the enrollment count dates, i.e. October 15, 2011, and the last day of school 2012. The sample selected for the enrollment submission will result in testing all the specifics to the student selected in that sample. The two enrollment submissions are based on actual enrollment into the charter school; therefore, the audit of both counts sampled will be verification of the number of days enrolled and agreement to the school register.

The auditor must audit 100% of the records over the two enrollment counts utilizing a “sampling without replacement” method. This means that once a student record is randomly selected for testing, that record is excluded from the sample pool for the subsequent counts. Utilizing this “non-replacement” method ensures that the auditor examines 100% of the student records. For example, if total charter school enrollment is 500 students, the October 15 sample is 250 out of the 500 records. The last day of school count sample is the remaining 250 students. The auditor should pay particular attention to students that have either enrolled into or transferred out of the charter school during the school year to ensure that they are included in the testing and that the enrolled days are accurate.

Note: Since student enrollment is the source data for charter school funding, auditors are advised to be diligent in verifying the accuracy of the information. Any discrepancies are to be documented and reconciled. Enrollment Count Submission (See Appendix B)

#### **On Roll -**

Samples from each enrollment count must be tested to verify that the number of pupils enrolled agrees with the associated number reflected on the charter school's workpapers. The auditor will attest to the number of days that the child was enrolled.

Through review of transfer cards, the auditor will verify that the enrolled students are in the appropriate district of residence to ensure that the proper school district is reflected in the payment schedule.

For students in grades 9 to 12, auditors are required to inquire as the status of any students enrolled in a county vocational program and verify that the final enrollment count reflects the corresponding reduction in Average Daily Enrollment.

**Special Ed/ Bilingual -**

For each student tested where there was a submission of Special Ed/Bilingual, the auditor must verify the documentation to support the classification and verify the numbers of days the services were rendered to that child.

Auditors are required to inquire as to the status of any special education student in outside placements. **NOTE: If a charter school student has been placed in a Private School for the Disabled, the auditor must:**

- 1. Verify that the IEP requires the private placement;**
- 2. Verify that the student record in the Charter School Enrollment System (CHE) is coded as “Attending a Private School” and that the Average Daily Enrollment (ADE) is zero.**

The financial costs for educating these students are borne by the school district of residence.

**Low Income Limited English Proficient (LEP) Students (kindergarten through 12)**

For each student tested where there was a submission of Low Income LEP, the auditor must verify the documentation to support the classification and verify the number of days the services were rendered to that child.

**Limited English Proficient (LEP) students (not low income-kindergarten through 12)**

For each student tested where there was a submission of LEP not low-income, the auditor must verify the documentation to support the classification and verify the number of days the services were rendered to that child.

**Special Education Tiers No Longer Applicable**

Prior to October 15, 2008 educationally disabled students were reported by tiers. Subsequent to October 15, 2008, they are reported by grade groupings – elementary, middle school, or high school. The IEP should be reviewed to determine that the student has been classified as special education, but subsequent to October 15, 2008 auditors no longer need to review for classification in tiers. Auditors are to ensure that special education students are not counted twice as both graded and special education students.

Auditor’s Note – In respect of the confidentiality provision involving a student’s IEP, we recommend that the auditor not make photocopies of IEP’s chosen as part of the test sample. The auditor may suggest that a representative of the charter school be present to ensure compliance with the aforementioned provision. Additionally, the charter school may require the auditor to sign the pupil access record to document the disclosure of this information.

Educationally disabled students who are graded (Resource Center) are reported based on the following grade level table:

<u>Grade Level (as of 10/14/11)</u>	<u>School</u>
preK-5	Elementary School
6-8	Middle School
9-12	High School

Educationally disabled students who are un-graded (Self-Contained) are reported based on the following age based table:

<u>Age (as of 6/30/12)</u>	<u>School</u>
11 and under	Elementary School
12-14	Middle School
15-21	High School

***Private Schools for the Disabled***-- Pursuant to N.J.S.A.18A:36A-11(b) A charter school shall comply with the provisions of chapter 46 of Title 18A of the New Jersey Statutes concerning the provision of services to handicapped students; except that the fiscal responsibility for any student currently enrolled in or determined to require a private day or residential school shall remain with the district of residence.

Pursuant to N.J.S.A.18A:36A-11(c) Within 15 days of the signing of the individualized education plan, a charter school shall provide notice to the resident district of any individualized education plan which results in a private day or residential placement. The resident district may challenge the placement within 30 days in accordance with the procedures established by law.

Auditors are required to inquire as to the status of any special education student in outside placements. If a charter school student has been placed in a Private School for the Disabled or a residential program, the auditor must: 1. Verify that the IEP requires the private placement 2. Verify that the student record in the Charter School Enrollment System is coded as “Attending a Private School” and that the related Average Daily Enrollment (ADE) is zero. The costs for educating these students are borne by the school district of residence.

Auditor’s Note – In respect of the confidentiality provision involving a student’s IEP, we recommend that the auditor not make photocopies of IEPs. The auditor may suggest that a representative of the charter school be present to ensure compliance with the aforementioned provision. Additionally, the charter school may require the auditor to sign the pupil access record to document the disclosure of this information.

**County Vocational School Students**-For students in grades 9 to 12, auditors are required to inquire as the status of any students also enrolled in a county vocational program part-time and verify that the final enrollment count reflects the corresponding reduction in Average Daily Enrollment (ADE). The Charter School Enrollment System record of students who were enrolled in the charter school for the entire school year, and who were also attending a vocational program, should reflect an ADE of 0.5. This ADE would be prorated accordingly for students who were only enrolled in the charter school for part of the school year. This reduction should be reflected on the 2011-2012 Final Enrollment Count. Any exceptions should be noted in the Schedule of Audited Enrollments.

**Low-Income Students** -- Obtain the low-income workpapers (by grade) prepared by the charter school and reconcile total low-income eligible students listed to the low-income eligible students reported on the ASSA.

Low-income eligible students are resident and nonresident students eligible for free or reduced price meals or free milk, and are part of the charter schools' enrollment. Students eligible for free or reduced price meals or free milk are those students who have been determined to be eligible under the National School Lunch Act and the Child Nutrition Act as of the last school day prior to October 16, (October 14, 2011).

The district and charter school should have the documentation on file for free or reduced lunch information. The paperwork should be filed in the charter school and the district. **It is the responsibility of the charter school to provide the district with the necessary documentation for purposes of state aid and submission of ASSA to the state.**

Errors detected in income classifications during the testing of applications for the school child nutrition program which impact the free classifications should be applied to the low-income count when applicable. The verified count reported on the Schedule of Audited Enrollments must reflect all adjustments discovered during the above procedures. If the workpapers do not agree with the Charter School Enrollment System, those variances must be reported on the Schedule of Audited Enrollments as well.

**Bilingual Education** -- Bilingual education programs are provided to students identified as limited English proficient (LEP) to help them develop academic skills while acquiring English language skills. There are currently three programs as follows:

- Bilingual programs with content area instruction in the native language provided when there are 20 or more LEP students of a single language group in a charter school.
- ESL-only (ESL) programs are provided when there are 10 or more LEP students in a charter school.
- English Language Services (ELS) programs are provided when there is at least 1, but fewer than 10, LEP students in a charter school.

Program Plans for Bilingual, ESL-only and ELS programs are developed every three years. Charter schools are required to develop plans and maintain them on file in the charter school. Beginning with the July 2011 cycle, submission of the plan to the department is not required. The current three-year cycle began in July 2011, and will end in 2014. All programs operate from September to June. The auditor should also verify that the charter school maintains on file a current Bilingual, ESL or ELS plan which included the year ending June 30, 2012.

Bilingual, ESL or ELS programs are provided to students identified as LEP by a state established standard on an English language proficiency test. The following students who are enrolled in the charter school as of October 14, 2011 are eligible to be reported:

- Resident and nonresident students identified as LEP, in accordance with *N.J.A.C. 6A:15-1.3(c)*, who are participating in an approved bilingual, ESL, or ELS program and
- Students who continue to need and participate in bilingual, ESL or ELS program services on the basis of multiple indicators as per *N.J.A.C.6A:15-1.10(b)*.

The number of eligible students must be supported by a listing which includes each student's name and the number of the register on which they are enrolled. Beginning with the October 15, 2008 ASSA, LEP students with an IEP counted in bilingual education are also permitted to be counted as special education students.

Based on the total LEP students reported , the auditor should use the table on page I-3.2 to determine an appropriate sample size. Trace the LEP students selected to the registers to ensure that the students were on roll as of October 15 (October 14, 2011). LEP students are listed on the Charter School Enrollment as either low income or not low income. Auditors should check the low income eligibility of the LEP students in the sample. See the preceding Section 3 in this chapter on low income eligibility. The results of the LEP testing are reported in the Schedule of Audited Enrollments that is required to be included in the Auditors' Management Report.

LEP Placement Criteria:

The bilingual education code (*N.J.A.C. 6A:15-1.10*) states that the process to determine the readiness or inability of the individual student to function successfully in an English only program shall be initiated by the student's level of English proficiency as measured by a department established standard on one of the accepted English language proficiency tests listed below. The readiness of the student shall be further assessed on the basis of the multiple indicators, also listed below. Thus, students may be retained for program services even though their language proficiency test scores on the LAS, LAS – Links, IPT, MACII, ACCESS for ELLs, CELLA, W-APT are at the standard. Charter schools may continue to report these students as LEP if other indicators support the decision to continue language assistance program services. Testing of each LEP student reported in the enrollment count must be documented as part of Charter School Enrollment System supporting documentation.

2011-12 English Language Proficiency Tests:

- Language Assessment Scales (LAS), published by CTB/McGraw Hill
- Language Assessment Scales Links (LAS-Links) published by CTB/McGraw Hill
- IDEA Proficiency Test, published by Ballard & Tighe Publishing Company
- MAC II Test of English Language Proficiency, published by Questar Assessment, Inc. (formerly Touchstone Applies Science Associates, Inc.)
- WIDA ACCESS for ELLS Placement Test (W-APT)
- Assessing Comprehension and Communication in English State to State for English Language Learners (ACCESS for ELLs™)
- Comprehensive English Language Learning Assessment (CELLA), published by Accountability Works, Inc.
- WIDA MODEL TEST

The standards for these are outlined below. Additional information for the tests above is on the website: [www.nj.gov/education/bilingual/resources/prof\\_tests.htm](http://www.nj.gov/education/bilingual/resources/prof_tests.htm).

### **Using Multiple Criteria for Program Entry and Exit**

Charter schools must use multiple indicators, as specified in code (*N.J.A.C. 6A:15-1.3(c)* and *6A:15-1.10(b)*) to determine which students need English as a Second Language (ESL) and/or bilingual program support and which students can function independently in a monolingual English classroom. These indicators must be used for both identification of LEP students and for determining readiness to exit from bilingual/ESL/ELS program services. Use of the multiple indicators is particularly important when a student's test score is close to a cut point (as determined by the standard error of measurement (SEM)). These other indicators include:

- Reading level;
- Previous academic (classroom) performance;
- Achievement on standardized tests in English; and
- Teacher judgment.

### **Language Assessment Scales (LAS) - CTB/McGraw Hill Publishers**

Use the LAS Language Proficiency Index (LPI) to determine program placement.

<b>LPI (RW/O)</b>	<b>Category</b>	<b>Description</b>
1/2 1/3	LEPa	low-level R and W skills mid-level (limited) L and S skills
1/4 1/5	LEPb	low-level R and W skills high-level (proficient) L and S skills
2/2 2/3	LEPc	mid-level R and W skills mid-level (limited) L and S skills
2/4 2/5	LEPd	mid-level R and W skills high-level (proficient) L and S skills
3/2 3/3	LEPe	high-level R and W skills mid-level (limited) L and S skills
3/4	FEP	high-level R and W skills high-level (proficient) L and S skills

### **Standard**

Any student that places below the FEP (Full-English Proficient) category and has at least one other indicator as per *N.J.A.C. 6A:15-1.3(c)* is limited English proficient.

**LAS Links Language Assessment System- CTB McGraw-Hill Publishers**

For each grade, there are score ranges for each language domain and for each language proficiency level.

<b>Grade (e.g., 5)</b>	1 Beginning	2 Early Intermediate	3 Intermediate	4 Proficient	5 Above Proficient
Overall					
Listening					
Speaking					
Reading					
Writing					

Standard: Any student that scores below the proficient range on the **Overall** score and has at least one other indicator (listed above) as per *N.J.A.C. 6A:15 1.3(b)* is limited English proficient.

The *LAS Links* Student Profile Sheet can be used for placement of students, and is available in an electronic version and a printed version. If the student's score is below the Proficient range (e.g., Beginning, Early Intermediate, or Intermediate), they are considered LEP.

**IDEA Proficiency Test (IPT) - Ballard and Tighe Publishers**

Use the IPT designations to determine program placement.

- Oral Tests
  - Non-English Speaker
  - Limited-English Speaker
  - Fluent-English Speaker
- Reading Tests
  - Non-English Reader
  - Limited-English Reader
  - Competent-English Reader
- Writing Tests
  - Non-English Writer
  - Limited-English Writer
  - Competent-English Writer

**Standard**

Any student who falls in the "limited" category or below, in any of the tests, oral, reading, or writing and has at least one other indicator (listed above) as per *N.J.A.C. 6A:15 1.3(b)* is limited English proficient.

**MACII Test of English Language Proficiency – Questar Assessment, Inc (formerly Touchstone Applied Science Associates, Inc.) Publishers**

Use the Standard Score Cut Points to determine program placement.

Standard Score Cut Points*				
Test Level	Grade	Fall	Spring	SEM**
Red	K	210	220	8
	1	566	588	14
Blue	2	548	564	12
	3	558	574	12
Orange	4	543	559	10
	5	556	569	11
Ivory	6	545	557	10
	7	551	562	10
	8	555	567	10
Tan	9	549	560	10
	10	558	570	11
	11	568	583	11
	12	580	593	11
*For grades 1-12, cut points are set for Total Battery scores. For grade K, cut points are set in terms of total Speaking and Listening scores.				

\*\*The standard error of measurement (SEM) of a test is a measure of reliability that represents the amount by which a score may vary due to errors of measurement. Thus, the larger the SEM the greater the likelihood that a student might be misclassified. The SEM can be used to establish a band within which errors are most probable. For students whose scores fall within the band defined by the cut score plus or minus one SEM (e.g., 539 to 559 for Fall, 9th grade), additional data should be used to corroborate the placements.

## WIDA-ACCESS Placement Test (W-APT)

The WIDA-ACCESS Placement Test (W-APT)<sup>TM</sup> is an adaptive test that can gauge students' proficiency up to and beyond level 5 of the WIDA ELP Standards. Like ACCESS for ELLs<sup>®</sup>, there are five grade level clusters (Kindergarten, 1-2, 3-5, 6-8, and 9-12). Unlike the ACCESS for ELLs<sup>®</sup>, all scoring of the W-APT is completed on site by the test administrator. All sections of the test are scored as the test is administered. After completion of the Speaking, Listening, Reading and Writing, the Test Administrator will use the instructions on the scoring sheet to calculate the students' overall Proficiency Level.

### Grades 1-12

The regulation mandating the use of multiple criteria for identifying and exiting students from language assistance programs services is still required. For students in grades 1 through 12, a W-APT proficiency level of **4.5** or higher is recommended for exiting a program if multiple criteria support the decision.

### Kindergarten

The Kindergarten test is organized into parts (A through E), each progressively more difficult. If the student successfully completes a part (e.g., A) they move on to the next part. The score sheet indicates the criteria for successful completion and will indicate how far the student progresses in the adaptive administration. For example to successfully complete part D of the Listening and Speaking exam, a student must answer at least 3 questions correctly in Part A, 3 questions correctly in Part B, 3 questions correctly in Part C, and 4 questions correctly in Part D.

The W-APT may be used to help determine eligibility of a kindergarten student for language assistance or to help identify when a student is able to exit a language assistance program. Eligibility may be determined at any time during the school year. However, the Reading and Writing sections of the W-APT test are only appropriate during the second half of the Kindergarten year.

For example, eligibility for language assistance program services for a student tested in September is contingent on students NOT successfully completing any Parts A, B, and C of the Listening and Speaking Test. If a student is tested in February, the student will take the Listening and Speaking, Reading and Writing tests. If the student does not successfully complete the appropriate parts in any one of the three tests, the student is eligible for language assistance. Charter schools should consider other indicators in making their placement decision.

To exit language assistance program a student is expected to meet the criteria in all three test sections. The following chart demonstrates the standards for program entry and exit in kindergarten:

	Eligibility for Language Assistance Kindergarten		Exit Language Assistance
Test Section	Administered Before January 1 of the School Year	Administered After January 1 of the School Year	Administered at the End of Kindergarten
<b>Listening and Speaking</b>	Does not successfully complete parts A, B, C, and D	Does not successfully complete parts A, B, C, and D <b>OR</b>	Successfully complete parts A, B, C, and D <b>AND</b> answer at least 3 questions correctly in Part E <b>AND</b>

<b>Reading</b>		Does not successfully complete parts A, B, and C <b>OR</b>	Successfully complete parts A, B, C, and D <b>AND</b>
<b>Writing</b>		Does not successfully complete parts A, B, and C	Successfully complete parts A, B, C, and D

### **Assessing Comprehension and Communication in English State to State for English Language Learners (ACCESS for ELLs™)**

The ACCESS for ELLs English Language Proficiency test is required to be administered annually to all LEP students to measure progress in the English language. The test is administered during a six-week window each spring and scored by an outside vendor. Charter schools receive score reports during the summer, and can make tentative placement decisions based on other indicators until the score reports are received. For more information on the ACCESS for ELLS go to the website: [http://www.nj.gov/education/bilingual/ells/score/entry\\_exit.htm](http://www.nj.gov/education/bilingual/ells/score/entry_exit.htm)

### **Comprehensive English Language Learning Assessment (CELLA)**

#### **CELLA Proficiency Levels**

A student scoring below English Proficient and has at least one other indicator as per N.J.A.C. 6A:15-1.3(c) is considered limited English proficient.

#### **Listening and Speaking Proficiency Levels**

*Beginning* students speak in English and understand spoken English that is below grade level and require continuous support.

*Low Intermediate* students speak in English and understand spoken English that is at or below grade level and require some support.

*High Intermediate* students, with minimal support, speak in English and understand spoken English that is at grade level.

*English Proficient* students speak in English and understand spoken English at grade level in a manner similar to non-ELL students.

#### **Reading Proficiency Levels**

*Beginning students* read below grade level text and require continuous support.

*Low Intermediate* students read at or below grade level text and require some support.

*High Intermediate* students read at grade level text with minimal support.

*English Proficient* students read at grade level text in a manner similar to non-ELLs.

## **Writing Proficiency Levels**

*Beginning* students write below grade level and require continuous support.

*Low Intermediate* students write at or below grade level and require some support.

*High Intermediate* students write at grade level with minimal support.

*English Proficient* students write at grade level in a manner similar to non-ELLs.

## **WIDA MODEL TEST**

The WIDA Model for Kindergarten has two main purposes:

- To identify students who may be candidates for ESL and/or bilingual services; and
- To determine the academic English language proficiency level of students new to a school or to the U.S. school system in order to decide appropriate levels and amounts of instructional services.

For either purpose, the WIDA Model should be considered one of several elements in the decision-making process regarding ELL identification and placement in instructional services. The Listening and Speaking components of the WIDA MODEL provide an Oral Proficiency score, which can be used to determine the level and extent of services appropriate for each student. The results of the Reading and Writing (literacy) components provide diagnostic information that may be used as additional criteria to guide instruction and service delivery.

The WIDA MODEL for Kindergarten is one of New Jersey's approved language proficiency tests for identifying students for language assistance programs. This test is designed for children entering Kindergarten. Prior to January 1 of the Kindergarten school year, Kindergarten students can be administered only the listening and speaking sections of the WIDA MODEL for Kindergarten.

N.J.A.C. 6A:15-1.3(c) mandates the use of multiple indicators for identifying and exiting limited English proficient students from language assistance programs. For students taking the Kindergarten MODEL test **prior to January 1**, the standard for the oral proficiency level score (listening and speaking sections only) is a **5.0 oral language proficiency level and at least one other indicator**.

For students taking the Kindergarten MODEL **after January 1**, the standard is a **4.5 overall composite proficiency level and multiple indicators** as per N.J.A.C.6A15:1.10(c). This score is based on the student taking all parts (listening, speaking, reading, and writing) of the K MODEL.

## **ADDITIONAL AUDIT PROCEDURES TO BE PERFORMED ON THE CHARTER SCHOOL ENROLLMENT**

In addition to the testing of enrollment reported, the public school accountant must also verify that the charter school maintains written internal procedures which provide a description of the enrollment count process.

These written procedures must include the following information:

- 1) How the count was taken,
- 2) Who was responsible for compiling the data and submitting the enrollment count, and
- 3) The various personnel assigned responsibilities for collecting the data.

If the charter school did not use the sample workpapers or develop an alternative audit trail, the auditor shall include a comment that the necessary verifications and sampling could not be performed and a recommendation that the workpapers be used or an alternative audit trail (which is acceptable to the auditor) be established for future audits. The auditor should include a comment and recommendation for any differences noted on the Schedule of Audited Enrollments.

### **ADDITIONAL PROCEDURES FOR SCHOOL-BASED MEDICAID REIMBURSEMENT PROGRAMS**

Section 1903(c) of the U. S. Code allows Medicaid reimbursement for medically necessary school-based health services provided to Medicaid-eligible students. The services must be covered in the State plan for Medicaid, as approved by the Centers for Medicare and Medicaid Services (CMS), and provided by qualified practitioners with credentials which meet State and Federal requirements.

The State of New Jersey, Department of the Treasury administers two separate and distinct school-based Medicaid reimbursement programs: the Special Education Medicaid Initiative (SEMI) Program, including Cost Settlement Requirements, and Medicaid Administrative Claiming (MAC). The SEMI Program allows for the recovery of costs associated with the delivery of related services and evaluation services to special education students. Cost settlement, mandated by CMS, requires all states to demonstrate that rates paid for school-based Medicaid services are not higher than the actual cost of providing medical services. MAC allows for the recovery of costs associated with a wide range of Medicaid outreach activities eligible for administrative claiming.

The CMS has instituted several reporting requirements designed to document a charter school's compliance with federal reimbursement regulations. The CMS requires that each charter school designate an employee who is responsible for the coordination of the charter school's SEMI program with the third party billing administrator identified by the Department of Treasury. The CMS compliance requirements for charter school are pertinent to the charter school achieving maximum participation and include:

- Submission by the charter school designated employee who is responsible for the coordination of the charter school's Semi Coordinator of the quarterly updates and certification of the Staff Pool List (SPL) to the third party billing administrator
- Staff represented on the SPL that are selected for completion of the quarterly Random Moment Time Study (RMTS) are required to complete the RMTS in a timely manner
- Identification by the charter school of the charter school personnel responsible for the submission of the quarterly and annual financial information (salary and fringe benefits) of the staff listed on the SPL to the third party billing administrator
- Timely submission and certification by the identified charter school personnel of the quarterly and annual financial information of the staff listed on the SPL to the third party billing administrator

Under the SEMI Program, related services, evaluation services, and specialized transportation are activities for which a charter school may submit claims. A student must have a valid IEP that documents the need for related services that have been submitted for reimbursement. In addition, charter schools are required to have all necessary documentation on file for review to support all claims for services performed as indicated in the applicable chapters of the SEMI Provider Handbook. Specific reference is to Chapter 4 of the SEMI Provider Handbook, "Covered Services and Practitioner Qualifications" and to Chapter 5, "Service Documentation Requirements." The SEMI Provider Handbook is available through a link to "Special Education Medicaid Initiative" on the New Jersey Department of Education (NJDOE) website (Special Education/Information for Districts and Parents): <http://www.nj.gov/education/specialed/info/>.

Public Consulting Group (PCG) is the vendor that the Department of Treasury selected to submit billing services on behalf of charter schools. Effective October 1, 2005, charter schools began documenting services via PCG's proprietary 3<sup>rd</sup> party administrator system. PCG's 3<sup>rd</sup> party administrator system is a web based application used to document related services and evaluation services. A select group of related services (audiology, occupational therapy, speech therapy, physical therapy, nursing and counseling) as well as and evaluation services are reimbursable only when delivered by Medicaid qualified practitioners. See Chapter 5, "Service Documentation Requirements" of the SEMI Provider Handbook for the documentation required when using PCG's 3<sup>rd</sup> party administrator system. The primary contact at PCG is Kattrina Bravo (609-275-0250, ext 3964, email kbravo@pcgus.com) or Bryan Hawkom (800-210-6113, email bhawkom@pcgus.com).

Audit procedures involve testing to determine that documentation is being maintained by charter schools. Auditors should also consider the Medicaid assistance when planning the single audit. The Schedule of Federal Expenditures of Federal Awards included in the Single Audit chapter of The Audit Program includes the Medicaid Assistance Program as a line in the general fund.

In accordance with *N.J.S.A.* 18A:55-3 charter schools are required to maximize their participation in the Special Education Medicaid Initiative (SEMI) Program. The adopted Accountability Regulations specified in *New Jersey Administrative Code* (N.J.A.C.) 6A:23A-5.3 include programmatic guidelines and standards for charter schools to maximize participation in the SEMI Program.

The charter school shall recognize as revenue in its annual budget no less than 90 percent of SEMI revenue projections provided by the department, unless the charter school has received a waiver or submitted and received approval for an alternative SEMI revenue projection.

A charter school may seek a waiver of the requirements to maximize the SEMI Program if it can show that as per the October 15 Special Education Student Count for the previous school year (FYE 6/30/12 refer to October 15, 2010 count), it had 40 or fewer Special Education-Medicaid eligible students, or that efforts to participate in SEMI would not provide a cost benefit to the charter school. This information must be based on reliable evidence and on the revenue projection provided by the NJDOE of the charter school's eligible students or available SEMI reimbursement for the budget year. For the year ended 6/30/12, charter schools received \$298.02 for eligible evaluation services/IEP meetings and \$10.33 per date of eligible related services. The Executive County Superintendent will render a decision on waivers within 20 days of receipt of the waiver request.

A charter school may seek approval from the Executive County Superintendent to develop its own alternate SEMI revenue projections upon demonstration that the numbers it used in calculating the revenue projections are more accurate than those provided by the department. All alternate revenue projection proposals must be submitted to the Executive County Superintendent no less than 45 days prior to the submission of the charter school's proposed budget.

In accordance with *N.J.A.C.* 6A:23A-5.3(f), each charter school that has not achieved maximum participation in the SEMI Program or failed to comply with all program requirements set forth in *N.J.A.C.* 6A:23A-5.3(e), shall demonstrate a good faith effort to achieve maximum participation and to maximize available SEMI revenue by submitting a SEMI Action Plan to the Executive County Superintendent for review and approval as part of the charter school's proposed budget submission. Maximum participation in the SEMI Program is defined in the regulations as obtaining 90 percent return rate of parental consent forms for all SEMI eligible students.

**SECTION I – GENERAL COMPLIANCE**  
**CHAPTER 4**

**BUDGET & TRANSFERS**

**The Budget**

Preparation of the budget is one of the most important functions of the charter school board of trustees. The approved budget should be detailed on the 108 line item budget summary form prescribed by the Department of Education in the New Jersey Charter School Application. All revenue data and expenditure data items and their classifications are explained in a narrative description with the budget summary in the charter school application.

**Budget Transfers**

Line-item transfers must be made whenever the line item is in danger of going into a deficit condition. A charter school may not approve encumbrances or expenditures that will create deficits in line items. A charter school may transfer amounts necessary to effectuate the approval of encumbrances or expenditures from line item accounts with available appropriation balances and pursuant to *N.J.A.C. 6A:23A-13.3*. A charter school may by resolution, designate the chief school administrator to approve transfers between meetings of the board. Transfers approved by the chief school administrator shall be reported to the board, ratified, and duly recorded in the minutes at a subsequent meeting of the board but not less than monthly.

For all line-item transfers from an appropriation account as defined under *N.J.A.C. 6A:23A-13.3(e)*, a two-thirds affirmative vote of the authorized membership of the board is required pursuant to *N.J.S.A. 18A:22-8.1*.

**Transfers to food service fund**

In situations where a charter school charges for meals or receives state or federal meal subsidies, the activity of its food service operations must be accounted for in an enterprise fund. Charter schools have been provided accounting guidance in Chapter 14 of the *GAAP Technical Systems Manual*. All costs related to the program must be shown in the enterprise fund. Any board contribution, including the payment of certain salaries or other identified specific expenditures should be budgeted and expended as a transfer to cover deficit in account 11-000-310-930. A separate line has been provided in the audsum for this account. For CAFR presentation, the budgeted and actual transfer should be presented as a general fund operating transfer.

## **Interfund balances**

### **Charter school-wide statements (accrual basis)**

GASB 34, paragraph 58 requires eliminations of interfund receivables and payables in the *Statement of Net Assets* except for the net residual amounts due between governmental and business-type activities, which should be presented as internal balances. Amounts reported in the funds as receivable from or payable to fiduciary funds should be included in the *Statement of Net Assets* as receivable from and payable to external parties rather than as internal balances. Paragraph 59 requires eliminations in the *Statement of Activities* to remove the “doubling-up” effect of internal service fund activity.

### **Funds statements (modified accrual basis)**

For governmental funds, interfund transfers should be reported as other financing uses in the funds making the transfers and as other financing sources in the funds receiving transfers. In proprietary funds, revenues from transfers should be reported separately after nonoperating revenues and expenses. (GASB 34 Paragraph 112).

## **Interfund Note disclosures**

GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, Paragraphs 14 and 15 require specific disclosures on interfund balances and transfers.

“Governments should disclose in the notes to the financial statements the following details about interfund balances reported in the fund financial statements:

- a. Amounts due from other funds by individual major fund, nonmajor governmental funds in the aggregate, nonmajor enterprise funds in the aggregate, internal service funds in the aggregate, and fiduciary fund type
- b. The purpose for interfund balances
- c. Interfund balances that are not expected to be repaid within one year from the date of the financial statements

Governments should disclose in the notes to the financial statements the following details about interfund transfers reported in the fund financial statements:

- a. Amounts transferred from other funds by individual major fund, nonmajor governmental funds in the aggregate, nonmajor enterprise funds in the aggregate, internal service funds in the aggregate, and fiduciary fund type
- b. A general description of the principal purposes of the government’s interfund transfers
- c. The intended purpose and the amount of significant transfers that meet either or both of the following criteria:
  - Do not occur on a routine basis – for example, a transfer to a wastewater enterprise fund for the local match of a federal pollution control grant
  - Are inconsistent with the activities of the fund making the transfer – for example, a transfer from a capital projects fund to the general fund.”

**SECTION I – GENERAL COMPLIANCE**  
**CHAPTER 5**

**BIDS & CONTRACTS/PURCHASING**

**Thresholds**

Local Finance Notice (LFN) 2011-16 *The Qualified Purchasing Agent Law and Boards of Education*, issued by the Department of Community Affairs (DCA) on May 5, 2011, provides current guidance to boards of trustees concerning bid thresholds and the issuance of Qualified Purchasing Agent (QPA) certificates. LFN 2010-13R *Adjustment of Public Bidding Threshold July 1, 2010* was also issued by the DCA on May 5, 2011, and provides that effective July 1, 2010 under the Public Schools Contracts Law (*N.J.S.A. 18A:18A-2*), boards of trustees operating without a QPA have a \$26,000 maximum bid threshold for contracting. LFN 2010-13R provides that boards of trustees that have appointed a QPA pursuant to *N.J.S.A. 40A:11-9(b)* may have their maximum bid threshold increased to \$36,000 as of July 1, 2010 pursuant *N.J.S.A. 18A:18A-3(a)*.

LFN 2010-13R also provides that effective July 1, 2010, the maximum threshold for quotations for a board of trustees without a QPA is \$3,900; and for a board with a QPA the maximum threshold for quotations is \$5,400.

**Recent Developments**

Approved and effective on November 7, 2011, P.L. 2011, c.19 allows boards of trustees to utilize national cooperative contracts as a method of procurement. LFN 2012-10 *Using National Cooperative Contracts: Application of P.L. 2011, c. 19* was issued by the DCA on May 14, 2012 and is available on the DCA website at <http://www.state.nj.us/dca/divisions/dlgs/lfns/12/2012-10.pdf>.

**Select Local Finance Notices (LFN)**

LFN 2010-3, *Guidance on Current Issues in Local Government and Board of Education Procurement*, was issued during January 2010 by the DCA and provides guidance related to public procurement practices and law. Matters specific to Public School Contracts Law include:

- Political Contribution Disclosure Regulations for Boards of Education. To facilitate the disclosure of contributions to board members by vendors, boards of trustees are required to update their contracting procedures to adapt the Business Entity Disclosure Certification (BED-C) or extend the use of the Political Contribution Disclosure form to all contracts by including one of the forms in all bid specifications, RFPs and RFQs. (*N.J.A.C. 6A:23A-6.3*)
- Competitive Contracting for School and Professional Development Services (*N.J.A.C. 5:34-4.4*)
- Clarified Board of Education Procurement Rules for Professional Services (*N.J.A.C. 6A:23A-5.2(a)*)
- Boards of Education Federal Procurement Requirements

LFN 2008-9 was issued in April 2008 by the DCA and provides updated information and instructions regarding the use of online auctions to sell personal surplus property. Since the introduction of the pilot program pursuant to P.L. 2001, c.30, DCA's Division of Local Government Services (DLGS) has approved several internet-based vendors for such online auctions. For more detailed information regarding this process, please read the LFN which is available at <http://www.nj.gov/dca/lgs/lfns/08lfns/2008-9.doc>.

LFN 2007-12 with updated information regarding prevailing wage laws (see Page 2): <http://www.nj.gov/dca/lgs/lfns/07lfns/2007-12.pdf> P.L. 2009,c.249 amended *N.J.S.A.* 34:11-56.26, is effective January 12, 2010, and extends prevailing wage requirements to contracts for “maintenance-related projects” over \$50,000.

LFN 2006-3 and 2007-11 provide guidance to assist boards of trustees and their legal counsel in complying with P.L. 2005, c. 271 (Pay-to Play Law) that was signed into law on January 5, 2006. These notices, and other pay-to-play documents, are posted on the DLGS Pay-to-Play website at: [www.nj.gov/dca/lgs/p2p](http://www.nj.gov/dca/lgs/p2p). A key element of this law allows boards of trustees to adopt their own pay-to-play laws (*N.J.S.A.* 40A:11-51). A second, equally important element requires disclosure of political contributions by any business entity bidding or negotiating thereon for certain purchases over \$17,500 that are not publicly bid (*N.J.S.A.* 19:44A-20.26). The requirement to seek the approval of the State Treasurer prior to completing an emergency purchase for goods or services in accordance with *N.J.S.A.* 19:44A-20.12 is not applicable to boards of education.

### **Highlights of *N.J.S.A.* 18A:18A (Public School Contracts Law)**

*N.J.S.A.* 18A:18A-1 et seq. (Public School Contracts Law) and the associated rules can be found at [www.state.nj.us/njded/pscl](http://www.state.nj.us/njded/pscl).

*N.J.S.A.* 18A:18A-2 contains definitions for terms used throughout *N.J.S.A.* 18A:18A-1 et seq. It includes as subsection (p) the term ‘competitive contracting,’ which is defined as “the method described in *N.J.S.A.* 18A:18A-4.1 through 18A:18A-4.5 and in rules promulgated by DCA at *N.J.A.C.* 5:34-4 of contracting for specialized goods and services in which formal proposals are solicited from vendors; formal proposals are evaluated by the purchasing agent or counsel or school business administrator; and the charter school awards a contract to a vendor or vendors from among the formal proposals received.” Also, subsection (aa) defines the term ‘concession’ to exclude vending machines.

*N.J.S.A.* 18A:18A-3(a) sets forth the bid threshold and requires award by board resolution. There is a higher threshold when there is a “Qualified Purchasing Agent” (QPA) in the charter school as defined at *N.J.A.C.* 5:34-1.1 and certified upon approval of an application submitted to DCA. Pursuant to *N.J.S.A.* 18A:18A-3(b), the bid threshold may be adjusted by the Governor, in consultation with the Department of Treasury, every five years.

Effective July 1, 2010 the bid threshold for charter schools without a QPA was \$26,000.

For charter schools that have a QPA, the bid threshold is \$36,000 as of July 1, 2010.

*N.J.S.A.* 18A:18A-3(b) – provides for the base contract period.

“Any contract made pursuant to this section may be awarded for a period of 24 consecutive months, except that contracts for professional services pursuant to paragraph (1) of subsection (a) of *N.J.S.A.* 18A:18A-5 may be awarded for a period not exceeding 12 consecutive months.”

*N.J.S.A.* 18A:18A-4 sets forth the requirement for advertising, and was amended to address the disqualification of a vendor. This statute permits a charter school to disqualify a low bidder if any charter schools or, in the case of a contract for a school facilities project, the New Jersey Economic Development Authority has had a “prior negative experience” with the bidder.

“Every contract for the provision or performance of any goods or services, the cost of which in the aggregate exceeds the bid threshold, shall be awarded only by resolution of the charter school

to the lowest responsible bidder after public advertising for bids and bidding therefore, except as is provided otherwise in this chapter or specifically by any other law.

The charter school may, by resolution approved by a majority of the charter and subject to subsections (b) and (c) of this section, disqualify a bidder who would otherwise be determined to be the lowest responsible bidder, if the board of trustees finds that any board or, in the case of a contract for a school facilities project, the New Jersey Economic Development Authority, has had prior negative experience with the bidder within the past 10 years, as reported in a contractor evaluation submitted pursuant to N.J.S.A. 18A:18A-15 or in a school facilities project performance evaluation submitted pursuant to regulations of the Department of the Treasury or section 62 of P.L. 2000, c. 72 (C.18A:7G-36), as appropriate.”

N.J.S.A. 18A:18A-4.1 provides boards of trustees the ability to use competitive contracting in lieu of public bidding for the procurement of specialized goods and services above the bid threshold for the following purposes:

- proprietary computer software;
- hiring of a non-profit entity or not-for-profit entity under Title 15A;
- services performed by an energy services company;
- telecommunications transmission or switching services;
- specialized machinery or equipment of a technical nature;
- food services.

N.J.S.A. 18A:18A-4.4 provides boards of trustees the authority to pass a resolution authorizing the use of competitive contracting. “In order to initiate competitive contracting, the charter school shall pass a resolution authorizing the use of competitive contracting each time specialized goods or services enumerated in section 45 of .L. 1999, c.440 are desired to be contracted.”

N.J.S.A. 18A:18A-5 contains exceptions to the requirement for advertising and includes the below exceptions; this section should be referenced by the auditor for more details on these and other changes.

- expenses for travel/conferences;
- support/maintenance of proprietary computer software/hardware;
- purchase of goods/services at rates set by Universal Service Fund – FCC;
- student funded and benefited projects, e.g. yearbooks, class rings, class gift;
- food services pursuant to procedures established by the New Jersey Department of Agriculture; and
- vending machines for food and drink;
- Goods/services for which the lowest of three quotes is at least 10 percent less than the state contract price (see subsection (e) for award requirements).

N.J.S.A. 18A:18A-7 addresses emergency contracts that exceed the bid threshold, and requires the person in charge of the facility where the emergency occurs to notify the purchasing agent in writing of the circumstances and the need to invoke such action. Pursuant to this statute, charter schools must also comply with the implementing regulations at *N.J.A.C. 5:34-6.1* and *N.J.A.C. 6A:26-3.16*.

N.J.S.A. 18A:18A-10 permits the use of state contracts, and requires a board resolution for authorization for a charter school to do so.

N.J.S.A. 18A:18A-15 addresses general specifications for goods/services and was amended by P.L. 1999 c.440 primarily in the following areas:

- establishes the requirement for a prospective bidder to challenge bid specifications in writing no less than three business days prior to bid opening.
- subsection (c) defines the discrimination clause to include creed, color, ancestry, marital status, affectional or sexual orientation, etc.

- allows that goods/services purchased by funds from a bequest, legacy or gift that specifies a manufacturer or vendor may be treated as an exception to the bidding requirement.

*N.J.S.A. 18A:18A-21* addresses the requirements for advertising bids and sets forth requirements for notification of revisions or addenda to advertisements or bid documents. P.L. 2005, c.191 amended *N.J.S.A. 18A:-18A-21* and makes uniform the period of notice for revisions or addenda to advertisements for bids for certain contracts. The law provides that notices of revisions or addenda shall be published no later than seven days, Saturdays, Sundays and holidays excepted, prior to the date for acceptance of bids. P.L. 2007, c. 4 (No-Bid Monday Law) prohibits the receipt of bids on Mondays or any day following a state or federal holiday. The law was signed on January 17, 2007 and amended *N.J.S.A.18A:18A-21(a)*. Auditors and charter school administrators should review Local Finance Notices 2011-1 and 2011-38 at <http://www.state.nj.us/dca/lgs/lfns/lfnmenu.shtml> for current guidance and a 2011-2012 Table of Bid Holiday Acceptance Dates.

*N.J.S.A. 18A:18A-22* establishes a list of criteria as bases on which a charter schools may reject all bids.

*N.J.S.A. 18A:18A-37* describes the awarding of contracts below the bid threshold. Subsection (a) describes the requirements for awarding contracts below the bid threshold.

“For all contracts that in the aggregate are less than the bid threshold but 15 percent or more of that amount, and for those contracts that are for subject matter enumerated in subsection (a) of *N.J.S.A. 18A:18A-5*, except for paragraph (1) of that subsection concerning professional services and paragraph (3) of that subsection concerning work by employees of the charter school , the purchasing agent shall award the contract after soliciting at least two competitive quotations, if practicable.”

Subsection (c) describes the requirements for small purchases.

“If authorized by the charter school by resolution, all contracts that are in the aggregate less than 15 percent of the bid threshold may be awarded by the purchasing agent without soliciting competitive quotations.” This section should be referenced by the auditor for more details on these and other changes.

Charter schools must comply with *N.J.S.A. 18A:18A-37* and 42.1 and 7 CFR. 210.16 when entering into School Food Service Management Company Contracts.

Pursuant to *N.J.S.A. 18A:39-3*, the threshold for bidding of transportation contracts is \$17,500. *18A:18A:49.1* states “the provisions of this chapter shall not apply to contracts for the transportation of pupils to and from school, which contracts are regulated by Chapter 39 of this Title.”

*N.J.S.A. 18A:18A-42* allows contracts of 3 years or less to include extension provisions for no more than one two-year or two one-year extensions, provided the charter schools adopts a resolution complying with a set of conditions. The cost increase in extended contracts is limited to index rate percentages as posted by DCA at [www.state.nj.us/njded/pscl](http://www.state.nj.us/njded/pscl). No contract can be extended so that it runs more than a total of five consecutive years.

The following are basic categories of such extensions with the corresponding aggregate terms. The statute should be referenced for specific limitations and restrictions.

<u>ITEM</u>	<u>AGGREGATE TERMS (YEARS)</u>
(1) Fuel for Heating	3
(2) Fuel/Oil for Vehicles	3
(3) Thermal Energy (Approved by Board of Public Utilities)	40
(4) Removal of Snow and Ice	3
(5) Garbage Collection	3
(6) Data Processing Services	7
(7) Insurance	3
(8) Leasing of equipment in accordance with rules and regulations of the State Board of Education	5
(9) Sale and lease-back of textbooks and non-consumable instructional materials	5
(10) Voice, Data, Transmission and Switching Services	5
(11) Driver Education	3
(12) Goods and Services for the purpose of conserving energy	15
(13) Any single project for construction, reconstruction or rehabilitation of any public building for length of time authorized for completion of actual construction.	Length of Time Authorized
(14) Laundry Service	3
(15) Purchases under contract awarded by Division of Purchase and Property in Treasury	Term not to exceed term of Contract

*N.J.S.A.* 18A:18A-45 addresses manner and method of sale of personal property, and requires, in addition to the board resolution, a sealed bid or public auction process; it also provides that if the estimated value exceeds 15 percent of the bid threshold, it must be sold at public auction. The auditor should refer to this section for additional information and changes.

*N.J.S.A.* 40A:11-23.1(d) provides for base and alternate bids for public works contracts over \$500,000. While the law does not amend the Public School Contracts Law, boards of trustees are urged to follow its requirements to provide a higher level of contract award integrity by specifying the procedure for contracting units to select the lowest responsible bidder in instances where alternates or base bids with options are used for public works projects. It requires the bid specification to set out clear criteria or a procedure the governing body will use to select the lowest responsible bidder, given the amount of funds available for the project. *N.J.S.A.* 40A:23.1(d) applies only to projects with a value of more than \$500,000.

*N.J.S.A.* 18A:18A-5 provides that the purchase order relating to a contract must include a notation that the item was purchased at least 10 percent below the state contract price. Also, the board will make available to the director, upon his request, any documents relating to the solicitation and award of the contract.

## Energy Service Contracts

Pursuant to *N.J.S.A.* 18A:18A-4.1c and the implementing regulations at *N.J.A.C.* 5:34-4.5, charter schools can use the competitive contracting process to obtain the services performed by an energy services company (ESC), which includes the design, measurement, financing and maintenance of energy savings equipment or renovations. (*N.J.A.C.* 5:34-4.5(a) lists the types of projects for the provision or performance of physical improvements where the competitive contracting process cannot be used.)

*N.J.S.A.* 18A:18A-4.6(c), Implementation of an energy savings improvement program by a charter school, provides the authority for charter school to finance an energy savings improvement program through a lease-purchase agreement or through the issuance of energy savings obligations pursuant to this subsection.

The Division of Local Government Services has published guidance on the “Implementing an Energy Savings improvement Program” P.L 2009, c.4. This can be found in Local Finance Notice 2009-11 at this website: <http://www.nj.gov/dca/lgs/lfns/09lfnlis.shtml>.

## Review of Purchase Orders

All public school accountants are required to give utmost consideration to encumbrances on the charter school’s books at year end through a thorough review and analysis of open purchase orders.

As discussed in Section I, Chapter 8, “Year-End Procedures”, charter schools should have ready for the auditor a listing of each type of order:

- 1) Those that represent orders for which the goods have been received or the services have been rendered at June 30 but that have not been paid (accounts payable);
- 2) Those that represent orders which will be honored in the subsequent year;
- 3) All others

Orders in category 1 must be charged against the current year budget, the related encumbrances reversed, and a liability (accounts payable) established. Orders in category 2 will be rolled over into the next fiscal year and will be included in the restricted, committed, and assigned fund balance classifications (GASB Statement No. 54) in the June 30 balance sheet. As a general rule, for other than construction contracts, the liquidation of these orders should be within 60-90 days of year end. In most cases, any other orders should be canceled.

As documentation of the review, charter schools must provide the auditor with separate listings of the category 1 orders and category 2 orders for each governmental fund. The total of each category 1 list must agree with the June 30 balance in the general ledger balance sheet account for accounts payable of the applicable fund. The total of each category 2 list must agree with the June 30 balance in the general ledger balance sheet account for the reserve for encumbrances of the applicable fund and included in the restricted, committed, and assigned fund balance classifications (GASB Statement No. 54) of the June 30 Balance Sheet. Charter school auditors must review the lists and their related documentation and challenge the propriety of the charter school’s classifications. Particular attention must be given to the subsequent liquidation of the orders to determine if an audit adjustment is necessary for additional orders that should be canceled.

(Note: Additional entries are necessary for outstanding special revenue fund purchase orders as explained in Section I, Chapter 8. Also, for CAFR presentation, in the special revenue fund, the reserve for encumbrances is grouped with deferred revenue in the GAAP balance sheet.)

A purchase order represents a commitment against an appropriation. Purchase orders should not be issued without an underlying contract or actual order of goods or services. Blanket purchase orders should not be issued. The auditor's review of orders for blanket purchase orders should not be limited to purchase orders outstanding at June 30. The issuance of a blanket purchase order at any time during the year should be reported as an audit finding and recommendation in the Auditors' Management Report.

### **Credit Cards**

Neither charter school nor charter school officials may use credit cards for the purchase of goods and services. Statutory requirements direct how charter schools may purchase goods and services and establish the procedures to follow in paying for the purchase of goods and services. Purchases made by charter schools must comply with *N.J.S.A. 18A:18A-1 et seq.*, the Public School Contracts Law. The payment of claims by a board of education (charter school) must also comply with *N.J.S.A. 18A:19-1 et seq.*, "Expenditure of Funds; Audit and Payment of Claims." These regulations are intended to ensure that competitive bidding procedures are followed and certifications regarding the authenticity of claims are received. Pursuant to *N.J.S.A. 18A:19-13* and *N.J.A.C. 6A:23A-16.8*, a board of education (charter school) may establish a petty cash fund on July 1 of each year, or as needed, for the purpose of making immediate payments of comparatively small amounts. Large purchases should be made through the contractual order system.

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**SECTION I – GENERAL COMPLIANCE**  
**CHAPTER 6**

**CHART OF ACCOUNTS/EXPENDITURE CLASSIFICATION**

**Prescribed System of Double-Entry, GAAP Reporting and Bookkeeping Records**

New Jersey statute (*N.J.S.A.* 18A:4-14) requires that New Jersey charter schools maintain bookkeeping consistent with the financial accounting and classifications established by the National Center of Educational Statistics (NCES) and with generally accepted accounting principles (GAAP), which includes a double-entry, self balancing set of accounts and records. The New Jersey Administrative Code, *N.J.A.C.* 6A:23A, Subchapter 16 prescribes further regulation regarding the accounting.

*N.J.A.C.* 6A:23A-16.2(f) requires that the charter school adopt a chart of accounts that is prepared in conformity with the guidelines established by the Department of Education consistent with NCES reporting requirements. The minimum level of detail (minimum outline) for expenditure accounts to be maintained in the chart of accounts for compliance with Department of Education and federal reporting requirements is presented in Appendix A of *The Uniform Minimum Chart of Accounts for New Jersey Public Schools (2008 Edition)*. This updated Chart of Accounts (COA) can be found on the website <http://www.nj.gov/njded/finance/fp/af/coa/> and was effective July 1, 2009.

The Department of Education publication entitled *GAAP for New Jersey School Districts, A Technical Systems Manual* must be utilized in the evaluation of a charter school's maintenance of the double-entry system of accounting in accordance with *N.J.S.A.* 18A:4-14. The Department of Education does not prescribe a standard format for the ledgers and journals used to maintain the accounting records. The Department instead provides general descriptions of each in the technical manual. Charter school auditors must be adequately familiar with the publication to perform the annual audit.

Additional references for GAAP accounting include the Government Finance Officers Association (GFOA) *Governmental Accounting, Auditing and Financial Reporting*, commonly known as the "Blue Book" and Governmental Accounting Standards Board (GASB) statements and pronouncements.

*N.J.A.C.* 6A:23A-16.6 requires that charter schools which contract for electronic data processing bookkeeping services shall annually have an audit prepared or obtain a copy of an audit of the internal controls of the service company. Such audit shall be as prescribed by Statement on Standards for Attestation Engagements (SSAE) No. 16, *Reporting on Controls at a Service Organization*. SSAE No. 16 was issued by the AICPA in April 2010 and is effective for service organization auditor reports for periods ending on or after June 15, 2011. SSAE No. 16 supersedes *Statement of Auditing Standards No. 70 (SAS 70)*, as amended by SAS 88, of the American Institute of Certified Public Accountants.

**Expenditure Classifications and Reporting**

Expenditures must be reported in the proper fund in the minimum outline format.

Under GASB 34, the *Statement of Revenues, Expenditures, and Changes in Fund Balance* (Exhibit B-2) reflects the governmental funds (including the general fund and the special revenue fund) revenues and expenditures on the GAAP modified accrual basis.

The *General Fund Budgetary Comparison Schedule* (Exhibit C-1) reflects the GAAP modified accrual basis for revenues.

The *Special Revenue Budgetary Comparison Schedule* (Exhibit C-2) reflects revenues and expenditures on a budgetary basis where encumbrances at fiscal year end are recorded as expenditures and corresponding revenue is recognized.

The original budget as well as the final approved budget as of June 30 must be reported in the budgetary comparison schedules. The variance is required by NJDOE, as is the transfer column between the original and the final.

Expenditures must be checked and verified, properly authorized by the board and recorded in the minutes. Expenditure classifications must be in accordance with *The Uniform Minimum Chart of Accounts for New Jersey Public Schools (2008 Edition) [Chart of Accounts]*, and the terms and conditions of the grant award. New accounts were added to the *Chart of Accounts* effective for July 1, 2009, but charter schools were given the option to adopt the new coding in 2008-09. Auditors should refer to Appendix F “Minimum Chart of Accounts Descriptions by Budgeting Line Item under Each Program/Function” in the *2011-12 Budget Guidelines* and use it as a reference tool in the coding of expenditures. Also included in the *2011-12 Budget Guidelines* is the section “Detailed Appropriations Grid” and it should also be used as a reference tool.

The restricted entitlement Preschool Education Aid (PEA) must be accounted for and reported in the CAFR and Audsum in accordance with guidance issued by the department and addressed in the September 20, 2011 memo to school districts available at <http://www.nj.gov/education/finance/fp/audit/1112/program/Preschool2011.pdf>. There are three categories of preschool children funded by the various state aids. Preschool general education children are funded by PEA and recorded in the special revenue fund 20. Preschool disabled inclusion children are funded by various aid categories including equalization aid, special education categorical aid and security aid. Special revenue fund 20 is used to record and report the general education portion of the preschool disabled inclusion child. Those expenditures are funded by a transfer from the general fund to fund 20. The expenditures for support services related to the preschool disabled inclusion child’s disability such as aides or other support services are recorded and reported in the general fund. Preschool disabled children in self-contained classrooms are funded by various aid categories including equalization aid, special education categorical aid and security aid. Expenditures for educating a preschool child in a self-contained classroom are recorded and reported in the general fund in the applicable program code.

Page 24 of the *2011-12 Budget Guidelines* provides guidance for recording and reporting preschool tuition revenue.

An audit of 2008-09 and 2009-10 preschool education expenditures reported by school districts was completed by the Office of Legislative Services during December 2011. The results of the audit reported a sixteen percent discrepancy rate between the CAFR Schedule E-2 *Preschool Education Aid Schedule of Expenditures* and Audsum for 2008-09 and 2009-10 in the reporting of preschool education expenditures. To address the high discrepancy rate, a preschool expenditure collection line has been added to the June 30, 2012 Audsum. A comparison will be made between expenditures reported on the E-2 and expenditures entered into Audsum and all discrepancies will require auditor reconciliation and the submission of a revised E-2 and/or retransmission of Audsum. In order to minimize the discrepancy rate, charter schools and auditors are encouraged to refer to the September 2011 memo referenced in the preceding paragraph. Auditors must verify that preschool education expenditures reported on the E-2 match preschool education expenditures reported in Audsum.

The activity related to each restricted grant, from either local, state or federal sources must be accounted for in the special revenue fund in the minimum outline format. Summarized information related to all state and federal grants and entitlements must also be reported in the schedules of expenditures of federal awards and state financial assistance.

The auditor's procedures should include tests of the appropriate classification of expenditures in accordance with the prescribed chart of accounts and supporting guidance (e.g. Appendix F of the *2011-12 Budget Guidelines*). Improper coding of expenditures is considered noncompliance with *N.J.A.C. 6A:23A-16.2(f)* and noted instances must be reported in the Auditor's Management Report. Auditors are directed to test the proper coding of expenditures during their review of the charter school's internal controls and the application of standard testing methods, as well as during compliance testing and the performance of single audit procedures. That is, each general fund or special revenue fund expenditure transaction tested for those procedures must also be tested for propriety of classification. Exceptions should not be reported for instances where the department has not given specific coding guidance in the aforementioned documents. The sample should be expanded if significant coding problems are noted.

### **Reclassification of Miscoding**

Auditors are required to include a comment about expenditure coding in the Auditor's Management Report summarizing their sample selection process, conclusions reached and additional procedures performed, if any. Auditors are also required to include a summary of expenditure classification test results in the Audit Questionnaire indicating the dollar value of items tested, dollar value of exceptions noted and the error rate.

When a coding error is noted by the auditor, the expenditure must be reclassified for financial statement presentation, even if the reclassification will put the proper line item account into a deficit position and regardless of materiality of the error. The appropriation would not be reclassified with the expenditure unless there is a clear indication that the charter school misbudgeted the appropriation. In cases where it is clearly supported by charter school budget development workpapers that a budgeting error was made, the appropriation should be reclassified to the proper line item account. Accordingly, if the reclassification creates a line item deficit, the auditor's finding in the Auditor's Management Report must include an explanation that the deficit was not due to intentional overspending of the line item, but rather was generated due to a reclassification of expenditures to the proper line item account. In cases where there clearly was a miscoding in the development of the budget as well as the expenditure, the finding must include an explanation that the expenditure was miscoded and misbudgeted, and the appropriate entries were made to reclassify both to the proper line item account. Board action is not required. The rationale for and documentation of procedures performed and conclusions reached should be included in the auditor's workpapers and available for review by the department.

In addition, special revenue fund coding errors are not considered questioned costs if the expenditures are approved under the terms and conditions of the grant award. The miscoding must be reported in the Auditor's Management Report in the expenditure coding comment. The comment must clearly state that the expenditures were consistent with the approved award and the changes were the result of miscoding. Charter school final grant close-out reports should reflect the corrected coding of expenditures, including reclassifications of the original budgeted figures, if it was determined that the approved budget was based on the miscoding and the reclassification was made by the auditor in the CAFR. Charter schools should submit with the grant closeout report a copy of the auditors' expenditure coding comment to support the propriety of the reclassification in the closeout report. The charter school does not need grantor approval for the reclassifications made by the auditor. However, if the auditor determines that any expenditure was not consistent with the approved grant award the cost must be included in the Auditor's Management Report, and if the finding meets the audit finding criteria as defined in USOMB Circular A-133 and/or NJOMB Circular Letter 04-04, as applicable, it must be included in the Schedule of Findings and Questioned Costs in the Single Audit Section of the CAFR. Such miscoding will thus appear in two places in the Auditor's Management Report.

Specific to charter schools, the Budget Summary statement was designed to keep financial reporting requirements at a minimum, while at the same time, enabling charter schools to be in compliance with monitoring standards and maintain comparability to public school financial data. All revenue data and

expenditure data items and their classifications are explained in the Budget Summary Key of the Charter School Application. There are four major expenditure categories to be reported in the general fund: Instruction, Administration, Support Services, and Capital Outlay. These four categories are required in reporting expenditures in the budget form and the CAFR. However, for internal accounting reporting purposes, the charter school is required to use State Department of Education's publication entitled *The Uniform Chart of Accounts for New Jersey Public Schools*, which is available from the publication office. The charter school should utilize only the accounts deemed necessary.

The auditor's procedures should include tests of the appropriate classification of expenditures in accordance with the prescribed budget summary. Expenditure coding errors noted will be reclassified for financial statement presentation in accordance with the guidance provided under Section V – Conducting the School Audit. Auditors are required to include a comment about expenditure coding in the Auditors' Management Report.

#### ***N.J.A.C. 6A:23A-16.10 Overexpenditure of Funds***

Auditors should refer to *N.J.A.C. 6A:23A-16.10* for detailed controls that charter school must implement over budgeted revenue and appropriations.

The budget status certification requirements, which are explained in detail in Division of Finance Policy Bulletin 200-11, must be fully implemented or else appropriate comments and recommendations must be included in the annual audit report.

**SECTION I – GENERAL COMPLIANCE**  
**CHAPTER 7**

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**SECTION I – GENERAL COMPLIANCE**  
**CHAPTER 8**

**YEAR-END PROCEDURES**

**Closing Out for GAAP**

Based on the suggested accounting procedures illustrated in the *GAAP for New Jersey School Districts, A Technical Systems Manual (Technical Systems Manual)*, throughout the year charter schools record transactions on a cash basis. Other revenues are recognized upon the receipt of cash, and expenditures are recognized when the invoice is paid. Certain adjustments are necessary to convert the records to the modified accrual basis and to the accrual basis for reporting under GASB 34, for inclusion in the charter school's annual report, the Comprehensive Annual Financial Report (CAFR). The public school accountant as part of the audit procedures will review these adjustments.

Various reference materials are available to assist charter schools in making the required adjusting and closing entries. Sample adjusting and closing entries for each fund are contained in the *Technical Systems Manual*. This *Audit Program* includes a discussion of general procedures that should be followed for all funds, standard adjusting and closing entries, as well as the additional entries required in the special revenue fund. Applicable pages of the *Technical Systems Manual* are referenced for more specific examples of entries to be made. *The Audit Program* is not meant to be all-inclusive. Charter schools should reference the aforementioned materials for the specific entries that must be made in other funds. Charter schools should also consult their software vendors to determine how the illustrated entries are entered into their system.

It should be noted that the closing entries for the general fund as shown in the *Technical Systems Manual* on Page 5.16 were revised in Q.153 of the June 11, 1993 questions and answers papers. The revised entries close the actual revenues against the budgeted revenues and the actual expenditures against the budgeted appropriations.

**General Procedures for All Funds (Other than Special Revenue)**

1) Review the Status of Purchase Orders Open at Year-End:

All prior year purchase orders should be closed or canceled as of June 30. Only under extreme extenuating circumstances should any balance be remaining in account XX-754 "Reserve for Encumbrances - Prior Year" which was used to track the liquidation of purchase orders from the prior fiscal year that were rolled over to the current fiscal year. Under GAAP accounting the differences between the purchase order and the actual invoice amounts are flowed through the expenditure account where the order was originally recorded, increasing or decreasing the available balance in that appropriation account.

Under normal circumstances, the amounts reflected in the "Reserve for Encumbrances - Current Year" account should represent orders that are expected to be liquidated within a reasonable period. Open purchase orders must be reviewed to determine their status.

The first step is to identify those purchase orders for which the goods/services have been received/rendered yet payment has not been made prior to year-end. These items must be charged as expenditure against the current year budget and established as an accounts payable at June 30. The accounts payable is recorded at the invoice amount. If the invoice has not been received the amount must be estimated. When payment is made in the subsequent year, the accounts payable account will be

charged rather than the expenditure account. The next step is to review any remaining purchase orders to identify those orders which will be honored the following year (i.e.- the goods/services are still necessary) and which will be canceled (i.e.- the goods/services are no longer necessary). As a general rule, for other than construction contracts, the liquidation of these orders should be within 60 to 90 days of year-end. All purchase orders that are no longer considered necessary and/or will not be honored within that time frame in the subsequent year must be canceled. No entries are necessary to carry open purchase orders as encumbrances in the current fiscal year. The entries to adjust the subsequent year's budget will be made in that year. The charter school should have ready for the auditor a listing of each type of order - 1) those that represent accounts payable and 2) those that represent orders that will be honored in the following year. Auditors are urged to perform a thorough review and analysis of open purchase orders in conformity with the Year-End Encumbrance Hotline issued September 16, 2003. The Hotline is available on the DOE website at:

<http://www.state.nj.us/education/finance/fp/af/hotline.pdf>

### 2) Accrue Any Revenues That Have Been Earned and Not Collected:

Charter schools are instructed to accrue revenues and establish receivables at the beginning of the fiscal year for those revenues for which collection amounts are known. Charter schools may also have established accounts receivable balances in the prior year for items that should have been collected by June 30. At year-end entries must be made to accrue revenues and establish receivables for any revenues that have been earned but are uncollected as of June 30 in order to bring the accounting records into accordance with GAAP. An example would be interest earned on investments. Charter schools must also determine the collectability of any uncollected accounts receivable balances as of June 30. Uncollected charter school aid balances should be investigated.

### 3) Analyze Balance Sheet Account Balances:

Charter schools must be able to provide their auditors with the detail of what comprises each balance sheet account at June 30. In other words, for each asset and liability account, the charter school should prepare a schedule (list) of what individual amounts comprise the total balance shown in the general ledger account. Accounts receivable amounts should be detailed by what is owed to the charter school, by whom and for what; each investment should be listed along with the identity of the trustee(s) or Institution(s) holding such assets. Accounts payable amounts should be detailed by amount and vendor, etc. During the preparation of these analyses, the charter school should address the propriety of the amounts being included on the schedules, taking into consideration such things as which accounts should have debit balances and which accounts should have credit balances. If an account balance cannot be supported it should be investigated and adjusted appropriately. Part of the public school accountant's audit will be to examine and test these detailed schedules (lists).

The presentation of prior period adjustments under GAAP is not made directly to fund balance. The correction of immaterial errors is recorded as miscellaneous income or expenditures of the current year. The correction of material errors is shown in the balance sheet as a prior period adjustment, with a restatement of the opening July 1 fund balance. The use of prior year's surplus in the current year budget is tracked in the recapitulation of balances section of the board secretary's report. No adjustment is made to fund balance for the estimated use of surplus. The actual use of surplus is adjusted to fund balance as part of the year-end closing entries. As such, the preliminary (preclosing) June 30 balance in the fund balance account should equal the June 30 balance per the prior year audit.

Included in the Board Secretary’s audit checklist of documents to have available for the audit, Chapter III-6 of this *Audit Program*, is a schedule of capital assets to support the amount reported on the line “Capital Assets, net” (cost of the assets less accumulated depreciation) in the governmental funds and the business like activities columns of the *Statement of Net Assets* (Exhibit A-1). Charter school staff will need to prepare a conversion from the modified accrual fund balance presentation in the Governmental Funds Balance Sheet (B-1) to Net Assets presentation in the Statement of Net Assets (A-1).

### **Standard Adjusting Entries**

#### To Establish Accounts Payable:

(*Note:* The reversal of the encumbrance and reserve is made in the amount of the original order; the accounts payable is recorded in the amount of the invoice, which may differ.)

Dr. Reserve for Encumbrances (XX-753)  
     Cr. Encumbrances (XX-603)  
         Reverse Encumbrance (with appropriate reversals made in the expenditure subsidiary ledger)

Dr. Expenditures (XX-602)  
     Cr. Accounts Payable (XX-421)  
         Establish Payable (with appropriate entries made in the expenditure subsidiary ledger)

#### To Cancel Purchase Orders:

Dr. Reserve for Encumbrances (XX-753)  
     Cr. Encumbrances (XX-603)  
         Reverse Encumbrance (with appropriate reversals made in the expenditure subsidiary ledger)

#### To Accrue Revenues:

Dr. Applicable Accounts Receivable (XX-1XX)  
     Cr. Revenues (XX-302)  
         Record Revenue (with appropriate entries made in the revenue subsidiary ledger)

### **Closing Entries**

#### Closing Budgetary Accounts

Two entries are needed to close the temporary budgetary accounts to fund balance:

- Estimated revenues, budgeted fund balance, and actual revenues are reversed, with the difference being recorded as an increase or decrease in unreserved fund balance.
- Budgeted appropriations, expenditures, and encumbrances are reversed, with the difference being recorded as an increase or decrease in unreserved fund balance.

An example, after the adjusting entries have been recorded, of the general fund trial balance would appear as follows:

<u>A/C</u>	<u>DEBIT</u>	<u>CREDIT</u>
101 Cash in Bank	\$117,000	
106 Cash Equivalents	1,134,576	
111 Investments	570,600	
114 Interest Receivable on Investments	25,400	
142 Intergovernmental A/R - Federal	65,000	
301 Estimated Revenues	49,929,100	
302 Revenues		\$49,911,100
303 Budgeted Fund Balance	568,300	
421 Accounts Payable		60,000
601 Appropriations		50,497,400
602 Expenditures	49,893,100	
603 Encumbrances	65,000	
753 Reserve for Encumbrances - Current Year		65,000
770 Unreserved Fund Balance		1,834,576

The entry to close the budgeted revenues against the actual revenues is:

Dr. Unreserved Fund Balance (XX-770)	586,300	
Dr. Revenues (XX-302)	49,911,100	
Cr. Estimated Revenues (XX-301)		49,929,100
Cr. Budgeted Fund Balance (XX-303)		568,300

(With the appropriate entries being made in the revenue subsidiary ledger.)

The entry to close the budgeted appropriations against the actual expenditures and encumbrances is:

Dr. Appropriations (XX-601)	50,497,400	
Cr. Expenditures (XX-602)		49,893,100
Cr. Encumbrances (XX-603)		65,000
Cr. Unreserved Fund Balance (XX-770)		539,300

(With the appropriate entries being made in the expenditure subsidiary ledger.)

In this example, the actual use of fund balance (deficit) was \$47,000, which is calculated as the net debit to Unreserved Fund Balance (\$586,300 less \$539,300) in comparison to the budgeted deficit of \$568,300.

Each year the budgetary accounts are closed with these entries. The opening balances of those accounts in the subsequent year are always zero. The other balance sheet accounts are not zeroed. No journal entry is needed to open the books. The unaudited ending balances from the prior fiscal year will be carried forward and used as opening balances. If necessary, these amounts will be adjusted for the result of findings of the audit when the CAFR is issued.

## Other Issues/Entries

### Internal Accounting Records

The June board secretary's report may be prepared using preliminary amounts. Charter schools do not have to include final adjusting and closing entries in the report. The report should include normal monthly adjusting entries. Charter schools must remember to run final reports, ledgers, journals, etc. prior to posting the closing entries for the year.

### Capital Assets and Long Term-Debt

Charter schools should refer to the *Codification of Governmental Accounting and Financial Reporting Standards* (GASB Codification), Section 1400 (Reporting Capital Assets), Section 1500 (Reporting Liabilities) and Section C60 (Compensated Absences) for guidance on reporting these. The following is a brief overview and is not intended to address the conversion at the end of the year:

- School wide Financial Statements (Accrual Basis) - the balance for capital (fixed) assets net of accumulated depreciation is reported in the charter school wide *Statement of Net Assets* (Exhibit A-1). Depreciation is reported in the *Statement of Activities* (Exhibit A-2). Liabilities whose average maturities are 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. This includes compensated absences. Charter schools and auditors should refer to GASB Codification C60 for guidance on calculating the liability for compensated absences and reporting the amount due within one year separately from the amount due in more than one year in the *Statement of Net Assets*.
- Fund Financial Statements (Modified Accrual Basis) - charter schools will continue to report capital outlay in the governmental fund statements. Liabilities for compensated absences are normally liquidated with expendable available financial resources, and a governmental fund liability and expenditure should be recognized as payments come due each period upon the occurrence of relevant events, such as employee resignations and retirements. Charter schools and auditors should refer to GASB Codification C60 for additional guidance on reporting in the governmental funds statements.

### Opening Balances

At the beginning of each year, the certified budget amounts are adjusted for the outstanding purchase orders from the prior year that will be honored in the subsequent year. This is done by making the following entries on July 1:

Dr. Encumbrances (XX-603)

Cr. Appropriations (XX-601)

Dr. Reserve for Encumbrances - Current Year (XX-753)

Cr. Reserve for Encumbrances - Prior Year (XX-754)

(With the appropriate entries being made in the expenditure subsidiary ledger.)

These entries increase the budgeted appropriations, reestablish the encumbrances as a restriction of the adjusted current year appropriations, and transfer the reserve for encumbrances balance from the current year account into the prior year account. The entries have no impact on the available balance and there is no need to issue new purchase orders for these prior year items.

### Reference Materials

The below listed pages in the *Technical Systems Manual* should be referenced for specific examples of adjusting and closing entries in the various funds. As previously noted, the closing entries for the general fund as shown in the *Technical Systems Manual* on Page 5.16 were revised in Q.153 of the June 11, 1993 questions and answers papers. The sample entries on Pages I-8.4 and I-8.5 of this Audit Program reflect the revised entries.

General Fund	pp. 5.14 to 5.16, 5.18, 5.20 to 5.21, 5.23 to 5.24
Special Revenue Fund	pp. 9.12 to 9.13
Capital Projects Fund	pp. 11.8 to 11.10
Enterprise / Internal Service Fund	pp. 14.12 and 14.15
Trust and Agency Funds	pp. 15.2 to 15.4, 15.7 and 15.10

### **Special Revenue Fund**

When doing the year-end adjusting and closing entries, the following points should be noted:

- The special revenue fund is unique as the accounting records are maintained on the budgetary basis rather than on the GAAP basis. The budgetary basis differs from GAAP in that the budgetary basis recognizes encumbrances as expenditures in the year an order is placed, whereas the GAAP basis does not.
- Budgetary revenues must equal expenditures as funds are not considered earned until they are obligated.

The accounting treatment for expenditures in excess of the grant award differs from the manner explained on page 9.1 of the *Technical Systems Manual*. **There are no transfers from the general fund to the special revenue fund for excess expenditures.** The appropriate account in the general fund budget should be charged for the excess.

Throughout the year charter schools record grant revenue on a cash basis. As such, in addition to the standard accruals for revenues and expenditures at year end, additional entries are needed to adjust the revenues recorded when the cash was received for any amounts that are deferred to the next fiscal year and any amounts that are due back to the grantor. Entries may also be necessary to establish receivables for grants where the expenditures have been funded through interfund loans and reimbursement has not been received from the grantor. Examples of the calculation of these amounts are included in Chapter 9 of the *Technical Systems Manual* systems manual and should be carefully reviewed.

Charter schools must perform the year-end review of special revenue fund purchase orders that was discussed earlier in this chapter and make the necessary entries as illustrated on Page I-8.6 to cancel any unnecessary orders and to reverse the reserve for encumbrances and record the expenditures and the accounts payable related to the unpaid orders for which the charter school has received goods and services as of June 30. An additional entry will be needed to record the orders that will be honored in the following year as current year budgetary basis expenditures. Remember that under the budgetary basis used in the special revenue fund, an item is chargeable to the grant and considered expenditure when it becomes an obligation.

GAAP expenditures are calculated as budgetary expenditures plus 6/30 prior year encumbrances less 6/30 current year encumbrances. (Note: this calculation must be done separately for each of the three expenditure categories included in the *Statement of Revenues, Expenditures and Changes in Fund Balances*: instruction, undistributed expenditures, and capital outlay.) The balance sheet figures are GAAP. No reserve for encumbrances is shown. Any balance in that account should be grouped with deferred revenue for CAFR presentation. The final general ledger balances are budgetary basis amounts. Entries are not made to the general ledger to derive GAAP amounts. Again, the examples contained in Chapter 9 of the *Technical Systems Manual* should be reviewed.

The charter school wide *Statement of Net Assets* and the *Statement of Activities* (accrual basis) include the special revenue fund in the governmental activities column. The modified accrual basis special revenue fund is included in the governmental funds *Balance Sheet* and *Statement of Revenues, Expenditures, and Changes in Fund Balances*. The *Budgetary Comparison Schedule – Special Revenue Fund* will reflect the revenues and expenditures of this fund on the budgetary basis.

When analyzing balance sheet accounts in the special revenue fund it should be noted that for budgetary basis there is no fund balance in the special revenue fund. Any excess of cash received over expenditures is either deferred revenue, due to grantor, or an interfund payable. Adjustments should have been made to the certified budget to spend the July 1 deferred revenue and the deferred revenue subsequently recognized as revenue during the year. An example of the journal entries necessary to budget and recognize the deferred revenue is provided in Chapter 9 of the *Technical Systems Manual* and should be carefully reviewed.

A credit balance appearing in the cash account must be investigated to determine if interfund loans need to be recorded. Charter schools should also ensure that certificates of debit and credit have been properly recorded during the year. It should be ascertained that any necessary adjustments have been recorded.

### **Special Revenue Fund Adjusting Entries**

The following entries assume that grant revenue was recorded on a cash basis throughout the year.

Assuming that the cash received exceeds the total of the expenditures and the encumbrances, the entry would be as follows:

- If carryover is allowed:

Dr. Revenue (20-302)  
    Cr. Deferred Revenue (20-481)

- If carryover is not allowed:

Dr. Revenue (20-302)  
    Cr. Intergovernmental Accounts Payable (20-41X)

(With the appropriate entries being made in the revenue subsidiary ledger.)

In situations where the total of the expenditures and encumbrances exceeds the cash received, the entry would be:

Dr. Intergovernmental Accounts Receivable (20-14X)  
    Cr. Revenue (20-302)

(With the appropriate entries being made in the revenue subsidiary ledger.)

In addition to the entries necessary to establish the accounts payable for the goods/services that were received as of June 30, an entry is also needed to recognize the encumbrances outstanding at June 30 as expenditures for the preparation of budgetary-basis financial statements:

Dr. Expenditures (20-602)

Cr. Encumbrances (20-603)

(With the appropriate entries being made in the expenditure subsidiary ledger.)

### Special Revenue Fund - Other Issues/Entries

As mentioned earlier, when preparing GAAP financial statements, the reserve for encumbrances does not appear in the balance sheet, but instead is grouped with (added to) the deferred revenue amount and appears on that line of the GAAP modified accrual basis *Balance Sheet* and accrual basis *Statement of Net Assets* in the basic financial statements section of the CAFR.

#### Opening Balances

On July 1, an entry is required to transfer the reserve for encumbrances balance from the current year to the prior year account as illustrated below. The reserve for encumbrances - prior year (20-754) account is used to track the liquidation of the prior year encumbrances that were outstanding as of June 30, acting similar to accounts payable. The rollover of these orders does not require an adjustment to the subsequent year's certified budget since the orders were charged as expenditures during the current year under the budgetary basis.

To transfer the reserve for encumbrances balance from the current year to the prior year account the entry would be:

Dr. Reserve for Encumbrances - Current Year (20-753)

Cr. Reserve for Encumbrances - Prior Year (20-754)

#### Grant Year

Grant revenues and expenditures must be identifiable based on award year and as to original, summer, or carryover allocation. The chart of accounts is structured to allow for unique program codes to be assigned to the various grant allocations that may be running simultaneously. Although specific program codes are not listed for summer programs, charter schools must select a program code from the ranges provided to account for the summer portion of grants that overlap fiscal years. During the year, charter schools should remember to budget and account for grant activity in the appropriate program codes, making adjustments to the revenue and expenditure subsidiary ledgers to account for budget revisions necessary as a result of the shift of funds between the original, summer, and carryover allocations. This information is necessary for the completion of the Schedules of Financial Assistance included in the Single Audit Section of the CAFR. Chapter 9 of the *Technical Systems Manual* provides an illustration of the shift of funds into a carryover period. The same entries apply to the shift of funds to a summer program.

**All Funds**

In summary, charter schools should make the appropriate adjusting and closing entries. The public school accountant may suggest changes to the amounts reflected in the charter school's figures based on the results of his/her audit. In those instances, the auditor should provide the charter school with the necessary post-closing adjusting entries to correct the July 1 opening balances. Charter schools are reminded that the entries shown above represent what should be recorded in the accounting records. How those entries are actually made differ from software system to software system. It is advised that charter schools have a clear understanding of how to key those adjusting and closing entries into their accounting software package.

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