

**FINANCIAL ACCOUNTING  
FOR  
NEW JERSEY SCHOOL DISTRICTS  
AND CHARTER SCHOOLS**

**THE AUDIT PROGRAM**

**2013-2014**

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

**David C. Hespe, Acting Commissioner  
State Board of Education**

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

**STATE BOARD OF EDUCATION**

ARCELIO APONTE .....	Middlesex
President	
JOSEPH FISICARO.....	Burlington
Vice President	
MARK W. BIEDRON.....	Hunterdon
RONALD K. BUTCHER.....	Gloucester
CLAIRE CHAMBERLAIN.....	Somerset
JACK FORNARO.....	Warren
EDITHE FULTON.....	Ocean
ERNEST P. LEPORE.....	Hudson
ANDREW J. MULVIHILL.....	Sussex
J. PETER SIMON.....	Morris
DOROTHY S. STRICKLAND.....	Essex

**David C. Hespe, Acting Commissioner of Education**  
Secretary, State Board of Education

**THE AUDIT PROGRAM  
TABLE OF CONTENTS**

	<b>PAGE</b>
<b>Introduction</b>	
Significant Changes.....	i
Other Changes/Updates for 2013-2014 .....	i
Overview .....	x
Outline for Comprehensive Annual Financial Report (CAFR).....	xvi
<b>Section I: General Compliance</b>	
Chapter 1 – Appointment, Scope and Declaration .....	I-1.1
Chapter 2 – Meetings and Minutes.....	I-2.1
Chapter 3 – ASSA, Charter School Aid, SEMI & DRTRS.....	I-3.1
Chapter 4 – Budget & Transfers.....	I-4.1
Chapter 5 – Bids & Contracts/Purchasing.....	I-5.1
Chapter 6 – Chart of Accounts / Expenditure Classification .....	I-6.1
Chapter 7 – Reserved.....	I-7.1
Chapter 8 – Year End Procedures – Closing Out for GAAP.....	I-8.1
<b>Section II: Specific Compliance .....</b>	<b>II-i</b>
Governmental Funds	
Fund 10 (General Fund):	
➤ Board Secretary and Treasurer Reports.....	II-10.1
➤ Cash Reconciliation.....	II-10.2
➤ Petty Cash Funds .....	II-10.2
➤ Summer Payment Plans.....	II-10.2
➤ SSAE No. 16 Reports.....	II-10.2
➤ Third Party Disbursements .....	II-10.3
➤ Investments.....	II-10.3
➤ Revenues and Receipts.....	II-10.5
➤ Insurance Recoveries.....	II-10.5
➤ Community Disaster Loans (CDL).....	II-10.6
➤ Other Reimbursements.....	II-10.6
➤ Extraordinary Aid.....	II-10.7
➤ District Taxes .....	II-10.8
➤ Tuition (N.J.A.C. 6A:23A-17) .....	II-10.8
➤ Reporting On-Behalf Payments.....	II-10.10
➤ Compensation Reporting .....	II-10.10
➤ Pensionable Wages.....	II-10.11
➤ Refunds.....	II-10.12
➤ Telecommunications Act of 1996 (E-rate) .....	II-10.12
➤ Cancellations .....	II-10.12
➤ Travel Expenditures .....	II-10.12
➤ Health Insurance Policies .....	II-10.13
➤ Sale and Lease-back Contracts.....	II-10.15
➤ Required Maintenance.....	II-10.15
➤ Restricted Appropriations/Balances .....	II-10.15
➤ Capital Reserve Account – General Fund .....	II-10.15
➤ Excess Surplus.....	II-10.19
➤ Fund Balance Classifications .....	II-10.21
➤ Deficit Due to Delay of One or More June State Aid Payments.....	II-10.28

**THE AUDIT PROGRAM  
TABLE OF CONTENTS (CONT'D)**

	<b>PAGE</b>
<b>Section II: Specific Compliance (Cont'd)</b>	
Fund 20 (Special Revenue Fund):	
➤ TPAF Reimbursement .....	II-20.1
➤ TPAF Reimbursement for Districts Required to Use SBB .....	II-20.1
➤ Restricted State Aid .....	II-20.4
➤ FEMA Reimbursements .....	II-20.4
➤ Preschool Education Aid .....	II-20.5
➤ Preparing the Preschool Restricted Aid Schedule .....	II-20.6
Fund 30 (Capital Projects Fund):	
➤ Capital Projects – Charter Schools .....	II-30.1
➤ Bond and Note Authorizations .....	II-30.1
➤ Bond Anticipation Notes .....	II-30.1
➤ General Borrowing Authority .....	II-30.1
➤ Bond Sales and Capital Projects Fund Activities .....	II-30.4
➤ Capital Project Approval under EFCFA .....	II-30.4
➤ Unexpended Bond Proceeds .....	II-30.5
➤ Unexpended Project Funds – Other Funding Sources .....	II-30.6
➤ School Development Authority (SDA) Grants under EFCFA .....	II-30.6
➤ Overexpenditures .....	II-30.7
➤ Rebatable Arbitrage .....	II-30.7
➤ Secondary Market Disclosures .....	II-30.8
➤ Lease Purchase Agreements .....	II-30.8
➤ Financial Reporting .....	II-30.8
➤ Capital Projects Fund Sample Schedules .....	II-30.10
Fund 40 (Debt Service Fund): [Not Applicable to Charter Schools]	
➤ District Taxes .....	II-40.1
➤ SDA Assessment .....	II-40.1
➤ Debt Service Aid .....	II-40.1
➤ Reporting .....	II-40.1
➤ Transfers .....	II-40.2
➤ Rebatable Arbitrage .....	II-40.2
Fund 50 (Permanent Fund)	
➤ GASB 34 Model for Permanent Funds .....	II-50.1
Proprietary Funds	
Fund 60 (Proprietary Fund):	
➤ Enterprise Funds .....	II-60.1
➤ Food Service – Enterprise Fund .....	II-60.1
➤ SSAE No. 16 Reports .....	II-60.3
➤ Insurance Recoveries and Impairment Losses .....	II-60.4
➤ Sample Food Service Invoices and Allocations .....	II-60.5
➤ Child Nutrition Program Requirements .....	II-60.10
➤ National School Lunch Rate Schedule .....	II-60.17
Fund 70 (Internal Service Funds) .....	II-70.1
➤ Self Insurance (Self Financing) .....	II-70.2
Fiduciary Funds	
Fund 80 (Trust Fund):	
➤ Trust Fund Reporting .....	II-80.1
➤ Unemployment Trust Fund .....	II-80.1
➤ Section 457 Deferred Compensation Plan .....	II-80.2

**Section II: Specific Compliance (Cont'd)**

Fund 90 (Agency Fund)	
➤ Payroll Funds.....	II-90.1
➤ Health Insurance Withholding.....	II-90.1
➤ Section 125 Flexible Spending Accounts.....	II-90.2
➤ Student Activity.....	II-90.2
➤ Organizations Under the Auspices of the School.....	II-90.2
➤ Fund Raising in Schools by Outside Organizations.....	II-90.3
➤ Funds of Teacher Organizations and Parent/Teacher Organizations.....	II-90.3
➤ Funds Collected by Teachers from Pupils for Immediate Purchase of Items.....	II-90.4
Capital Assets	
➤ Overview.....	II-CA.1
➤ Reporting Capital Assets.....	II-CA.1
➤ Capital Leases.....	II-CA.2
➤ Construction in Progress.....	II-CA.3
➤ Reporting Capital Assets Acquired Through Non-cash Grants.....	II-CA.3
➤ Sample Format – Capital Asset Subsidiary Ledger.....	II-CA.3
➤ Depreciation Expense.....	II-CA.3
Long-Term Liabilities	
➤ Overview.....	II-LT.1
➤ Compensated Absences.....	II-LT.1
➤ Other Postemployment Benefits (OPEB).....	II-LT.2
➤ Early Retirement Incentive Program.....	II-LT.2
➤ Termination Benefits.....	II-LT.3
➤ Arbitrage Requirements.....	II-LT.3
Single Audit:	
➤ Federal Audit Requirements.....	II-SA.1
➤ State Audit Requirements.....	II-SA.2
➤ AICPA Single Audit Guidance.....	II-SA.2
➤ Risk Based Approach.....	II-SA.2
➤ Schedules of Expenditures of Federal Awards and State Financial Assistance.....	II-SA.4
➤ Federal Awards: Carryover/Deferred Revenue/Due Back to Granter.....	II-SA.4
➤ Title I-Schoolwide and Blended Resource Requirements.....	II-SA.7
➤ Fund 15 – GAAP Basis Expenditure Testing.....	II-SA.7
➤ Fund 15 – Blended Resource Testing.....	II-SA.8
➤ Fund 15 – Budgetary Basis Encumbrance Testing.....	II-SA.8
➤ State Awards: Carryover/Deferred Revenue/Due Back to Granter.....	II-SA.9
➤ Preparing the Schedules of Expenditures of Federal Awards and State Financial Assistance.....	II-SA.10
➤ Federal (CFDA) Numbers.....	II-SA.16
➤ State Grant Account Numbers.....	II-SA.19
➤ Sample Schedule A (Federal Award).....	II-SA.20
➤ Sample Schedule B (State Financial Assistance).....	II-SA.21
➤ Sample Schedules of Findings and Questioned Costs.....	II-SA.22

**Single Audit (continued):**

- Sample Summary Schedule of Prior Audit Findings..... II-SA.27
- Federal OMB Circular No. A-133 - Refer to Circular on web site  
[http://www.whitehouse.gov/sites/default/files/omb/assets/a133/a133\\_revised\\_2007.pdf](http://www.whitehouse.gov/sites/default/files/omb/assets/a133/a133_revised_2007.pdf)
- State Circular Letter No. 04-04-OMB – Refer to Circular at the NJOMB web site: <http://www.state.nj.us/infobank/circular/circindx.htm>

**Section III: Reporting**

Chapter 1 --Audit Criterion and Submission .....	III-1.1
Chapter 2 – Sample Opinion Reports	
➤ Directives for Auditor’s Reports .....	III-2.1
➤ Component Units .....	III-2.1
➤ Independent Auditor’s Report .....	III-2.2
Chapter 3 –Note Disclosures and Statistical Section	
➤ Sample Notes for Schedules of Expenditures of Awards and Financial Assistance.....	III-3.2
➤ Financial Statement Disclosures – Overview and Sample Notes .....	III-3.5
➤ GASB 34 Model Illustration of Reconciliation - Notes to Required Supplementary Information.....	III-3.7
➤ Statistical Section .....	III-3.13
➤ Outline of NJ Statistical Section (GASB 44) .....	III-3.14
Chapter 4 – Auditor’s Management Report (AMR).....	III-4.1
➤ Excess Surplus Calculation.....	III-4.27
Chapter 5 – Audit Summary Worksheet .....	III-5.1
Chapter 6 – District Admin. Questionnaire & Audit Prep. Checklist..... & Independent Auditor’s Questionnaire .....	III-6.1
Chapter 7 – Synopsis; Corrective Action Plan (CAP); Certification of Implementation of Prior Year’s CAP.....	III-7.1
Chapter 8 – Quality Assessment Review (QAR) Checklist .....	III-8.1

## **SIGNIFICANT CHANGES FOR 2013-14**

- Super Storm Sandy:
  - ❖ Added guidance provided to school districts for the recording and reporting of Community Disaster Loans (CDL) as an “Other Financing Source” of funds in the general fund revenue account 10-5XXX (Audsum Line 700). Appropriations and expenditures are recorded in fund 11.
  - ❖ Added guidance provided to school districts for the recording and reporting of Community Development Block Grants (CDBG) in fund 19, a sub-fund of the general fund, in revenue line 19-4526 (Audsum Line 565). Districts were provided guidance to account for appropriations and expenditures of CDBG funds in sub-fund 19 and to add fund 19 to their Board Secretary Reports. For year-end reporting in the CAFR, this Audit Program provides guidance to report sub-fund 19 expenditures separately at the bottom of the C-1 (General Fund Budgetary Comparison Schedule) or on a separate schedule to the C-1; C-1/b. For Audsum expenditures, this Audit Program provides guidance to combine fund 19 expenditures with funds 11, 12, and 13.
  - ❖ Added guidance for auditor responsibility for school districts that received an advance loan of State Aid pursuant to N.J.S.A. 18A:7A-56. In general, school districts that have received an advance loan also have an appointed State monitor. Repayment is done through incremental withholding of future state aid payments over pre-approved repayment terms not to exceed ten years. Auditors are required to inquire if the school district has received an advance and review all applicable documentation. Additionally, the auditor is required to verify the proper accounting treatment of an advance loan.
  - ❖ Added guidance that beginning with 2013-14, the Net Cash Resource Schedule (formerly maintained only in the auditor’s workpapers) is required to be completed and included in the auditor’s management report (AMR).

## **OTHER CHANGES / UPDATES FOR 2013-14**

**The following is a summary of changes / updates:  
(changes for 2013-14 are highlighted in gray)**

1. General changes are found throughout the document and include:  
  
Deletion of all references to ARRA and Ed Jobs funds as the grant period has expired
2. Specific changes are found in the following sections/chapters:

### Introduction

- Updated reference and link to reflect the December 2011 Revision of the *Government Auditing Standards* (effective for periods ending on or after December 15, 2012).

- Deleted reference and link to the July 2007 Revision of the *Government Auditing Standards*.
- Added the deadline for submission of June 30, 2014 audit reports (CAFR/AMR) is Friday, December 5, 2014.
- Deleted CAFR schedule C-1/b Education Jobs Fund Program – Budget and Actual.
- Added CAFR schedule C-1/b Community Block Development Grant (CDBG) for fund 19 revenues, appropriations, and expenditures. This is an optional presentation for school district that received/expended CDBG during the fiscal year ended June 30, 2014. Alternatively, school districts may clearly display fund 19 activity after other general fund activity (at the bottom of the C-1 appropriations/expenditures) and include in the calculation of total general fund expenditures.
- Added J-21 Charter School Performance Framework, Financial Performance, Fiscal Ratios to the Outline of the CAFR.

#### Section I-1

- Deleted fund 18, Education Jobs Fund from the scope of the audit.
- Deleted guidance for Education Jobs Fund combining schedule C-1/b.
- Added fund 19, Community Development Block Grants (CDBG) to the scope of the audit.
- Added guidance for the reporting of CDBG and Community Disaster Loans (CDL) in the CAFR and in Audsum.
- Added guidance regarding the overall objectives of the independent auditor and the conduct of an audit in accordance with generally accepted auditing standards including risk assessment and internal controls contained in the Clarified Statements on Auditing Standards (AU-C) issued by the Auditing Standards Board (ASB). The clarified statements (AU-C) replace the former AU references that were deleted December 2013.
- Added specific guidance that AICPA’s Statement on Auditing Standards (SAS) No. 122, effective for audits ending on or after December 15, 2012, has replaced The AICPA’s Statement on Auditing Standards (SAS) No. 105 *Amendment to Statement on Auditing Standards No. 95*.
- Added that effective for audits of financial statements for periods ending on or after December 15, 2012, the AICPA’s Statement on Auditing Standards (SAS) No. 122, (AU-C 265, *Communicating Internal Control Related Matters Identified in an Audit*, supersedes the AICPA Auditing Standards Board (ASB) Statement on Auditing Standards (SAS) No. 115, *Communicating Internal Control Related Matters Identified in an Audit*.
- Provided link to AU-C 265 on the AICPA website.
- Provided that SAS No. 117 was codified as AU section 801 until December 2013, when all AU sections were deleted from AICPA *Professional Standards*. SAS No. 122 redesignated AU section 801 as AU-C section 935 but did not supersede SAS No. 117. AU-C section 935 contains conforming changes necessary due to the issuance of SAS No. 122.
- Updated link to the clarity standards on the AICPA website
- Clarified that in the case of shared service agreements for superintendents of schools, assistant superintendents of schools and school business administrators, the school

district that is the employer responsible for all payroll-related obligations and the reporting of the W-2 for the individual, is also the entity responsible for completing the payroll certification (E-Cert) to the Department of the Treasury.

- Clarified that the 2013-14 Budget Guidelines, page 47, provides that the 2013-14 budget software includes a warning edit in instances where the districts 2012-13 budgeted per pupil legal costs, revised as of February 1, 2013, exceeded 130 percent of the statewide average per pupil budget legal costs for the district's operating type (using original 2012-13 budgets). The procedures are required to have been implemented during 2013-14 if a district's actual 2012-13 per pupil cost exceeded the 130 percent regulatory threshold unless evidence is provided that such procedures would not result in a reduction of costs.

#### Section I-2

- No change.

#### Section I-3

- Updated references to the 2014-15 ASSA manual to reflect the inclusion of a new program user manual.
- Provided link to the 2014-15 ASSA program user manual.
- Clarified that on roll counts must include 3-year-old and 4-year-old "regular education" preschool students from district school registers in the appropriate ASSA lines. "Regular education" preschool students free/reduced meals eligibility is not entered in the ASSA.
- Clarified that preschool disabled students are reported as elementary – special education students in the ASSA and the district must also enter free/reduced price meal status in the ASSA.
- Updated PCG contact information for SEMI.

#### Section I-4

- Deleted guidance for the use of additional State aid funding FY 12
- Clarified that remaining balances from proceeds from the sale of district property in the debt service reserve account in the debt service fund are to be appropriated in the general fund budget.
- Deleted the section under Waiver Offset Reserve as the reserve was not available during fiscal year 2013-14.
- Added guidance for auditor responsibility for school districts that received an advance loan of State Aid pursuant to N.J.S.A. 18A:7A-56. In general, school districts that have received an advance loan also have an appointed State monitor. Repayment is done through incremental withholding of future state aid payments over pre-approved repayment terms not to exceed ten years. Auditors are required to inquire if the school district has received an advance and review all applicable documentation. Additionally, the auditor is required to verify the proper accounting treatment of an advance loan.
- Included guidance for reporting of Salaries of Fiscal Monitors on line 45030, account number 11-000-230-180. This line was added in order to facilitate the exclusion of the fiscal monitor costs from the calculation of the administrative cost limit. Audsum

will verify that this line is limited to use by districts with State-appointed fiscal monitors.

Section I-5

- Revised the threshold for bidding of transportation contracts for 2013-14 to \$18,300 (from \$17,500).
- Added that P.L. 2013, c.262 was signed into law on January 17, 2014 and amends N.J.S.A. 18A:18A-11 to permit the boards of two or more districts to include nonpublic schools located within the municipalities that comprise those school districts as a party to a joint purchasing agreement.
- Emphasized that the school district or charter school auditor must conduct a search for unrecorded liabilities.
- Added that a significant number of school districts and charter schools were determined by the Department of Labor to be in arrears on past obligation(s) for payments to the unemployment insurance fund. In addition to the principal amount, those districts and charter schools were assessed related interest and penalties on the amount determined to be payable by the Department of Labor. For those districts, the Department of Labor initiated a garnishment of 2013-14 state aid payments.

Section I-6

- No changes.

Section I-7

- No changes.

Section I-8

- No changes.

Section II-10

- Added guidance for the recording and reporting of FEMA Community Disaster Loans (CDL). Districts were directed to record the CDL proceeds received in revenue line 700 (10-5XXX) and to reduce their 2013-14 budgeted and actual general fund tax levy (revenue line 100) in the amount of the declaration of drawdown as approved by FEMA for 2013-14. CDL proceeds requested and received are reported in Audsum line 681 (“Other Financing Sources – CDL Property Tax Offset- Super Storm Sandy”) for fiscal year 2013-14. In the CAFR statements and schedules, report CDL proceeds as – “Other Financing Sources” in the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balance (B-2) and in the General Fund Budgetary Comparison Schedule (C-1).
- Added guidance for the recording of Community Development Block Grants (CDBG) in fund 19 of the accounting records, and the reporting of CDBG revenues, appropriations, and expenditures in the CAFR statements and schedules.
- Added guidance provided to districts to provide a separate reporting of CDBG revenues, appropriations, and expenditures in the Board Secretary Report in fund 19.
- Added guidance provided to districts regarding the determination that where the district has used federal CDBG funds to pay the wages of TPAF employees, those

wages are not subject to this statutory TPAF pension & FICA reimbursement requirement.

- Clarified that in the case of shared service agreements for superintendents of schools, assistant superintendents of schools and school business administrators, the school district that is the employer responsible for all payroll-related obligations and issues the W-2 for the individual is responsible for completing the certification to the Department of Treasury.
- Omitted the section on waiver offset reserve which is not applicable for 2013-14
- Deleted references to Education Jobs Fund expenditures from the excess surplus calculation
- Added guidance that expenditures of Community Disaster Loan (CDL) and Community Development Block Grant (CDBG) funds at June 30, 2014 are included as a component of overall general fund expenditures, and also are included in total general fund expenditures for purposes of the excess surplus calculation.

#### Section II-20

- Deleted references to Education Jobs Fund and TPAF reimbursements
- Added guidance that federal Community Development Block Grant (CDBG) funds used to pay the wages of TPAF employees, are not considered salaries/wages paid under a “federally funded program” and are exempt from the TPAF/FICA reimbursement requirement (*N.J.S.A. 18A:66-90*)
- Updated the FICA wage limit for 2013 to \$113,700 and for 2014 to \$117,000.
- Updated the preliminary rate for the State payment to the Teacher’s Pension and Annuity Fund for FY 2013-2014 to 17.14%. The social security rate remains at 7.65%. Consequently, the preliminary TPAF and FICA rates total 24.79%. That rate has been used for illustration purposes in the sample reimbursement schedule. Districts must use the actual rate (not available at the time of release of this Audit Program) when calculating the reimbursement.
- Deleted reference to ARRA Special Revenue Awards – School Improvement Grants.
- Added accounting guidance to record and report Project SERV grant awards announced November, 2013 in the special revenue fund (fund 20).
- Added two new charter schools that are eligible to operate approved preschool programs during 2013-14.
- Deleted reference to SDA districts that receiving additional Preschool Education Aid (PEA).
- Clarified that a Commissioner approved transfer from Preschool Education Aid (PEA) to the general fund for Kindergarten is not included in current year PEA expenditures on the Budgetary Basis Schedule of Preschool Education Aid.
- Inserted new line (8) to the illustrative Preschool Education Aid (PEA) Budget and Carryover Schedule to reflect the addition of a Commissioner approved transfer to the general fund of unexpended Preschool Aid for kindergarten. Accordingly, lines subsequent to new line (8) have also been revised.

#### Section II-30

- No changes.

Section II-40

- Corrected the line item where districts were instructed to record the SDA assessment as an expense in their 2013-14 budget. Line 76210, account 12-000-400-896, entitled “Assessment for Debt Service on SDA Funding” is where the expenditures should be reported. Districts should no longer use line 08323.

Section II-50

- No changes.

Section II-60

- Clarified that NJ Department of Agriculture has directed districts to report cash from vending machines as food service program income.
- Included reference to the USDA Eligibility Manual for school meals, updated August 2012, which provides detailed information on determining and verifying free/reduced meals eligibility.
- Added guidance provided to school districts and charter school (school food authorities) to correct duplication errors in reporting meals eligibility through SNEARS
- Added guidance provided to school districts and charter schools that edit check worksheets are no longer optional beginning with fiscal year 2013-14. Beginning with 2013-14, edit check worksheets are required for all breakfast claims.
- Updated the due date for the internal verification activity reports for free/reduced price meals applications from February 15 to November 15 of each school year
- Added guidance that beginning with 2013-14, the Net Cash Resource Schedule (formerly maintained only in the auditor’s workpapers) is required to be completed and included in the auditor’s management report (AMR).
- Added the auditor’s requirement to verify that Food Service Management Contracts (FSMC) comply with the prohibition on the inclusion of other goods/services required to be separately and competitively bid.
- Added the auditor’s requirement to verify the FSMC complied with the prohibition on the combination of unrelated items with other good/services required to be separately procured through competitive bidding.
- Added the auditor’s requirement to verify that the FSMC provided the detailed expenditure information necessary for the LEA to perform the required segregation of program versus non-program meal and related costs in the accounting records and financial reports.
- Added the auditor’s requirement to verify that the FSMC charged the LEA only for costs that are actual and allowable, net of all discounts, rebates, and other applicable credits accruing to or received by the FSMC.
- Updated CNP reimbursement rates and programs for 2013-14.

Section II-70

- No Change.

Section II-80

- Added that during March 2014, the New Jersey Department of Labor and Workforce Development Division of Unemployment and Disability Insurance Division of Employer Accounts, notified approximately one hundred school districts of unremitted employment taxes resulting in garnishments of State Aid payments. District auditors must inquire as to whether or not related or unrelated insurance or tax liabilities remain unpaid and subject to yearend accrual.

Section II-90

- No Change.

Section II-CA

- No Change.

Section II-LT

- Added guidance for the auditor's responsibility to make inquiry as to whether a school district has offered an unauthorized employer-sponsored retirement incentive programs (ERIP) or been notified of having offered an unauthorized program.
- Added procedures to ensure that a school district that has implemented an unauthorized ERIP has properly accounted for, and reported, the related liability.

Section II-SA

- Provided link to the 2014 OMB A-133 Compliance Supplement issued May 2014
- Deleted references to ARRA funding as the period for the use of ARRA funds expired prior to July 1, 2013.
- Revised sample calculations and noted that the NCLB grant 45 day liquidation period to August 15th will remain in effect for 2014 and subsequent years.
- Revised the name of the Vocational Education grant to the Career and Technical Education grant.
- Clarified that a corrective action plan is not required if a district does not have any findings in their AMR and in their CAFR.

Section III-1

- Clarified that a State Form Corrective Action Plan marked "NONE" is not a required filing when a district does not have any findings in their AMR or in their CAFR.

Section III-2

- No Change.

Section III-3

- Updated Post Retirement Benefit note to the financial statements to include Division of Pensions data as of June 30, 2013.
- Added a sample note to the financial statements for those districts that negotiated a FEMA Community Disaster Loan.
- Added a sample note to the financial statements for those districts who were awarded a Community Development Block Grant.

- Updated Statistical Section to reflect that exhibit number J-21, Charter School Performance Framework, Financial Performance and Fiscal Ratio Schedule replaces former exhibit number 1 A-D – Near/Term Sustainability Ratios.

#### Section III-4

- Clarified that findings on the AMR should be numbered sequentially (e.g. 2014 - x) and if the finding is also included in the CAFR, numbering should consistent between the two reports.
- Clarified that when a non-compliance issue is discovered by the auditor and has been corrected by the school district or charter school within that same fiscal year, the finding must be reported in the AMR and the recommendation should state that the conditions/finding(s) were corrected within the fiscal year under audit.
- Added illustrative AMR finding and recommendation for a district that received Community Development Block Grant award(s), and failed to account and report the receipts and expenditures in accordance with the oversight agency's requirements.
- Added guidance provided to districts regarding the yearend reporting of general fund fund balance restricted for the portion of school bus advertising revenue not utilized to offset school bus fuel costs. Incorporated prior year and current year restricted fund balance into the calculation of audited excess surplus.

#### Section III-5

- No Change.

#### Section III-6

- Updated the budgeted State Per Pupil cost for legal fees from \$47 to \$49.40 and updated the actual State Per Pupil cost for legal fees from \$44 to \$52
- Added to the Audit checklist, question (43-e SEMI) –Requirement of auditors to review records of licensure and certification as an acceptable form of documentation indicating that practitioners providing services are SEMI qualified and that services provided by that practitioner are eligible for reimbursement.
- Added to the *Checklist for Annual Audit*, (47a) requirement to provide copies of all notices and communications regarding garnishment of State Aid received from oversight or regulatory agencies during the current year.
- Added to the *Checklist for Annual Audit*, (47b) requirement to provide copies of all notices and communications regarding the existence of an unauthorized early retirement incentive program (unauthorized ERIP) received from the New Jersey Department of Treasury.
- Added to the *Checklist for Annual Audit*, (47c) requirement to provide copies of all notices and communications regarding outstanding loans from the Department of Education
- Expanded the charter school section of the Audit Questionnaire to include review of the relationship between the charter school and an Educational Management Organization under contract; status of the board of trustees; staffing of the business office; disbursements; and inclusion of findings and recommendations in the Auditor's Management Report.

Section III-7

- No Change.

Section III-8

- No Change.

## OVERVIEW

*Financial Accounting for New Jersey School Districts/Charter Schools (The Audit Program)* is updated annually and includes instructions for both district/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.nj.gov/education/finance/fp/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 school districts/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.

Guidance unique or specific to districts that are required to use school-based budgeting (SBB) is included in the applicable sections of this Audit Program as follows:

Description	Section-Chapter	Rationale
Refer to website for guidance on CAFR schedules specific to districts required to use school-based budgeting	Intro-xvii	Districts required to use school-based budgeting must prepare schedules reporting activity and balances in fund 15, the subfund used for school level accounting and reporting.
Excess surplus calculation modification for expenditures allocated to restricted federal resources and capital leases with blended funds	II-10	Fund 15 expenditures blended with federal must be allocated to state and local.
TPAF and FICA Reimbursement Calculation for SBB districts	II-20	The blending of federal, state and local funds in the school-based budgets recorded in Fund 15 necessitates a calculation of the salary amounts paid in Fund 15, which are attributable to federal sources.
Schoolwide Programs description and compliance	II-SA	Expanded explanation of schoolwide programs as related to Title I and how these are treated for preparation of the Schedule of Federal Expenditures
Blended resources and computing Type A and Type B programs	II-SA	Expenditures incurred in schoolwide programs must be included in the total expenditures of the program contributing the funds when determining Type A and Type B programs for Single Audit testing.

### **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 school district/charter school, along with interim financial statements to facilitate management control of financial operations. Financial statements are the responsibility of the board of education's/board of trustee's management and are its representation of the financial position at a given point in time and the operations of the district/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 districts/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 August 2011 Revision*, commonly referred to as the "Yellow Book", established generally accepted government audit standards (GAGAS) and is available through the website: <http://gao.gov/assets/590/587281.pdf>

### **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 Friday, December 5, 2014. The Commissioner has statutory authority (*N.J.S.A. 18A:23-6*) to appoint auditors for districts/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 district's/charter school's official annual report. It should include all funds of the district/charter school. It is organized into three primary sections: 1) an introductory section, 2) a financial section, and 3) statistical section. If a district/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 school district/charter school as well as any additional statements, schedules, and disclosures required under the circumstances of the

district/charter school. The report must also include all applicable single audit opinion letters prepared by the local school district's/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 N.J.S.A. 18A:23-9 and 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) is an electronic submission of audited data. Audsum is completed through a web application available (anticipated availability September 2014) to auditors through the DOE website at: <http://www.state.nj.us/education/finance/audsum/> and to schools through NJDOE Homeroom at: <http://homeroom.state.nj.us/>. First-time-user auditors must create a user name and password in order to complete their registration with the Audsum web application. For control purposes, the department recommends that each auditor/user within the audit firm obtain a unique user name and password. If you need to be sent a reminder, of your user name and/or password, or change your user name and/or password please send a request to the Audsum email at: [audsum@doe.state.nj.us](mailto:audsum@doe.state.nj.us). User names and passwords will remain active until the auditor requests removal through an email request to [audsum@doe.state.nj.us](mailto:audsum@doe.state.nj.us). School auditors must **annually** request a PIN for each of their school district audit clients by emailing a PIN request to: [audsum@doe.state.nj.us](mailto:audsum@doe.state.nj.us). The auditor/user must then link the DOE assigned district PIN for the audit year to their user name and password in order to access Audsum screens for a client district. 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 school district auditor and the board secretary/business administrator are required to indicate their respective approval of the Audsum data through the electronic signature process available on the web application using the Data Finalize and Certify screen. The school district'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, 2014). 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 district 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, 2014. 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 school districts 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 board of education 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 district/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 district board of education/charter school board of trustees. 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, and in accordance with the federal due date, the archived copy of the SF-SAC must be submitted on a CD-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 board of education of each school district." Accordingly, the AMR must include **all** findings, including any items contained in the Schedule of Findings and Questioned Costs and the Legal or Regulatory Requirements section of the Auditor's Report.

## OUTLINE FOR COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR)

New Jersey statute (*N.J.S.A.18A:4-14*) requires that school districts/charter schools 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 board of education's/board of trustee'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.

Districts/charter schools should reference the NJ Department of Education (NJDOE) website at <http://www.state.nj.us/education/finance/fp/cafr/> (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 district/charter school staff. Information on Management Discussion and Analysis (MD&A) requirements and guidance on financial reporting for districts required to use school-based budgeting are also available at that web site to assist auditors and district 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 school district/charter school CAFRs may be emailed to [doecafr@doe.state.nj.us](mailto:doecafr@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 school district/charter school, the notation "N/A" should be indicated against that item in the Table of Contents.

*Auditor's Note* – Auditors should refer to the website <http://www.nj.gov/education/finance/fp/cafr/> for guidance on schedules that specifically relate to districts that are required to use school-based budgeting.

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 school district/charter school and information useful to the reader to evaluate the district's/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) Management's Discussion and Analysis (MD&A), 3) basic financial statements including the district/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, and 5) Other Supplementary Information including combining and individual fund statements, and additional schedules. Certain combining schedules may not be applicable. For example, if a district has only two programs in the Proprietary Fund, a

combining schedule would not be necessary. The School Level Schedules (D series in the Outline) should only be included for districts that are required to use school-based budgeting. Indicate by “N/A” when a schedule is not applicable.

**Statistical Section** – This section is intended to provide CAFR users with a broader and complete understanding of the school district/charter school and its financial matters than is possible from the financial statements and supporting schedules included in the financial section. Sample schedules under GASB Statement No. 44 (GASB 44) and guidance for preparing the schedules can be found on the NJDOE web site <http://www.state.nj.us/education/finance/fp/cafr/> (click on CAFR). The Outline of the CAFR reflects these revisions. Statistical information to assist districts/charter schools and auditors in preparing this section is posted on that web site (click on Audit Information, and then 2013-14 Audit Program).

Charter schools are required to calculate and report financial performance indicators in the statistical data section of the CAFR (refer to page III-3.14 of this Audit Program). In July 2012, the New Jersey Department of Education (NJDOE) released the Performance Framework. This framework sets the academic, organizational and fiscal standards by which all New Jersey charter schools will be evaluated, informing the Department of Education and individual school officials about school performance and sustainability.

The Financial Performance Framework section was designed as a starting point for the NJDOE to assess the financial health and viability of charter schools in New Jersey. The Framework, containing both near term and sustainability indicators, is a monitoring tool that provides the NJDOE with key data that summarizes a charter school’s current financial health, while taking into account the school’s financial trends over a period of three years. Near term indicators provide an understanding of a school’s financial picture in the upcoming school year, while sustainability indicators depict a school’s financial viability over time. In total, eight different measures provide a snapshot of a school’s near term financial health, historic trends, and future viability; this allows the NJDOE to proactively address areas of concern. The Performance Framework can be accessed at the NJDOE web site <http://www.state.nj.us/education/chartsch/PerformanceFramework.pdf>.

**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. District/Charter School-Wide Financial Statements:
  - A-1 Statement of Net Position
  - 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 Position
    - B-5 Statement of Revenues, Expenses, and Changes in Fund Net Position
    - B-6 Statement of Cash Flows
  
  - Fiduciary Funds:
    - B-7 Statement of Fiduciary Net Position
    - B-8 Statement of Changes in Fiduciary Net Position

**Notes to the Financial Statements**

**Required Supplementary Information – Part II**

- 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 Community Development Block Grant– 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. School Based Budget Schedules (**if applicable**):
- D-1 Combining Balance Sheet
  - D-2 Blended Resource Fund – Schedule of Expenditures Allocated by Resource Type – Actual
  - D-3 Blended Resource Fund – Schedule of Blended Expenditures – Budget and Actual
- 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:
- G-1 Combining Schedule of Net Position
  - G-2 Combining Schedule of Revenues, Expenses, and Changes in Fund Net Position
  - G-3 Combining Schedule of Cash Flows
- Internal Service Fund:
- G-4 Combining Schedule of Net Position
  - G-5 Combining Schedule of Revenues, Expenses, and Changes in Fund Net Position
  - G-6 Combining Schedule of Cash Flows
- H. Fiduciary Funds:
- H-1 Combining Statement of Fiduciary Net Position
  - H-2 Combining Statement of Changes in Fiduciary Net Position
  - H-3 Student Activity Agency Fund Schedule of Receipts and Disbursements
  - H-4 Payroll Agency Fund Schedule of Receipts and Disbursements
- I. Long-Term Debt:
- I-1 Schedule of Serial Bonds
  - I-2 Schedule of Obligations under Capital Leases
  - I-3 Debt Service Fund Budgetary Comparison Schedule

**STATISTICAL SECTION (Unaudited)**

Page

**Introduction to the Statistical Section****Financial Trends**

- J-1 Net Assets by Component
- J-2 Changes in Net Assets/Net Position
- J-3 Fund Balances – Governmental Funds
- J-4 Changes in Fund Balances – Governmental Funds
- J-5 General Fund Other Local Revenue by Source

**Revenue Capacity–N/A to Charter Schools**

- J-6 Assessed Value and Estimated Actual Value of Taxable Property
- J-7 Direct and Overlapping Property Tax Rates
- J-8 Principal Property Taxpayers\*
- J-9 Property Tax Levies and Collections

**Debt Capacity**

- J-10 Ratios of Outstanding Debt by Type
- J-11 Ratios of General Bonded Debt Outstanding- **N/A to Charter Schools**
- J-12 Direct and Overlapping Governmental Activities Debt- **N/A to Charter**
- J-13 Legal Debt Margin Information- **N/A to Charter Schools**

**Demographic and Economic Information**

- J-14 Demographic and Economic Statistics
- J-15 Principal Employers

**Operating Information**

- J-16 Full-time Equivalent District/Charter School Employees by Function/Program
- J-17 Operating Statistics
- J-18 School Building Information
- J-19 Schedule of Required Maintenance Expenditures by School Facility
- J-20 Insurance Schedule
- J-21 Charter School Performance Framework, Financial Performance, Fiscal Ratios

\*Private citizens should be listed as Individual Taxpayer 1, Individual Taxpayer 2, etc.

**SINGLE AUDIT SECTION**

- 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