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
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June 30, 2014

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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 2011Revision 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 2011Revision*, 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. **<u>The CAFR</u>**

   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. User names and passwords will remain active until the auditor requests removal through an email request to 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. 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.

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

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- A-1 Statement of Net Position
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- 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

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- B-7 Statement of Fiduciary Net Position
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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**)
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- C-2 Budgetary Comparison Schedule – Special Revenue Fund

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- C-3 Budget-to-GAAP Reconciliation

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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
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G. Proprietary Funds:

Enterprise Fund:
G-1 Combining Schedule of Net Position
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*Private citizens should be listed as Individual Taxpayer 1, Individual Taxpayer 2, etc.

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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
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SECTION I – GENERAL COMPLIANCE
CHAPTER 1

APPOINTMENT, SCOPE AND DECLARATION

Appointment of Auditor

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

A district board of education/charter school board of trustees should refer to *N.J.A.C.* 6A:23A-16.2(i)(1), for regulations on obtaining audit firm peer reviews. The code requires that districts/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 districts/charter schools obtain a copy of the audit firm's peer review and letter of comment. The board of education/board of trustees 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 December 2011 Revision (The Yellow Book) is applicable for financial audits of periods ending on or after December 15, 2012. The 2011 revision updates the independence and financial audit standards. *The 2011 Yellow Book* is available in electronic format at the Government Accountability Office (GAO) website http://gao.gov/assets/590/587281.pdf. The website also contains a link to a summary of major and technical changes. Printed versions of the December 2011 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. School board business 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 board of education/board of trustees, and of any officer or employee thereof, and of any organization of public school pupils conducted under the auspices of the board of education.

1. General Fund (including Fund 15 for district required to use school-based budgeting, and fund 19 – Community Development Block Grant, where applicable)
2. Special Revenue Funds
3. Capital Projects Funds
4. Debt Service Funds [does not apply to charter schools]
5. Permanent Funds
6. Enterprise Funds and Internal Service Funds
7. Private Purpose Trust and Agency Funds
8. 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 district's/charter school's CAFR as a component unit. Paragraph 6 of GASB 39 states that, "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 are as follows:

Responsibility for the preparation of the CAFR rests with the school district/charter school. A sample CAFR is available on the website http://www.nj.gov/education/finance/fp/cafr/. Sample schedules that are specific to districts required to use school-based budgeting and instructions for preparing those schedules are also available on this CAFR website.

The Audit Summary (Audsum) is an electronic submission of audited data that will be completed through a web application anticipated to be available September 2014. Auditors access Audsum through the DOE website at http://www.state.nj.us/education/finance/audsum/. Schools access Audsum through NJDOE Homeroom at http://homeroom.state.nj.us/. Beginning with the year ending June 30, 2012, and annually thereafter, school district auditors must request a unique PIN for each of their school district/charter school audit clients by emailing a PIN request to audsum@doe.state.nj.us. Each auditor/CPA user will create a user name and password when registering with the Audsum website as a first time user. For control purposes, the department recommends that each auditor/user within the audit firm obtain a unique user name and password. The user name and password will remain active unless the auditor requests removal (or change) by emailing Audsum at audsum@doe.state.nj.us. If you need to be sent a reminder of your user name and/or password, please send a request to the Audsum email at audsum@doe.state.nj.us. The auditor/user must then link the assigned district/charter school PIN for the year under audit to their user name and password in order to access Audsum screens for a client district/charter school. 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/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 Data Finalize and Certify screen. The school district's/charter school's board secretary/business administrator is responsible for the submission of the Audsum data via the web application to the Department of Education no later than the CAFR due date (December 5, 2014).

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 district/charter school. See Section II-SA for required submission of reports.

School districts were provided budgetary guidance that for 2013-14 Community Disaster Loans (CDL) to record actual receipts of loan proceeds in "Other Financing Sources" account number 10-5XXX and line 700 of Audsum. Appropriations and expenditures were recorded and reported in fund 11 – general fund. School districts were provided budgetary guidance to record Community Block Development Grant (CDBG) revenue in fund 19, account 19-4526 "FEMA CDBG", and Audsum line 565. Districts budgeted appropriations in fund 19 in the general fund. Fund 19 was combined with general fund (11, 12 and 13) to calculate total planned general fund appropriations. Actual expenditures of CDBG must be reported separately in fund 19 (sub-fund of the general fund) in the Board Secretary Report and in the CAFR. For 2013-14, school districts must report CDBG appropriations and expenditures separately by using a subsidiary schedule to the C-1 *General Fund Budgetary Comparison Schedule*; C-1b *CDBG budgetary Comparison Schedule* or by clearly identifying CDBG appropriations and expenditures at the bottom of the C-1 prior to the calculation of total general fund expenditures. Combined general fund (funds 11, 12, 13, and 19) budgetary expenditures from the C-1 are entered into Audsum.

Risk Assessment/Internal Controls

Clarified Statements on Auditing Standards (SASs) Nos. 122-127 were issued by the Auditing Standards Board and are first effective for audits ending on or after December 15, 2012. SAS No. 128 is effective for audits ending on or after December 15, 2014. All clarified SASs will replace pre-clarity SASs in 2014. Until then, both clarified SASs and pre-clarity SASs are available within AICPA *Professional Standards*. The Auditing Standards Board (ASB) has redrafted all of the auditing sections in Codification of Statements on Auditing Standards (contained in AICPA Professional Standards). These sections reflect the ASB's established clarity drafting conventions designed to make the standards easier to read, understand, and apply. As part of the clarification of the SASs, the AU section numbers as designated by SAS Nos. 1–121 were recodified and "AU-C" was selected as an identifier in order to avoid confusion with references to superseded "AU" sections. Superseded "AU" sections were deleted from AICPA *Professional Standards* in December 2013, by which time substantially all engagements for which the "AU" sections were still effective were expected to be completed. School district and charter school auditors are encouraged to consult AU-C exhibit A on the AICPA website at: http://www.aicpa.org/Research/Standards/AuditAttest/DownloadableDocuments/AU-C-ExhibitA.pdf for a list that cross-references AU-C sections to AU sections. Generally accepted auditing standards (GAAS) now more clearly states the objectives of the auditor and the requirements with which the auditor has to comply when conducting an audit in accordance with GAAS.

The AICPA's Statement on Auditing Standards (SAS) No. 122, effective for audits of financial statements for periods ending on or after December 15, 2012 has replaced SAS No. 105 *Amendment to Statement on Auditing Standards*. AU-C 200-299 *General Principles and Responsibilities;* 300-499 *Risk Assessment and Response to Assessed Risks;* 500-599 *Audit Evidence*; 600-699 *Using the Work of Others*; 700-799 *Audit Conclusions and Reporting* supersedes various AU sections including AU section 150 *Generally Accepted Auditing Standards*. The clarified standards are available on the AICPA website at: http://www.aicpa.org/Research/Standards/AuditAttest/Pages/clarifiedSAS.aspx

Districts/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. Districts/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 education/board of trustees and must be followed up with a corrective action plan prepared by the board. The increased understanding of the audited district's/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.

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.* AU-C 265 is available on the AICPA website at:
http://www.aicpa.org/Research/Standards/AuditAttest/DownloadableDocuments/AU-C-00265.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. 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. AU-C section 935 is available on the AICPA website at:

http://www.aicpa.org/Research/Standards/AuditAttest/DownloadableDocuments/AU-C-00935.pdf

The AICPA's Auditing Standards Board (ASB) has issued Statements on Auditing Standards (SAS) numbers 122-125 effective for periods ending on or after December 15, 2012. The ASB issued SAS 122-125 for purposes of clarification of the Statements on Auditing Standards and to link the Statements on Auditing Standards to Government Auditing Standards. Auditors are encouraged to obtain information regarding the statements from the AICPA website at:
http://www.aicpa.org/Research/Standards/AuditAttest/Pages/clarifiedSAS.aspx

School District Fiscal Accountability Act (*N.J.S.A.* 18A:7A-54 et seq.)
Conditions for the Receipt of State Aid (*N.J.A.C.* 6A:23A 6.1 et seq.)
Financial Operations of Charter Schools (*N.J.A.C.* 6A:23A 22.1 et seq.)
State Aid Calculations and Aid Adjustments for Charter Schools (*N.J.A.C.* 6A:23A 15.1 et seq.)

N.J.S.A. 18A:7A-54 et seq. is cited as the "School District Fiscal Accountability Act" and defines that boards of education and administration are responsible for developing internal controls, policies, and procedures and for maintaining a strong internal control environment. District auditors should be aware of the rules and regulations and consider the risk of noncompliance when developing and implementing procedures to test internal controls and detailed tests of transactions.

N.J.A.C. 6A:23A-6.1 et seq. defines the conditions for the receipt of state aid and requires districts to document the performance of certain operational efficiency tests:

- Examine, no less than once every three years, all available group options for every insurance policy held by the district, including any self insurance plan administered by the New Jersey School Boards Association Insurance Group on behalf of districts, and participate in the most cost effective plans. (*N.J.A.C.* 6A:23A-6.1(b)1)
- Take steps to maximize participation in the federal Universal Service Program (E-rate) and the ACT telecommunications program offered through the New Jersey Association of School Business Officials. (*N.J.A.C.* 6A:23A-6.1(b)2)
- Participate in the Alliance for Competitive Energy Services (ACES) energy program offered through the NJ School Boards Association unless the district can demonstrate that it receives the goods or services at a cost less than or equal to the cost achieved by participants in the program, (*N.J.A.C.* 6A:23A-6.1(b)3)
- Take appropriate steps to maximize the district's participation in the Special Education Medicaid Initiative (SEMI) Program, pursuant to *N.J.A.C.* 6A:23A-5.3; *N.J.A.C.* 6A:23A-6.1(b)4) and
- Refinance all outstanding debt for which a three percent net present value savings threshold is achievable. (*N.J.A.C.* 6A:23A-6.1(b)5)

N.J.A.C. 6A:23A-6.4 requires that the district's internal control policies promote operational efficiency and effectiveness, provide reliable financial information, safeguard assets and records, encourage adherence to prescribed policies and comply with law and regulation as detailed at *N.J.A.C.* 6A:23A-6.5 through 6.13. A brief overview of the control requirements and policies follows:

- Standard operating procedures (SOPs) for business functions. Implementation date December 31, 2009. (*N.J.A.C.* 6A:23A-6.6)
- Financial and human resource management systems (larger districts); access controls. Implementation complete by the 2010-11 school year. (*N.J.A.C.* 6A:23A-6.7)
- Personnel tracking and accounting system (PCR). Implementation fully complete by December 31, 2009. (*N.J.A.C.* 6A:23A-6.8)

- Facilities maintenance and repair scheduling and accounting work order system. Districts with three or more district buildings were to fully implement an automated work order system by July 1, 2010 (*N.J.A.C.* 6A:23A-6.9)
- Approval of amounts paid in excess of approved purchase orders; board policy (*N.J.A.C.* 6A:23A-6.10)
- Vehicle tracking, maintenance and accounting; board policy (*N.J.A.C.* 6A:23A-6.11)
- District vehicle assignment and use policy (*N.J.A.C.* 6A:23A-6.12)
- Board travel policy (*N.J.A.C.* 6A:23A-6.13)

N.J.A.C. 6A:23A 22.1 requires that charter schools' internal control policies promote operational efficiency and effectiveness, provide reliable financial information, safeguard assets and records, encourage adherence to prescribed policies and comply with law and regulation as detailed at *N.J.A.C.* 6A:23A-22.1 through 22.15. A brief overview of the control requirements and policies follows:

- Bookkeeping and accounting for charter schools (*N.J.A.C.* 6A:23A-22.2)
- Certification (*N.J.A.C.* 6A:23A-22.3)
- Financial requirements(*N.J.A.C.* 6A:23A-22.4)
- Public school contracts law (*N.J.A.C.* 6A:23A-2.5)
- Public relations and professional services; board policies; efficiency (*N.J.A.C.* 6A:23A-22.6)
- Charter school response to Office of Fiscal Accountability and Compliance (OFAC) investigation report (*N.J.A.C.* 6A:23A-22.7)
- Verification of payroll check distribution (*N.J.A.C* 6A:23A-22.8)
- Board of trustees expenditures for non-employee activities, meals and refreshments (*N.J.A.C.* 6A:23A-22.9)
- Nepotism policy (*N.J.A.C.* 6A:23A-22.10)
- Contributions to board members and contract awards (*N.J.A.C.* 6A:23A-22.11)
- Internal controls (*N.J.A.C.* 6A:23A-22.12)
- Segregation of duties; organization structure (*N.J.A.C.* 6A:23A-22.13)
- Standard operating procedures (SOPs) for business functions (*N.J.A.C.* 6A:23A-22.14)
- Approval of amounts paid in excess of approved purchase orders; board policy (*N.J.A.C.* 6A:23A-22.15)

N.J.A.C. 6A:23A-15.1 describes the policies for enrollment in a charter school, the calculation of payments to charter schools and private school placement of charter school students and are detailed at *N.J.A.C.* 6A:23A-15.1 through15.4 . A brief overview of the requirements and policies follows:

- Per pupil calculations, notification and caps (*N.J.A.C.* 6A:23A-15.2)
- Enrollment counts, payment process and aid adjustments (*N.J.A.C.* 6A:23A-15.3
- Procedures for private school placements by charter schools (*N.J.A.C.*6A:23A-15.4

Other audit considerations include, but are not limited to:

- *N.J.S.A.* 18A:7A-55, effective April 2006, provides for the appointment of a state monitor in schools that meet specific circumstances and established the oversight duties of such monitors. Circumstances include an adverse or qualified audit opinion, repeat audit findings, material weaknesses and late submission of the audit. Communication of such issues in the audit reports is essential for the department to implement this statute.
- *N.J.S.A.* 18A:7A-57, effective April 2006, requires a forensic audit by the Office of the State Auditor if a district has a year-end general fund deficit and also meets one of the criteria for a state monitor. Communication and proper reporting by auditors is necessary for the department to implement this statute.

- N.J.S.A. 18A:17-14.4, effective March 2007, requires the school business administrator, or any other person designated by the board of education/board of trustees, to certify to the Department of Treasury that all documentation prepared for income tax related purposes, in regard to superintendents of schools, assistant superintendents of schools and school business administrators, complies fully with the requirements of federal and state laws and regulations regarding the types of compensation which are required to be reported. March 15, 2008 was the first time the E-CERT1 was required (Not applicable for charter schools). Where there is a shared service agreement for superintendents of schools, assistant superintendents of schools and/or school business administrator, the school district that is the lead district employer responsible for all payroll-related obligations including the issuance of the W-2 for the individual is responsible for completing the payroll certification E-CERT1) to the Department of Treasury. E-CERT1 is available from Treasury at:
  http://www.state.nj.us/treasury/taxation/pdf/other_forms/misc/e_cert1.pdf
- *N.J.S.A.* 18A:23-2.1, effective March 2007, requires that the annual audit include test measures to assure that documentation prepared for income tax related purposes complies with federal and State laws and regulations regarding the compensation reported. Auditors must include testing of payroll. See the State Aid/Compliance Supplement for suggested audit procedures and links for payroll tax related guidance.
- *N.J.S.A.* 18A:7F-41, effective April 2007, provides for two new reserves of fund balance, the current expense emergency reserve and the debt service reserve account. This section also expanded the authority at year end to transfer funds into a new or existing maintenance or capital reserve account. Regulations on the reserve accounts provide that such transfer resolution be adopted no earlier than June 1 and no later than June 30 of the respective school year (*N.J.A.C.* 6A:23A-14.1 et seq.). The reserves are to be held in accordance with GAAP and subject to annual audit. Interest income or capital gains become part of the reserve. See Section II-10 for further discussion of capital reserve, maintenance reserve, and current expense emergency reserve. See Section II—40 for further discussion of the debt service reserve.
- *N.J.A.C.* 6A:23A-5.2(a)(3) requires districts with legal costs that exceed 130 percent of the statewide average per pupil amount to establish specific internal control procedures for the reduction of costs or to provide evidence that such procedures would not result in a reduction of costs. Districts that have audited 6/30/13 legal costs that exceed 130% of the 2012-13 audit statewide average as published in the *2014 Taxpayer Guide to Education Spending* for their operating type, must have a resolution (or memo) adopted to recognize the occurrence and to formally adopt the controls provided in *N.J.A.C.* 6A:23A-5.2(a)(3). For audited legal costs reported at 6/30/13 that exceed the 2013 audit statewide average for their operating type published in the *2014 Taxpayer Guide to Education Spending*, there must be evidence of implementation of the controls specified in code effective for fiscal year 2014-15. If such controls are not established, the district must document and have available for audit, evidence that such procedures would not result in a reduction of costs. The *2014 Taxpayer Guide to Education Spending* is available on the DOE website at: http://www.state.nj.us/education/guide/2014/

  The 2013-14 Budget Guidelines, page 47, provides that the 2013-14 budget software includes a warning edit it the districts 2012-13 budgeted per pupil legal costs, revised as of February 1, 2013, exceeds 130 percent of the statewide average per pupil budget legal costs for the district's operating type (using original 2012-13 budgets). This is to provide districts planning time for the implementation of the required procedures during fiscal year 2013-14 if the actual costs for year ended June 30, 2013 remained above 130 percent of the statewide per pupil average for the districts operating type. 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.

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 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 school districts/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 school district/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 education/board of trustees of such school district/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. For school districts, the final approved budget upon which taxes were based and details of the public hearing on the budget. For charter schools, the final board of trustees approved budget.

c. Details of the annual organization meeting of the board, including the results of the election.

d. Lists of claims approved for payment by the board.

e. Summary of monthly financial statements of the secretary (Board Secretary's Report) and the treasurer (Treasurer's Report) (if the district/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. Requests for Local Property Taxes.

j. Required Board of Education 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
   - Vehicle Tracking and Use (does not apply to charter schools)

Minute Records

The proceedings of the meeting of the board of education/board of trustees or board of school estimate 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 education/board of trustees, particularly with respect to the proceedings of the annual or special district meetings (elections) in Type II districts, the submission of monthly financial reports, the approval of claims, request for taxes, 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

ASSA &CHARTER SCHOOL AID & SEMI & DRTRS

APPLICATION FOR STATE SCHOOL AID (ASSA) – SCHOOL DISTRICTS ONLY

Overview

Auditors are required to perform detailed testing procedures relating to the ASSA enrollment data for the following categories:

1) On-roll full and shared students (regular and special ed).
2) Private school for the disabled students.
3) Low income enrollment.
4) Low Income Limited English Proficient (LEP) students (kindergarten through 12).
5) Limited English Proficient (LEP) students (not low income- kindergarten through 12).

The Schedule of Audited Enrollments is included in the Auditor's Management Report as a supplementary schedule and summarizes the results of testing the ASSA and the District Report of Transported Resident Students (DRTRS). Refer to Section III – Chapter 4 for an example of this schedule and comment. A statement regarding the audit procedures performed on ASSA is also required in the Auditor's Management Report including any items of noncompliance or negative comments along with the appropriate recommendation.

The Office of School Funding used the October 15, 2013 ASSA data in the calculation of 2014-15 state aid, and for other purposes such as calculation of School Choice Aid, and federal entitlement programs. Auditors should obtain a printout of the February 25, 2014 DOE ASSA Summary prepared by the department and available through the district's individual account on the DOE website. This Summary reflects changes made prior to the final calculation of 2014-15 state aid.

Charter school students were to be considered enrolled in their resident district and were to be counted as if they attended their home school. These students were to be reported in accordance with the 2014-2015 Application for State School Aid Online Technical Manual, page 37.

Choice program students were to be reported by the choice district on the ASSA. Choice districts in the Interdistrict Public School Choice Program were to enter data for those students in accordance with the 2014-2015 Application for State School Aid Online Technical Manual, page 37.

The School Funding Reform Act (SFRA) calculations for state aid required changes to the ASSA that were first effective for October 15, 2008. Special education students are reported as either elementary, middle school, or high school students according to their grade level (graded - Resource Center) or age (un-graded – self-contained). Refer to subsequent pages of this Audit Program for grade level and age conversion charts. Grade level or age classification must be verified as part of your on roll – full/shared and private school testing.

The ASSA data collection includes a screen for resident districts (other than a regional or consolidated) to enter detailed resident enrollment data for the district. The number of regular education and special education LEP students that qualify for free lunch are entered separately from those eligible for reduced lunch. LEP students who are not low income are entered in a separate column (ASSA instructions on page 15). The ASSA Summary printout includes columns for Resident LEP Low Income and Resident

LEP Not Low Income. Auditors should sample both categories and follow the directions in this chapter for testing low income meal eligibility as well as LEP eligibility. For LEP students classified as not low income eligible, the absence of a valid "Application for Free and Reduced Price Meals and Free Milk" is deemed to support the not low income eligible classification. These students will usually appear on school nutrition program Master Eligibility Lists as "Paid" or "Denied" status.

School districts must complete a set of workpapers which document the compilation of register data for the ASSA student count and provide an audit trail for the auditor to use as a basis for testing. School districts must also prepare written internal procedures that provide a description of the October 15, 2013 count process. The procedures should describe how the count was taken, who was responsible for compiling the data and submitting the ASSA data, and the various personnel assigned responsibilities for collection of the data. The workpapers, original supporting documentation and internal procedures must be maintained on file for a period of seven years. The workpapers have been modified to eliminate data no longer collected pertaining to special education tiers, related services, and specific learning disabled as well as the inclusion of new data to be collected for SFRA purposes.

Determining Sample Size

The following table should be used when determining the sample size for testing each category: the on roll – full/shared, private schools, low- income, and bilingual education categories. The table should also be used when determining the sample size when testing the DRTRS.

TOTAL REPORTED	SAMPLE SIZE EXPRESSED AS %	TOTAL REPORTED	SAMPLE SIZE EXPRESSED AS NO.
Up to 50	86%	401 - 650	197
51 – 100	76%	651 - 950	232
101 – 150	68%	951 - 1,250	254
151 – 200	62%	1,251 - 1,500	264
201 – 250	57%	1,501 - 1,750	272
251 – 300	52%	1,751 - 1,950	279
301 – 400	48%	1,951 - 2,400	284
		2,401 - 2,900	291
		2,901 - 3,400	295
		3,401 - 3,900	299
		3,901 - 4,900	303
		4,901 - 9,500	312
		9,501 - 17,000	318
		17,001 - 48,000	322
		48,001 - 500,000	325

This table is based on a commonly used table which will provide a confidence level of 99 percent with a precision of ± 2 percent. The table has been condensed for this purpose and does not reflect the numerous sample sizes required for populations up to 500,000. The development of population ranges and averaging of sample sizes for such ranges will have a marginal but acceptable impact on the confidence level and precision. Sample sizes for populations up to 400 are expressed as a percentage (%) of the actual population. Sample sizes over 400 are expressed as a number (No.) for a population range.

1. Sample Selection and Test Procedures - On Roll - Full/Shared Including Home Instruction -- **At a minimum, at least one school register from each enrollment category must be tested to verify that the number of students enrolled on October 15, 2013 agrees with the associated number reflected on the district's workpapers and on the ASSA.**

- All Home Instruction students must be entered by name in the school register with attendance code "7." These students are included in the on-roll count only, and not as a separate category on the ASSA.
- On roll counts must include 3-year-old and 4-year-old "regular education" preschool students (not preschool disabled) from district school registers in the appropriate ASSA lines. For "regular education" preschool (not preschool disabled) students free/reduced meals eligibility is not entered in the ASSA.
- Preschool disabled students are special education students with a measurable developmental impairment which occurs in children between the ages of 3 and 5. These students must receive instruction for a minimum of 10.0 hours per week and are considered full-time students for state aid purposes. 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.

NOTE: Special Education Tiers Are Not Applicable; Grade Level Tables

Auditor's Notes - Prior to October 15, 2008 only, educationally disabled students were reported by tiers. Subsequently, educationally disabled students 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. Auditors are to ensure that special education students are not counted twice as both graded and special education students.

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 district/charter school be present to ensure compliance with the aforementioned provision. Additionally, the district/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:

Grade Level (as of 10/15/13)	School
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:

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

2. Private Schools for the Disabled

School Districts Only

Obtain the workpapers prepared by the district and verify that for each student listed there is a tuition contract with an approved Private School for the Disabled on file, which was in effect on October 15, 2013. Based on the total contracts the auditor should use the table to determine an appropriate sample size. The sample should be tested against private school tuition bills for October in order to determine that these pupils were in fact enrolled and that tuition was paid. The students will be identified by their initials and each student's number of enrolled days will be listed for the month. The per diem rate must be the same as the rate identified in the private school contract. This count may also include preschool disabled students placed in early childhood programs as per the provisions contained in *N.J.A.C.* 6A:14-4.3(d). An appropriate tuition contract must be on file as well as supporting documentation for the tuition payment. Any unresolved differences must be identified as an audit exception. Special education students sent to private schools are no longer reported by tier. However, each student placement must be supported by an appropriate IEP. Verify private school enrollment shown on the Schedule of Audited Enrollments reflects only those pupils with a contract, adjusted for those pupils in the sample who were not properly reflected on the October bill.

3. Low-Income Enrollment on Roll – Full Time and Shared Time

Please refer to low-income enrollment guidance applicable to school districts and charter schools beginning on page I-3.7 of this Audit Program.

4. Low Income Limited English Proficient (LEP) students (kindergarten through 12).

Please refer to low-income LEP enrollment guidance applicable to school districts and charter schools beginning on page I-3.9 of this Audit Program.

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

Please refer to LEP enrollment section applicable to school districts and charter schools beginning on page I-3.9 of this Audit Program.

Note to auditor: If, after reviewing one register per category, the total sample size is less than that reflected on the table for the total population, additional registers must be tested until the appropriate sample size is achieved.

CHARTER SCHOOL AID – CHARTER SCHOOLS ONLY

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.

Sample Selection and Test Procedures For Charter Schools:

1. On-roll full and shared students - Testing should include samples from each of the enrollment count dates, i.e. October 15, and the last day of school. 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

NOTE: Special Education Tiers Are Not Applicable; Grade Level Tables

Auditor's Notes - Prior to October 15, 2008 only, educationally disabled students were reported by tiers. Subsequently, educationally disabled students 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. Auditors are to ensure that special education students are not counted twice as both graded and special education students.

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 district/charter school be present to ensure compliance with the aforementioned provision. Additionally, the district/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:

Grade Level (as of 10/15/13)	School
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:

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

2. 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.

The Following Low-Income, Low-Income LEP, and LEP Sections are Applicable to School District and Charter School Audits:

3. Low-Income Enrollment on Roll – Full Time and Shared Time

Obtain the low-income workpapers (by school, by grade) prepared by the school district/charter school and reconcile total low-income eligible students listed to the low-income eligible students reported on the ASSA or Charter School Enrollment System ("CHE"). Note that the number of current school year free and reduced price applications on file as of October 1, 2013 should have been used by the school district/charter school to determine the number of applications to verify. Carryover applications were not to be included in the determination of the verification pool. Refer to the September 4, 2012 Eligibility Memo at the link below MemoEligibilityCarryover090412.pdf.

For audits of school districts, based on the total low-income eligible students listed on the workpapers, the auditor must use the table presented in chapter I-3 of this Audit Program under the sub-title "Determining Sample Size" to determine an appropriate sample size. To provide adequate coverage of the low-income eligibility concentrations the sample must include pupils from all schools tested for on roll.

For audits of charter schools, the auditor is required to audit 100% of free or reduced price applications included in the two annual enrollment counts utilizing a "sampling without replacement" method. This means that once a student record is selected for testing, that record is excluded from the sample pool for the auditor's testing of the subsequent count.

Low-income eligible students are resident and nonresident students eligible for free or reduced price meals or free milk, and are part of the school districts/charter school's enrollment. The cutoff date for eligibility carryover applications for classification as low-income is the "thirtieth operating day of the school year." As explained in the September 4, 2012 Eligibility Carryover Memo, "operating days" are established by each school district/charter school calendar and are defined as days in which the school is open to students, even if no food service is provided on some of those days. Students eligible for free or reduced price meals or free milk are those students on-roll at the last school day prior to October 16 (October 15, 2013) who have been determined to be eligible as evidenced by a carryover application or a current year application under the National School Lunch Act and the Child Nutrition Act as of the thirtieth operating day of each school year beginning the first day in which school is open to students. Carryover eligibility is effective only through to the earliest date derived when comparing the district/charter school thirtieth operating day of the 2013-14 school year to the date that a student's current year eligibility determination is made. Below is the link to the September 4, 2012 Eligibility Memo at MemoEligibilityCarryover090412.pdf

For students enrolled in a charter school, the charter school obtains the free or reduced price meal application(s) from the student's parent or guardian. Copies must be provided to the school district and both the charter school and the school district must have the documentation on file for audit. **It is the responsibility of the charter school to provide the district with the required free and reduced price meal application and documentation in support of the ASSA submission made to the state.**

For the sample selected, school district and charter school auditors must verify that there are valid "Applications for Free and Reduced Price Meals and Free Milk" on file to support the number of pupils reported. A valid application is one that contains all required information and signatures. For those school districts or charter schools that have students that have been directly certified (TANF, SNAP, etc.) verify that the pupil is included on the direct certification list maintained by the central office. Trace the applications (or direct certifications) to the registers to ensure that the students were on roll as of the last school day prior to October 16 (October 15, 2013). Only those on-roll students eligible for free or reduced price meals or free milk (as evidenced by carryover of last year's application, or a current year application) as of the thirtieth operating day of the school year beginning with the first day of the school year ("first day" is defined as the first day that school is open to students, even if no meals are served) are low-income students for the purposes of state aid and only those students should be reported as low-income eligible students in the ASSA/CHE. School districts and charter schools which send low-income eligible students to the following programs may include those students as part of their low income count (Low Income Out of District Students), provided that a valid application is on file for the student at the resident district:

- Private schools for the disabled,
- Regional day schools,
- County special services districts,
- Educational services commissions,
- Alternative High School programs,
- Marie H. Katzenbach School for the Deaf,
- A. Harry Moore School and
- State college demonstration schools
- Enhanced Head Start Preschools
- Provider Preschools

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 ASSA/CHE, those variances must be reported on the Schedule of Audited Enrollments as well.

4. and 5. Low Income Limited English Proficient (LEP) Students (K-12) and Limited English Proficient (LEP) Students (not low income; K-12) -- 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 district/charter school.
- ESL-only (ESL) programs are provided when there are 10 or more LEP students in a district/charter school.
- English Language Services (ELS) programs are provided when there are at least 1, but fewer than 10, LEP students in a district/charter school.

Program Plans for Bilingual, ESL-only and ELS programs are developed every three years. School districts/charter schools are required to develop plans and maintain them on file in the district/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 LEA/charter school maintains on file a current Bilingual, ESL or ELS plan which included the year ending June 30, 2014.

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 district/charter school as of October 15, 2013 are eligible to be reported in the 2014-15 ASSA/CHE:

- 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 by school which includes each student's name and the number of the register on which they are enrolled. Beginning with the October 15, 2008 ASSA/CHE, 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 (Line 51 of the ASSA), 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 15, 2013**). LEP students are listed on the ASSA 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, and WIDA MODEL are at the standard. Districts/charter schools may continue to report these students as LEP on the ASSA/CHE if other indicators support the decision to continue language assistance program services. Testing of each LEP student reported on the ASSA/CHE must be documented as part of ASSA/CHE supporting documentation.

2013-14 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**.

Using Multiple Criteria for Program Entry and Exit

Districts/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.

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

Grade (e.g., 5)	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)™ is an adaptive test that can gauge students' proficiency up to and beyond level 5 of the WIDA ELP Standards. Like ACCESS for ELLs ®, there are five grade level clusters (Kindergarten, 1-2, 3-5, 6-8, and 9-12). Unlike the ACCESS for ELLS ®, 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. Districts/charter schools should consider other indicators in making their placement decision.

To exit a 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**
Listening and Speaking	Does not successfully complete parts A, B, C, and D	Does not successfully complete parts A, B, C, and D **OR**	Successfully complete parts A, B, C, and D AND answer at least 3 questions correctly in Part E **AND**
Reading		Does not successfully complete parts A, B, and C **OR**	Successfully complete parts A, B, C, and D **AND**
Writing		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. Districts/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

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 (Measure of Developing English Language) is a series of English language proficiency assessments for Kindergarten through Grade 12. MODEL can be used by educators as an identification/placement assessment for newly enrolled ELLs or as an interim progress monitoring assessment. MODEL can be used for these purposes:

- To identify students who may be candidates for English as a Second Language (ESL)/ bilingual services;
- To determine the academic English language proficiency level of students new to a school or to the U.S. school system;
- To place students into the necessary amount and type of instructional services and support; and
- To serve as an interim assessment during the school year, providing information that informs instructional planning and other decisions related to a student's education.

The WIDA Model should be considered one of several elements in the decision-making process regarding ELL identification and placement in instructional services. 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. Scores are reported for each of the four language domains and in several composites as follows:

- Listening
- Speaking
- Reading
- Writing
- Oral Language (50% Listening, 50% Speaking)
- Literacy (50% Reading, 50% Writing)
- Overall (30% Oral Language, 70% Literacy)

The cut-score for the WIDA MODEL Test is a 4.5 composite score for grades 1 to 12. 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 ASSA

In addition to the testing of enrollment reported, the public school accountant must also verify that the district/charter school maintains written internal procedures which provide a description of the October 15, 2013 count process/charter school 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 Application for State School Aid data/Charter School Enrollment data, and
3) The various personnel assigned responsibilities for collecting the data.

If the district/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.

A memo was distributed to all school districts regarding the necessary records that were required to be maintained to support the data included in the October 15, 2013 ASSA. Copies of the suggested sample formats for supporting workpapers were distributed with the memo. As noted in the memo, the data reported on the ASSA must be clearly documented and should be on file at the district. The memo, instructions, and a Q & A document may be obtained from the website:

http://www.nj.gov/njded/finance/sf/stateaid_app.shtml.

ADDITIONAL PROCEDURES FOR SCHOOL-BASED MEDICAID REIMBURSEMENT PROGRAMS – School Districts and Charter Schools

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. Participating school districts and charter schools should have completed a Memorandum of Understanding between the district/charter school and the New Jersey Department of the Treasury. Cost settlement, mandated by the 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 district's/charter school's compliance with federal reimbursement regulations. As a result, the State of New jersey Department of the Treasury requires that each district/charter school designate an employee who is responsible for the coordination of the district's/charter school's SEMI program with the third party billing administrator identified by the Department of Treasury. The CMS' compliance requirements for districts/charter schools are pertinent to the district/charter school achieving maximum participation and include:

- Submission by the district/charter school designated employee who is responsible for the coordination of the district's/charter school's SEMI Program of the quarterly updates and certification of the Staff Pool List (SPL) in the third party billing administrator's proprietary software system
- 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 district/charter school of the district/charter school personnel responsible for the submission of the quarterly and annual financial information of the staff listed on the SPL in the third party billing administrator's software system
- Timely submission and certification by the identified district/charter school personnel of the quarterly and annual financial information of the staff listed on the SPL in the third party administrator's proprietary software system

Under the SEMI Program, related services, evaluation services, and specialized transportation are activities for which a district/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, school districts/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) or accessed directly at: http://www.state.nj.us/treasury/administration/pdf/semi-handbook.pdf

Public Consulting Group (PCG) is the vendor that the Department of Treasury selected to submit billing services on behalf of districts/charter schools. Effective October 1, 2005, districts/charter schools began documenting services via PCG's proprietary third party administrator system. PCG's third party administrator system is a web based application used to document related services, evaluation services, and specialized transportation. A select group of related services (audiology, occupational therapy, speech therapy, physical therapy, nursing and counseling) as well as 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 third party administrator system.

The primary contacts at PCG are Nicole Sumner (609-275-0250, ext 3965, email nsumner@pcgus.com) or Bryan Hawkom (800-210-6113, email bhawkom@pcgus.com).

Audit procedures involve testing to determine that documentation is being maintained by school districts/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 school districts 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 local school districts to maximize participation in the SEMI Program.

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

A district 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 6/30/14 refer to October 14, 2012 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 district. This information must be based on reliable evidence and on the revenue projection provided by the NJDOE of the district's eligible students or available SEMI reimbursement for the budget year. For the year ended 6/30/14, districts received $298.09 for eligible evaluation services/IEP services, $10.33 per date of eligible related services, and if applicable $4.88 for eligible specialized transportation. Specialized transportation is not included in the district's SEMI revenue projection, but is recognized as SEMI revenue. The Executive County Superintendent will render a decision on waivers within 20 days of receipt of the waiver request.

A district 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 district's proposed budget.

In accordance with *N.J.A.C.* 6A:23A-5.3(f), each district 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 district'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. The one exception to the 90 percent participation requirement is for newly participating districts. Districts that are first time participants in the SEMI Program are expected to achieve a 45 percent return rate of parental consent forms for all SEMI eligible students for their initial year of participation only.

DISTRICT REPORT OF TRANSPORTED RESIDENT STUDENTS (DRTRS) (DOES NOT APPLY TO CHARTER SCHOOLS)

Overview

Auditors are required to perform detailed testing procedures relating to student transportation as reported on the 2013-14 District Report of Transported Resident Students (DRTRS). The county eligibility summary report (distributed by county offices) is a compilation of district data by district and should agree to the DRTRS Summary Report produced by the DRTRS data collection software at the district. Districts should have a paper copy of the report produced by the software or provide auditors with the ability to view student data on-line using the DRTRS data collection software. The district level data is reported in the four part (A through D) DRTRS Summary Report. Since 2004-05, the format of the DRTRS report generated at the district is arranged to identify preschool students (Grade PK), vocational school students and nonpublic school students over 20 miles. Also since 2004-05, Part B is combined with Part A and the line "Public School Students" is broken out into three lines – A-1) Students – Grade PK, A-2) Public School Students Excl. Voc. Students, and A-3) Vocational School Students The following crosswalk to the county DRTRS Eligibility Summary Report should be used by auditors when agreeing the category totals:

- The sum of lines A-1 (include only if the district is PreK Aid Eligible), A-2, A- 3, A-4 and A-5 should agree to the REG PUB Column.
- Line A-6 should agree to the column, TRANS NONPUBLIC
- Line A-7 should agree to the column, AIL.
- The sum of lines A-8, A-9 and A-10 should agree to the column, REG SPEC.
- The sum of lines B-1, B-2, B-3, B-6, B-7, and B-8 should agree to the column, SPEC ED SPEC.
- Line D-1 should agree to the column, TRANS NP 20.1 – 30 MILES.
- Line D-2 should agree to the column, TRANS NP>30 MILES.
- Line D-3 should agree to the column, NP AIL 20.1-30 MILES.
- Line D-4 should agree to the column, NP AIL>30 MILES.

Sample Size

Use the table in the first part of this chapter to determine the appropriate sample size for the population listed on the county DRTRS report.

Sample Selection and Test Procedures

- Obtain from the district, a county summary (distributed by the county offices) of the 2013-14 DRTRS Eligibility Summary Report produced by the department.
- Auditors should first agree the county DRTRS Eligibility Summary Report to the district DRTRS Summary Report using the above crosswalk.
- If the county summary has lower numbers, inquire of appropriate district personnel as to whether the district has received notification of duplicate students on their DRTRS.
- Any discrepancies should be noted on the ASSA Schedule of Audited Enrollments.
- Review the district's DRTRS Summary Report to determine whether students on hazardous routes were reported (indicated by a "Y" response to the following question, "Does your district provide Non-Mandated transportation to resident students who would be required to walk to and from school along a route designated as a hazardous route by the local school district pursuant to *N.J.S.A* 18A:39-1.5 if transportation were not provided?") If such transportation is provided, determine whether the district has a board of education approved hazardous busing policy. (*N.J.S.A.* 18A:39-1.5)
- Auditors are also required to perform the procedures listed below related to the DRTRS.

Eligible Regular Students/(REG PUB)

Eligible Regular Students (REG PUB, of the county DRTRS report) includes pupils from the District level DRTRS Summary Report under Part A, lines 1, 2, 3, 4 and 5 of the District DRTRS ("Eligible REGULAR"). Please note that regular preschool students, line A-1, would be counted as eligible for aid if the district qualifies for early childhood aid pursuant to *N.J.S.A.* 18A:7F-54 and the student meets the on-roll and remote mileage requirement of 2.1 miles or more.

Verify the on-roll status of students reported on the District Report of Transported Resident Students. In order to verify on roll status as of October 15, 2013:

- Trace the public school students to the school registers;
- Verify that the application form B6T for nonpublic school students reported on the DRTRS is on file and has been received by the district on or before October 15;
- Verify that the application form for transportation for charter school students reported on the DRTRS is on file and has been received by the district on or before October 15;
- Examine the Charter School Application for Transportation Services for proper signature by the Chief School Administrator of the charter school; and
- Trace the charter school students listed on the DRTRS to the listing on the application noted above.

If any errors are noted during the verification of the on roll status of students reported on the DRTRS, then the average mileage must be recalculated with those errors factored in. The current format includes two lines - (A-14) Total Mileage Excluding Grade PK and (A-15) Average Home to School mileage Excluding Grade PK. The auditor doesn't need to make two computations when computing average mileage: (one that includes regular pre-kindergarten students and one without those students) since this information is provided in the revised report. Reconciling differences may be due to Vocational Technical shared time students counted twice, duplication of pupil records.

Eligible Regular Special Education Students (without special transportation needs)/(REG SPEC)

Eligible Regular Special Education Students (without special transportation needs), (REG SPEC, of the county DRTRS report) includes pupils in the district DRTRS Summary Report under Part A, lines 8 through 10 of the district DRTRS report ("Eligible REGULAR STUDENTS"). Please note that regular special education preschool students are counted as eligible for aid if the student meets the on-roll and remote mileage requirement of 2.1 miles or more for S1 grade levels (students whose age matches PK through grade 8) or 2.6 miles or more for S2 grade levels (students whose age matches grades 9 through 12) or whose Individualized Education Program (I.E.P.) requires transportation, regardless of whether the district qualifies for early childhood aid pursuant to *N.J.S.A.* 18A:7F-54 or not.

A regular special education student that has been reported with a grade level of S1 (PK-8) or S2 (9-12) and has an I.E.P. that does not include a special transportation need (such as a wheelchair vehicle, an aide, or an extended year program) must meet the remote mileage requirement to be eligible unless the I.E.P. specifically requires the student to be transported. In order to verify on roll status as of October 15, 2013, trace public school students in this category to the school registers. Private School for the Disabled students on roll status should be verified with a valid tuition contract and October 2013 tuition voucher.

If any errors are noted during the verification of the on-roll status of students reported on the DRTRS, then the average mileage must be recalculated with those errors factored in. As noted above, the report has two separate lines - (A-14) Total Mileage Excluding Grade PK and (A-15) Average Home to School Mileage Excluding Grade PK. The auditor doesn't need to perform two computations when computing average mileage: one that includes regular pre-kindergarten students and one without those students since that information is in the report.

Eligible Special Education Students (with special transportation needs)/SPEC ED SPEC NEEDS

Eligible Special Education Students includes all special education students transported outside the district and those with special transportation needs. Column 6, SPEC EDUCATION SPECIAL of the county DRTRS report) includes pupils in the DRTRS Summary Report under Part B, lines 1,2,3, 6, 7, and 8 of the district DRTRS report ("Eligible SPECIAL EDUCATION STUDENTS with Special Transportation Needs and Out of-District Special Education Students without Special Transportation Needs" section). Please note that a special education pre-kindergarten student are counted as eligible for aid if the student meets the on-roll and remote mileage requirement of 2.1 miles or more for S1 grade levels (students whose age matches PK through grade 8) or 2.6 miles or more for S2 grade levels (students whose age matches grades 9 through 12) or whose I.E.P. requires transportation, regardless of whether the district qualifies for early childhood aid pursuant to *N.J.S.A.* 18A:7F-54 or not.

A special education student who has been reported with a grade level of S1 (PK-8) or S2 (9-12) and has an I.E.P. that includes a special transportation need (such as a wheelchair vehicle, an aide, or an extended year program) must meet the remote mileage requirement to be eligible unless the I.E.P. specifically requires the student to be transported. In order to verify on roll status as of October 15, 2013, trace public school students to the school registers.

Private School for the Disabled students on-roll status should be verified with a valid tuition contract and October 2013 tuition voucher. If any errors are noted during the verification of the on-roll status of students reported on the DRTRS, then the average mileage must be recalculated with those errors factored in.

Additional Audit Procedures - Transportation

The following procedures regarding transportation must also be performed:

(1) Verify that invoices for purchases of goods and services are transportation related.
(2) Verify that bid specifications for bus purchases were properly bid and awarded in accordance with N.J.S.A.18A:18A-1 et seq.
(3) Verify that leases for school buses do not exceed ten years (N.J.S.A. 18A:18A-42(f)).
(4) Verify that transportation contracts and renewals are properly prepared and contain all necessary documents and affidavits. A list of the necessary documents can be found in the "PT-1 Student Transportation Documents Checklist" found at: http://www.state.nj.us/education/finance/transportation/procedures/
(5) Verify that B7T (Request for Payment of Transportation Aid) forms completed by students' parents or legal guardians are on file for nonpublic school students whose parents or legal guardians received aid-in-lieu of transportation.
(6) Verify that requests for transportation aid vouchers completed by students' parents or legal guardians are on file for charter school students whose parents or legal guardians received aid-in-lieu of transportation.
(7) Review both regular and special needs student transportation expenditures
   - Determine whether expenditures are reasonable and consistent relative to the applicable count on the DRTRS.
   - For the sample expenditures, determine whether the expenditure is supported by a county approved contract.
(8) If the balance in the general ledger account for Contract Services (Other Than Between Home & School) is greater than $18,300, determine whether bids were obtained and a county approved contract was available. (*N.J.S.A.* 18A:39-2 and 39.3 and *N.J.A.C.* 6A:27-9.2)
(9) Reference the Transportation Aid chapter of the *State Aid/Grant Compliance Supplement*.

Required Independent Auditor Testing and Procedures to be Performed on ASSA/DRTRS/EXAID and Chapter 192/193 OFAC Audit Findings

The Department's Office of Fiscal Accountability and Compliance (OFAC) acts on the Commissioner's behalf in the receipt, exchange, review and investigation of information relevant to the efficient supervision of all schools in the State receiving support or aid from federal and/or State appropriations; *N.J.S.A.* 18A:4-23. The office performs investigations and many auditing functions, including full scope audits of ASSA, DRTRS, EXAID, and Chapter 192/193 State Aid entitlements. The independent auditor is required to perform follow-up tests and procedures, as necessary, to determine that findings contained in audit reports issued by the OFAC have been properly addressed and resolved. The conclusions drawn from the follow-up tests and procedures performed on OFAC findings by the independent auditor where the district is subject to a federal and/or state single audit must be summarized in the Federal and/or State Financial Assistance Findings and Questioned Costs (Section III) of the Schedule of Findings and Questioned Costs. When the school district or charter school is not subject to a federal and/or state single audit, the status of the OFAC findings, if material, should be addressed in the Schedule of Findings and Responses. The AMR must include follow-up comment(s) whether considered material or not material.

SECTION I – GENERAL COMPLIANCE
CHAPTER 4

BUDGET & TRANSFERS

The Budget

Preparation of the budget is one of the most important functions of the board. After approval by the Board of School Estimate in districts in which the Board of School Estimate fixes and determines the tax levy; or the electorate in districts in which the tax levy is voted upon at the annual school election; or by the municipal governing body or bodies where items were rejected by the electorate; or by the Commissioner, it becomes the legal program of expenditures for the school year. The approved budget should be detailed on budget forms prescribed by the Department of Education. The approved charter school 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 classification are explained in a narrative description with the budget summary in the charter school application.

Check the budget detail on the postings of the budget to the revenue ledger and expenditure ledger against the final approved budget used for tax levy purposes in accordance with:

a. The Board of School Estimate in districts in which that body fixes and determines the tax levy;

b. The electorate in those districts in which the tax levy was voted upon at the annual school election;

   b1. For a district that has moved the April school board election to November, there is not a vote on the school district's base budget within the levy cap. Use the original budget certified by the board of education or board of school estimate and approved by the executive county superintendent. (Adjusted where there is an approved November separate proposal).

c. The municipal governing body or bodies where items were rejected by the electorate;

d. The act of the Commissioner in the event the governing body or bodies of such municipalities fail to certify.

The approved detailed budget must appear in the official minutes as a matter of record.

P.L. 2011, c.202, amended N.J.S.A. 19:60-1.1 to permit a board of education, a municipal governing body, or voters to move the April annual school board election to the date of the November general election thereby eliminating the vote on the annual base budget. Whether or not a district's annual school board election date has been moved to November, the dates for submission of the budget, advertising, or public hearing have not been changed.

Pursuant to *N.J.S.A.* 18A:22-44.2, districts are to record the one or more June state aid payments not made until the following school budget year as revenue, for budget purposes only, in the current school budget year accounting records. "Any negative unreserved undesignated fund balance that is a direct result of a delayed State aid payment for the current school budget year which is not made until the following school budget year shall not be considered a violation of any law or regulation and in need corrective action." (See Section I-8 for further details).

Budgeted Loans From the State Pursuant to N.J.S.A. 18A:7A-56– School Districts Only:

N.J.S.A. 18A:7A-56 permits the State to provide a loan to ensure the provision of a thorough and efficient education to those school districts for which a State monitor has been appointed. This loan is made in the form of an advance in school district State Aid. 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 loan of State Aid and review all applicable documentation. Additionally, the auditor is required to verify the proper accounting treatment of the advance loan.

Auditors of school districts with State-appointed monitors are instructed to verify that the Salaries of Fiscal Monitors was reported on line 45030, account number 11-000-230-180. This line was added during 2013-14 to accumulate costs and facilitate the exclusion of fiscal monitor costs from the calculation of the administrative cost limit. This line in budget and Audsum may only be used by school districts with state-appointed fiscal monitors.

Budget Transfers

N.J.S.A. 18A:22-8.2(3)(a) provides that no transfer may be made from appropriations or surplus accounts for interest and debt redemption charges.

Adult education fees are limited to adult education program expenditures and may not be transferred elsewhere. (*N.J.S.A.* 18A:50.6)

Districts may not transfer from the general fund to the special revenue fund, except for the budgeted transfer to fund preschool education. If there are program expenditures in excess of a grant budget, the board's contribution to the program should be recorded in the applicable general fund expenditure account. Benefits related to a grant program should be recorded in the special revenue fund due to the statutory requirement to reimburse the state for benefits related to a federal grant (*N.J.S.A.* 18A:66-90).

Line-item transfers must be made whenever the line item is in danger of going into a deficit condition. A board of education/board of trustees may not approve encumbrances or expenditures that will create deficits in line items. A board of education/board of trustees 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 board of education/board of trustees 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 advertised 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 school board is required pursuant to *N.J.S.A.* 18A:22-8.1.

Line-item transfers <u>from</u> an advertised appropriation account as defined under *N.J.A.C.* 6A:23A-13.3(e) which on a cumulative basis exceed 10 percent of the amount included in the original budget, require Executive County Superintendent approval for. A transfer request is deemed approved after 10 working days of receipt by the county superintendent when no written approval or denial is provided within that timeframe. The burden is on the district to provide supporting documentation of receipt by the county superintendent. *N.J.A.C.* 6A:23A-13.3(f)

Line-item transfers <u>to</u> an advertised appropriation account identified as general administration, school administration, central services and administrative information technology or other support services that,

on a cumulative basis, exceed 10 percent of the amount included in the original budget, require county superintendent approval. *N.J.A.C.* 6A:23A-13.3(g)

In addition to the above noted transfers, transfers to capital outlay excluding equipment (for non-referenda projects; all transfers to referenda projects require voter or board of school estimate approval) require approval by the executive county superintendent and may be approved only to supplement a capital project previously approved by the voters or board of school estimate for an "emergent circumstance." *N.J.A.C.* 6A:23A-13.3(h)

N.J.A.C. 6A:23A-13.3(i) states that each district shall maintain a report of current month and year-to-date transfers between advertised general fund appropriation accounts as defined in *N.J.A.C.* 6A:23A-13.3 in a format prescribed by the Commissioner or in a format developed locally and approved by the county superintendent. Districts were able to access a sample transfer worksheet and accompanying instructions for monthly completion it at: http://www.state.nj.us/education/finance/fp/af/transfer/

Pursuant to *N.J.A.C.* 6A:23A-13.3, departmental approval is required for appropriation of surplus or other unbudgeted or underbudgeted revenue except for specific revenue sources identified in the administrative code (*N.J.A.C.* 6A:23A-13.3(d)). The six specified revenue sources are as follows:

- Exemption granted in the award notice of additional state aid.
- Tuition revenue generated from a district specific program (excludes formal sending/receiving relationships).
- School transportation revenue generated from a district or from a joint or Cooperative Transportation Service (CTS) agency pursuant to *N.J.S.A.* 18A:39-11.
- Restricted miscellaneous local revenue.
- Federal revenue.
- Any revenue amount excluded from the excess surplus calculation in the prebudget year.

Prior to April 1, appropriation of surplus or other unbudgeted or underbudgeted revenue (except for those exempted under *N.J.A.C.* 6A:23A-13.3(d)) is not permitted unless by a two-thirds affirmative vote of the authorized membership of the school board petitioning the Commissioner for approval of an "emergent circumstance." The district is required to submit to the department, board certification of an emergent circumstance that cannot be addressed and completed with current appropriations, and a copy of the most current board secretary report.

Between April 1 and June 30, county superintendent approval and two-thirds affirmative vote of the authorized membership of the school board are required for the appropriation of surplus or other unbudgeted or underbudgeted revenue. The district is required to submit to the department, board certification that the appropriation is necessary to achieve the thoroughness standards and a copy of the most current board secretary report. (*N.J.A.C.* 6A:23A-13.3(b))

Budgeted appropriations are also deemed restricted when associated with an additional spending proposal (*N.J.A.C.* 6A:23A-12.13(a)11).

The auditor should determine whether proper approvals were obtained for the appropriation of surplus or other unbudgeted or underbudgeted revenue and if the funds were expended as approved. If not, there should be an audit finding and recommendation.

Restriction on capital outlay transfers (additional spending proposals)
Districts that presented an additional spending proposal to the voters or board of school estimate are subject to the provisions of *N.J.A.C.* 6A:23A-8.5. The entire capital outlay portion of the budget (including equipment) of districts with an approved additional spending proposal for capital outlay is restricted and funds cannot be transferred between (from/to) capital outlay and current expense. See page II-10.15 of this Audit Program for further guidance in this situation.

Transfers to capital projects fund and transfers of unexpended bond proceeds
When specifically approved by the voters or board of school estimate or the Commissioner, districts may transfer surplus from the general fund to the capital projects fund. Such transfers should be shown in the CAFR as an operating transfer with the appropriate disclosure made in the notes to the financial statements. Unexpended bond proceeds for pre-EFCFA bonds that are on hand one year or longer, for which there is no new purpose for the unexpended funds, may be transferred to either the general fund or the debt service fund by board resolution. See related discussion on Bond Sales and Capital Projects Fund in Section II – Fund 30.

Transfers to food service fund
In situations where a district/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. Districts/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. Note that beginning with year-end 2012, the balance in the account, "General Fund Transfers to Food Services" is not an adjustment to the excess surplus calculation.

Transfers to/from Reserve Accounts

Capital Reserve
N.J.S.A. 18A:7G-31(c), *N.J.S.A.* 18A:7G-13, and *N.J.A.C.* 6A:23A-14.1 (capital reserve) and *N.J.A.C.* 6A:23A-14.2 (maintenance reserve) permit districts, by board resolution, to transfer undesignated general fund balance to either the capital reserve account or maintenance reserve account if approved in the district's original budget certified for taxes or if the district received voter approval by a separate proposal at budget time or by a special question at one of the four special elections authorized pursuant to *N.J.S.A.* 19:60-2. *N.J.S.A.* 18A:7F-41(a), 18A:7F-41(b) and *N.J.A.C.* 6A:23A-14.3 permit a district board of education or board of school estimate to transfer by board resolution at year end (resolution prior to June 30) any unanticipated revenue or unexpended line-item appropriation amounts, or both, to the capital reserve or the maintenance reserve account for withdrawal in subsequent school years.

Current Expense Emergency Reserve
N.J.S.A. 18A:7F-41c(1), effective for years beginning July 1, 2007, provides that districts may establish a current expense emergency reserve account and appropriate funds in the district's annual budget or through a transfer by board resolution at year end of any unanticipated revenue and unexpended line-item appropriation amounts. The account balance is not to exceed $250,000 or one percent of the district's general fund budget up to a maximum of $1,000,000, whichever is greater. Districts were first permitted to establish an emergency reserve fund through the 2008-09 budget process and deposits may be made to the emergency reserve account at budget time, or by board resolution at year end of any unanticipated revenue or unexpended line item appropriation or both. *N.J.A.C.* 6A23A-14.4 defines year end for

purposes of depositing surplus into reserve accounts as an amount approved by the district board of education between June 1st and June 30th. Withdrawals require approval by the Commissioner. Additional guidance is available at this website -
http://www.nj.gov/education/finance/fp/af/EmergencyReserveGuidance.pdf .

Debt Service Reserve
N.J.S.A. 18A:7F-41c(2), effective for years beginning July 1, 2007, provides that districts may establish a debt service reserve account in the debt service fund for proceeds from the sale of district property. Transfers may not be made to the reserve account if a district does not have any outstanding debt. The funds are to be used to retire outstanding debt obligations of the district within the lesser of five years from its inception or the remaining term on the obligations. Any remaining balance must be appropriated in the general fund budget. *N.J.A.C* .6A:23A-14.4 clarifies the term "property."

Tuition Reserve
N.J.A.C. 6A:23A-14.4(a)(3) permits the district to establish a tuition reserve in the general fund at June 30 by board resolution for up to 10 percent of the estimated tuition cost in the contract year for an anticipated tuition adjustment in the second year following the contract year. The code also requires that the district transfer to the general fund, by board resolution, any interest earned on the investments in a tuition reserve account on no less than an annual basis. Refer to page II-10.24 for additional information on tuition reserve.

Interfund balances

Districtwide statements/Charter Schoolwide (accrual basis)
GASB 34, paragraph 58 requires eliminations of interfund receivables and payables in the *Statement of Net Position* (GASB 63) 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 Position* 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

Applicable 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 education/board 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 education/board of trustees operating without a QPA have a $26,000 maximum bid threshold for contracting. LFN 2010-13R provides that boards of education/board 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 education/board of trustees without a QPA is $3,900; and for a board with a QPA the maximum threshold for quotations is $5,400.

Electric and Natural Gas Supply Procurement (Also refer to the "Energy" section below)

LFN 2012-12 *Electric and Natural Gas Supply Procurement Guidance* was issued by the DCA on July 16, 2012 and is available on the DCA website at http://www.nj.gov/dca/divisions/dlgs/lfns/12/2012-12.pdf. The LFN provides information on the procedures that school districts must follow in shopping for electric and natural gas supply from third party suppliers unless the supply is being purchased from the public utility under BPU-regulated tariffs. The LFN also addresses cooperative pricing and the "E-Procurement Pilot Program".

P.L. 2012, c.55, was approved September 19, 2012 and amends *N.J.S.A.* 18A:18A-4.1 et.seq. regarding energy savings contracts to permit, under certain circumstances, a board of education facility alteration required to properly implement other energy efficiency or energy conservation measures, or both, to be included as part of an energy savings services contract. Also permits an energy savings services contract to provide or perform goods or services to extend for a term of up to 15 years for energy efficiency projects and up to 20 years for a combined heat and power facility after construction completion.

Third Party Vendors

The New Jersey Office of the State Comptroller (OSC) found that in a sampling of entities, including a school district, that there is a practice of Third Party Administrators (TPAs) for worker's compensation claims utilizing undisclosed side agreements with Third Party Vendors which require payments back to the TPA (from the vendor) resulting in hidden costs to the insured (school district). The OSC issued recommendations to be followed in procuring workers' compensation TPA services. Auditors should verify compliance with the recommendations on pages 2-3 of the October 2012 OSC report available at: http://www.nj.gov/comptroller/news/docs/comptroller_alert.pdf

Emergency Contracts

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, districts/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.

FEMA Assistance – Eligible Debris Removal, Staging, Sorting, Recycling and Disposal from Public Property. *N.J.S.A.* 18A:18A-10 permits the use of state contracts, and requires a board resolution for authorization for a district/charter school to do so. In order to facilitate the clean up necessitated by Super Storm Sandy, The State Division of Purchase and Property executed a state contract covering certain clean up services. Accordingly, school districts/charter schools are permitted to contract with the selected Super Storm Sandy vendor. Below is the link to the state award notification made on November 2, 2012 by the Department of Local Government Services:
CleanUp.pdf

Recovery and Rebuilding Projects

Sandy Recovery and Rebuilding - Integrity Monitor Act
P.L. 2013, c.37 identified as the "Integrity Monitor Act" is applicable to school districts and requires the deployment of integrity oversight monitors in implementation of certain recovery and rebuilding projects. The Integrity Monitor Act requires that a governmental entity that is a party to a recovery and rebuilding project contract shall notify the State Treasurer on a form prescribed by the State Treasurer of such contract, describing the project, the parties thereto, and the funding source for the project costs. Although the law requires monitors for contracts over $5 million, it provides discretion to the State Treasurer for projects under $5 million. Accordingly, for any project in excess of $2 million notification must be provided to the Department of the Treasury.
Locals and Authorities - Integrity Monitor Guidance (2).pdf

National Cooperative Contracts

LFN 2012-10 *Using National Cooperative Contracts: Application of P.L. 2011, c. 139* 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. Approved and effective on November 7, 2011, P.L. 2011, c.139 allows boards of education/board of trustees to utilize national cooperative contracts as a method of procurement.

Other Guidance

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 education 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/divisions/dlgs/resources/local_fin_notices.html

LFN 2007-12 with updated information regarding prevailing wage laws (see Page 2): http://www.nj.gov/dca/divisions/dlgs/resources/local_fin_notices.html 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 2006-21 http://www.nj.gov/dca/divisions/dlgs/resources/local_fin_notices.html provides guidance for P.L. 2006, c.96 (Prompt Payment Law) that was signed by the Governor on September 9, 2006. This law concerns the prompt payment of construction contracts and affects construction-related contracts of districts that took effect after September 1, 2006. The law is codified as *N.J.S.A.* 2A:30A-1 et seq. and affects all contracts for "improvements" regardless of dollar amount.

LFN 2006-3 and 2007-11 provide guidance to assist boards of education/board 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: http://www.state.nj.us/dca/divisions/dlgs/programs/pay_2_play.html A key element of this law allows boards of education/board 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.

> *Auditor's Note*: The Educational Facilities and Construction and Financing Act (EFCFA), P.L.2000 c.72 (C.18A:7G-5n) states: "The provisions of the "Public School Contracts Law", *N.J.S.A.* 18A:18A-1 et seq., shall be applicable to any school facilities project constructed by a district but shall not be applicable to projects constructed by the authority or a redevelopment entity pursuant to the provisions of this act."

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 links to the associated rules can be found at: http://www.nj.gov/dca/divisions/dlgs/programs/ps_contracts.html

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 board of education/board of trustees 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 district/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 districts/charter schools without a QPA was $26,000.

For districts/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 board of education/charter school to disqualify a low bidder if any board of education/board of trustees 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 board of education 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 board of education may, by resolution approved by a majority of the board of education 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 education 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 education/board 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 education/board of trustees the authority to pass a resolution authorizing the use of competitive contracting. "In order to initiate competitive contracting, the board of education 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, districts/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 district/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. *N.J.S.A.* 18A:-18A-21 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. *N.J.S.A.*18A:18A-21(a) (No-Bid Monday Law) prohibits the receipt of bids on Mondays or any day following a state or federal holiday. Auditors and district administrators should review Local Finance Notices 2011-38 and 2013-01 at:
http://www.state.nj.us/dca/divisions/dlgs/resources/local_fin_notices.html provides current guidance and 2012-2013 Tables of Bid Holiday Acceptance Dates.

N.J.S.A. 18A:18A-22 establishes a list of criteria as bases on which a board of education/board of trustees 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 board of education, 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 board of education 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.

School districts/charter schools must comply with *N.J.S.A.* 18A:18A-37 and 42.1 and 7 CFR. 210.16 when entering into a contract with a School Food Service Management Company.

Pursuant to *N.J.S.A.* 18A:39-3, the threshold for bidding of transportation contracts for fiscal year 2013-14 is $18,300. 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 district board of education/board of trustees 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 http://www.nj.gov/dca/divisions/dlgs/programs/lpcl.html. 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.

	ITEM	AGGREGATE TERMS (YEARS)
(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
(12)	Driver Education	3
(13)	Goods and Services for the purpose of conserving energy	15
(14)	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
(15)	Laundry Service	3
(16)	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 education/board 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.

N.J.S.A. 52:15C-10 requires notification be provided to the Office of the State Comptroller within twenty business days of the district's award of a contract involving consideration or an expenditure of more than $2,000,000 but less than $10,000,000. A district must inform the Office of the State Comptroller in writing, of the commencement of any procurement process involving consideration or an expenditure of $10,000,000 or more at the earliest time practicable and no later than the occurrence of events specified in statute. The requirements are applicable to all procurement activities including the purchase, sale, or lease of real estate.

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.

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, school districts/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 <u>cannot</u> be used.)

N.J.S.A. 18A:18A-4.6(c), Implementation of an energy savings improvement program by a board of education/board of trustees, provides the authority for public school districts/charter schools to finance an energy savings improvement program through a lease-purchase agreement or through the issuance of energy savings obligations pursuant to this subsection. Effective for the fiscal year 2012-13, dedicated budget and accounting lines have been added for payments against energy savings improvement program appropriations/contracts:

- Line 17000, account number 11-000-262-444, "Lease Purchase Payments - Energy Savings Improvement Program"
- Line 17010, account number 11-000-262-837, "Interest - Energy Savings Improvement Program Bonds"

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/divisions/dlgs/resources/local_fin_notices.html

See LFN 2012-12 *Electric and Natural Gas Supply Procurement Guidance* and P.L. 2012, c.55, approved September 19, 2012 amending 18A:18A-4.1 et.seq; which is applicable to energy savings contracts.

Review of Purchase Orders

All public school accountants are required to give utmost consideration to encumbrances on the school

district's/charter school's books at year end through a thorough review and analysis of open purchase orders and a search for unrecorded liabilities.

Approximately 100 school districts/charters 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, including any FICA reimbursements. In general, school district and charter school auditors are required to perform a search for unrecorded liabilities, including inquiry of appropriate staff as to whether the district/charter received notice of garnishment of state aid for unemployment insurance or any other purposes. Additionally, the auditor is required to verify the proper accounting treatment and/or note disclosure of all liabilities.

As discussed in Section I, Chapter 8, "Year-End Procedures", districts/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, districts/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. Local school district/charter school auditors must review the lists and their related documentation and challenge the propriety of the district's/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 boards of education/board of trustees nor district/charter schools officials may use credit cards for the purchase of goods and services. Statutory requirements direct how boards of education/board of trustees may purchase goods and services and establish the procedures to follow in paying for the purchase of goods and services. Purchases made by boards of education/board of trustees 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/board of trustees 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/board of trustees 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.

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 school districts/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 district board of education/charter school board of trustees 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.

As in the past, the budget statement contains summarized information related to special projects/grants. The detail reflected in the minimum outline for the special revenue fund (fund 20) must be maintained in the accounting records of the district/charter school for these summarized special projects. If a district/charter school opts to expand beyond the minimum outline in its chart of accounts, there must be a clear trail from the internal accounting records to the information summarized in the format of the minimum outline reflected in the budget statement. In addition, *N.J.A.C.* 6:23A-16.2(f)2 states that when a board of education/board of trustees adopts an expanded chart of accounts, the board shall adopt a policy concerning the controls over appropriations for line item accounts which exceed the level of detail required under the minimum outline. If a district/charter school fails to adopt such a policy, the restrictions regarding overexpenditure of funds apply to line item accounts that exceed the minimum level of detail.

The Department of Education publication entitled *GAAP for New Jersey School Districts, A Technical Systems Manual* must be utilized in the evaluation of a school district's/charter schools 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. Local school district/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 district boards of education/charter school board of trustees 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 with the exception of one or more June state school aid payments which are recognized as revenue for budgetary purposes but deferred for GAAP purposes, and GAAP for expenditures. **Original Budget column must be reflective of the original budget certified for taxes adjusted for prior year encumbrances (GASBS 34 paragraph 130a).**

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 one or more deferred June state aid payments are also recognized as revenue for budgetary purposes. For the special revenue fund, GAAP expenditures are calculated as budgetary expenditures plus June 30 prior year encumbrances less June 30 current year encumbrances. The expenditure information presented in the schedules of federal expenditures and state financial assistance is on the budgetary basis.

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 districts were given the option to adopt the new coding in 2008-09. Auditors should refer to Appendix C "Minimum Chart of Accounts Descriptions by Budgeting Line Item under Each Program/Function" in the *2013-14 Budget Guidelines* and use it as a reference tool in the coding of expenditures. Also included in the *2013-14 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 districts available at: Preschool Education Aid Accounting Clarification Memorandum.docx. 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 68 of the 2013-14 *Electronic Data Collection Manual* provides guidance for recording and reporting preschool tuition revenue. Revenue line 725 – Tuition Preschool (20-1310) is used for tuition charged to students for whom the district was not eligible to receive Preschool Education Aid. Revenue line 730 – Preschool Tuition for LEAs (20-1320) is used for tuition charged to another school district for preschool students eligible to receive Preschool Education Aid.

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 *Preschool Education Aid Schedule of Expenditures (*Exhibit E-2) and Audsum for 2008-09 and 2009-10 in the reporting of preschool education expenditures. To address the high discrepancy rate, beginning with June 30, 2012 Audsum, a preschool expenditure collection line has been added to the data collection. A comparison will be made between expenditures reported on the Exhibit E-2 and expenditures entered into Audsum and all discrepancies will require auditor reconciliation and the submission of a revised Exhibit E-2 and/or retransmission of Audsum. School districts 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 Exhibit 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 deferred June 2014 state aid payments (made July 2014) for Preschool Education Aid should be recognized in the special revenue fund on the GAAP basis in 2014-15.

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 C of the *2013-14 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 districts'/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.

Classification of Administrative Expenditures

N.J.S.A. 18A:7F-5c requires that all regular non-vocational districts submit budgets in which the advertised per pupil administrative costs are within the applicable administrative limit. Due to the restrictions on increasing administration costs, auditors should include as part of their tests of compliance with laws and regulations, an examination of payroll and certain other costs for potential miscoding in administrative expenditures.

As highlighted in section III-6 of this audit program under "Checklist for Annual Audit", the board secretary/business administrator is required to provide the auditor with a salary schedule detailing all staff whose position requires a school administrative, principal or school business administrator certificate pursuant to *N.J.A.C.* 6A:9-12.3. Such positions should include superintendent, assistant superintendent, school business administrator, director, principal, assistant/vice principal. The format should include the title, salary, general ledger account code(s), and if all or part of each salary is not coded to a general ledger administrative function (230, 240, or 25X), provide an explanation for the deviation from administration, including any allocation methodology used. This listing is intended to assist auditors in testing for miscoding of administrative expenditures. If a similar schedule already exists, this may be expanded to include any additional needed information.

Pursuant to *N.J.A.C.* 6A:23A-1.1, administrative expenditures are defined by the department's Taxpayers' Guide to Education Spending and include general administration (function 230), school administration (function 240), and central services (function 25X). The coding of costs within those functions follows NJ statute (N.J.S.A. 18A:4-14) which requires all districts to follow NJ's classification system (minimum chart of accounts or NJCOA) and other reporting directives and guidelines (e.g. Appendix C in the annual budget guidelines) which must be consistent with GAAP and NCES reporting requirements. Additional coding requirements are included in the regulations (N.J.A.C. 6A:23A) implementing N.J.S.A. 18A:7F-5(c); these regulations are available at the website:
http://www.nj.gov/education/code/current/title6a/chap23a.pdf

The following bullets and table provide a summary of the detailed descriptions as found in NCES, NJCOA, *N.J.A.C.* 6A:23A, and Appendix C.

- Administrative staff (positions that require an administrator certificate and their staff support), should be recorded in administration (function 230, 240, 25X), with the exception of positions that require a supervisory certificate. Per NCES and NJCOA, the positions of "supervisors of instruction" (which require a supervisory certificate) may be recorded in function 221, "Improvement of Instruction" as detailed in the below bullet, and are therefore, not considered administration.

- School level staff personnel that have the responsibility for supervising operations, evaluating/monitoring school staff, and coordinating school level activities are considered school administration (function 240). This includes the activities performed by the principal, assistant/vice principals, head teacher acting as a principal, director and other assistants performing these activities. An exception is the performance of monitoring and evaluation of staff as <u>part</u> of a supervisor of instruction function and if so, the full salary of the supervisor of instruction can be accounted for in function 221. However, if the majority of the supervisor of instruction position is performing administrative duties such as monitoring, supervising and evaluation, hiring, and budget preparation, then all or that majority portion of the position should be recorded in school administration. Per NCES and NJCOA, evaluation and monitoring of staff is considered school administration unless performed by a supervisor of instruction, and cannot be allocated to improvement of instruction.

- Administrative staff time dedicated to direct instruction as part of the regular curriculum (i.e. teaching classes on a day-to-day basis) may be allocated to the applicable direct instruction function with the appropriate supporting documentation (e.g. schedules and class rosters). The one exception is a principal's salary which cannot be allocated to direct instruction unless the district obtained specific County Superintendent approval since New Jersey regulations (*N.J.A.C.* 6:3-1.6(c)) require every school to have a full time non-teaching principal unless approved by the County Superintendent.

- Superintendents, Business Administrators, and Principals/Vice Principals should not be allocated to support functions. Other administrative positions are deemed to be administration unless it can be demonstrated that the position is clearly dedicated to a specific service area; appropriate documentation should be available to support an allocation, such as case load information for allocation to guidance/counseling, function 218, "other support services – regular."

- Full time department chairpersons should be recorded in school administration and any stipends received by teachers to perform chairperson duties part time should also be recorded in school administration. Department directors are considered school administration and per NJCOA, directors for special education/student services, guidance and athletics should be recorded in school administration.

- Work of staff that supports administration should be recorded in administration. In accordance with NCES and NJCOA, this includes all central office, school office, business and administrative technology non-certificated staff, as well as clerical staff that support teaching duties.

The following table provides general guidance for classification of administrative certificated staff.

Any administrative salary may be allocated to direct classroom instruction if the position is part of the regular teaching curriculum of the district, except for the principal function since a full time principal is required unless the district has received County Superintendent approval. Proper documentation must be maintained to support the allocation, such as a formal teaching roster, schedule or similar document.

Function	Description	
General Administration	Used to record costs associated with establishing and administering policy.	
Account	Title	Coding Guidance
11-000-230-100	Superintendent	Record full salary here unless performing principal function.
11-000-230-100	Assistant Superintendent	Record full salary here unless function dedicated to a specific support area. May be allocated to specific support function with proper documentation.
Function	Description	
School Administration	Used to record costs associated with supervision of school operations, evaluation of staff and supervision and maintenance of school records.	
Account	Title	Coding Guidance
11-000-240-103	Principal/Vice Principal	Record full salary here unless performing superintendent function.
11-000-240-104	F/T Department Chairs	Record full salary here.
Function	Description	
Central Services	Used to record costs associated with the business function and costs that support research and development, planning, evaluation, information services, data processing services and staff services.	
Account	Title	Coding Guidance
11-000-251-100	Business Administrator	Record full salary here.

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 district/charter school misbudgeted the appropriation. In cases where it is clearly supported by district/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. District/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. Districts/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 district/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 *Uniform Chart of Accounts for New Jersey Public Schools*, which is available from the publications office. The charter school should utilize only the accounts deemed necessary.

The auditor's procedures should include tests of the appropriate classifications 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 expenditures coding in the Auditor's 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 district boards of education/charter school board of trustees 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.

N.J.S.A. 18A:22-44.2 provides that districts are to record the one or more June deferred state aid payments of the 2013-14 school budget year (paid in July 2014) as revenue for budget purposes only in the 2013-14 accounting records. Any negative unreserved undesignated fund balance which is a direct result of a state school aid payment for the current budget year not paid until the following budget year shall not be considered a violation of any law and does not need corrective action. (See Section III for example of note disclosures).

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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 districts/charter school record transactions on a cash basis, with the exception of recording revenues for formula state aid and local taxes. 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 district's/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 districts/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. Districts/charter schools should reference the aforementioned materials for the specific entries that must be made in other funds. Districts/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.

<u>June state aid payments</u>

Pursuant to *N.J.S.A.* 18A:22-44.2 districts are to record the one or more deferred June state aid payments of the 2013-14 budget year (received July 2014) as revenue for budget purposes only in the 2013-14 accounting records.

For year end conversion to the GAAP modified accrual statements, the district will need to make an adjustment equal to the amount of revenue for each state aid category (both general fund and special revenue fund) included in the one or more deferred June state aid payments. The adjustment to GAAP would be to record the prior year last state aid payment (2012-13) and to eliminate the current year (2013-14) June state aid payments that were recorded for budget purposes. This adjustment will eliminate the budgetary only recognition of 2013-14 state aid revenue and the Intergovernmental Receivable – State. The expenditures which have been deducted from the gross revenue when the state calculates the net cash payments are neither reversed nor accrued since these have been paid in full by the state as of each June 30. (See end of Section I-8 for example).

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 an 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 district/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

The Fiscal Accountability code (*N.J.A.C.* 6A:23A-9.11(b) requires the office of the Executive County Superintendent or state monitor, as applicable, to review each school district's and county vocational school district's audited accounts payables and encumbrances that are part of the reserve for encumbrances as of June 30 that are in excess of $5,000. Encumbrances or accounts payable which are not valid will be reclassified to "designated general fund balance in the subsequent school year". Auditors should refer to *N.J.A.C.* 6A:23A-9.11(e) and (g). Except for construction projects and other long-term contracts, encumbrances which have been cancelled on or after July 1 or which have not been liquidated by September 30 of the fiscal year subsequent to the recently audited fiscal year shall be reclassified. (*N.J.A.C.* 6A:23A-9.11(e)). Accounts payable for goods or services that have not been received or services rendered on or before June 30 of the audited fiscal year, will be treated as encumbrances or undesignated general fund balance. (*N.J.A.C.* 6A:23A-9.11(f), and (g)).

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

Districts/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. Districts/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. Examples would be uncollected contracted tuition amounts and interest earned on investments. Adjustments for prior year's tentative tuition charges for regular pupils made because of a difference in actual per pupil cost may only be made during the second school year following

the contract year. No accrual is made for such adjustments. The payments of adjustments for special education pupils are made in accordance with the terms of the original contract. Districts/charter schools must also determine the collectability of any uncollected accounts receivable balances as of June 30.

Uncollected balances for tax levy and state aid should be investigated. Uncollected balances for state aids may be the result of the state facilities tuition adjustment and other certificates of debit and credit not being recorded or being recorded incorrectly. Uncollected balances for a district's tax levy may be the result of an amount certified by the Commissioner which was too late for inclusion in the current year tax levy.

For budgetary purposes only, the June state aid payments of school fiscal year 2013-14 will be included in the revenue of 2013-14, pursuant to *N.J.S.A* 18A:22-44.2. For year end conversion to the GAAP modified accrual statements, the district will need to make an adjustment for each state aid categories of the general fund and special revenue fund included in the deferred June state aid payments. The adjustment eliminates the Intergovernmental Receivable – State. Districts should have available the final state aid payment schedule as support for the adjustment of the applicable revenue. The expenditures that have been deducted from the gross revenue when the state calculates the net cash payments are not reversed since these have been paid in full as of June 30 by the state. In addition, for the GAAP basis financial statements, districts should recognize the last state aid payment for fiscal year 2012-13, made in July 2013 which was recorded in 2013-14 as revenue for budgetary purposes but not for GAAP statements. This is to enable the districts to be consistent with the state reporting under GASB 33.

3) Analyze Balance Sheet Account Balances:

Districts/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 district/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 district/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 district/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 Position* (Exhibit A-1). Similarly, the district staff is required to maintain a schedule of long-term debt. The schedule of long-term debt supports the balance presented for the current and noncurrent portions of long-term debt on the *Statement of Net Position* (Exhibit 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:

A/C		**DEBIT**	**CREDIT**
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

A/C		DEBIT	CREDIT
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:

	DEBIT	CREDIT
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. Districts/charter schools do not have to include final adjusting and closing entries in the report. The report should include normal monthly adjusting entries. Districts/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

Districts/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:

- Districtwide/Charter Schoolwide Financial Statements (Accrual Basis) - the balance for capital (fixed) assets net of accumulated depreciation is reported in the district wide *Statement of Net Position* (Exhibit A-1). Depreciation is reported in the S*tatement 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. Districts/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 Position*.

- Fund Financial Statements (Modified Accrual Basis) – districts/charter schools will continue to report capital outlay and bond proceeds 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. Districts/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. Encombrantes (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
Debt Service Fund	p. 10.3
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 districts/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.

Districts/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-8.4 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 district/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 districtwide /schoolwide *Statement of Net Position* 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.

The current fiscal year's deferred state aid payment and the reversal of the deferred prior fiscal year's state aid payment will be reconciling items (GAAP vs. budgetary basis) for revenues. Encumbrances will be a reconciling item for both revenues and expenditures in the Note to Required Supplementary Information – *Budget to GAAP Reconciliation.* This note reconciles the budgetary basis revenue and expenditures to the amounts reported in the governmental funds *Statement of Revenues, Expenditures, and Changes in Fund Balances*. See Section III-3 for illustration of this note.

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. Districts/charter schools and auditors should refer to Section II-20 of this Audit Program for further guidance on the carryover of certain restricted state aids which should be reported as 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. Districts/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 Closing Entries

The general ledger will be closed based on preliminary amounts. Adjustments which arise as a result of the liquidation of the June 30 encumbrances during applicable close-out periods will be reflected in the CAFR; however, the adjusting entry will be recorded in the subsequent year's general ledger. The *Technical Systems Manual* should be referenced for examples of the liquidation of encumbrances during the closeout period. The closing entries to be recorded in the special revenue fund are as follows:

Dr. Appropriations (20-601)
    Cr. Estimated Revenues (20-301)

Dr. Revenues (20-302)
    Cr. Expenditures (20-602)
(With the appropriate entries being made in the revenue and expenditure subsidiary ledgers.)

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 Position* 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, districts/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, districts/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, districts/charter schools should make the appropriate adjusting and closing entries. The public school accountant may suggest changes to the amounts reflected in the district's/charter school's figures based on the results of his/her audit. In those instances, the auditor should provide the district/charter school with the necessary post-closing adjusting entries to correct the July 1 opening balances. Districts/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 districts/charter schools have a clear understanding of how to key those adjusting and closing entries into their accounting software package.

Deferral of One or More June State School Aid Payments for GAAP Reporting: (does not apply to charter schools)

Under GAAP financial reporting, in accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, the June state school aid payments are not considered revenue to the school district if the State has not recorded the corresponding expenditure. For intergovernmental transactions, GASB 33 requires that recognition (revenue, expenditure, asset, liability) should be in symmetry, i.e., if one government recognizes an asset, the other government recognizes a liability. Since the state is recording the June state aid payments for 2012-13 in the subsequent fiscal year, school districts cannot recognize these June state aid payments on the GAAP financial statements until the subsequent fiscal year. In addition, since the state recorded the last state aid payment for 2011-12 in 2012-13, school districts should recognize the 2011-12 last state aid payment in the 2012-13 GAAP financial statements.

Existing state and federal regulations may conflict with GAAP reporting. If a conflict exists between GAAP and any legal/contractual requirement, *N.J.A.C.* 6A:23A-16.3 requires every district board of education to develop budgets and maintain an accounting system on the legal/contractual basis, such that sufficient records exist to enable reporting in conformity with GAAP at year end.

Pursuant to *N.J.S.A.* 18A:22-44.2, revenue recognition for state aid payments should be recorded in the year budgeted regardless of whether the state has recorded the corresponding payable in the same fiscal year. Due to the conflict between state regulations and GAAP requirements, districts will need to prepare reconciliation in their year end CAFR between the legally mandated budgetary schedules and the modified/full accrual financial statements prepared in accordance with GAAP.

An example of the reconciliation process for the deferral of the 2013-14 June state aid payment in both the general and special revenue funds is provided here as guidance. (See Section III – Chapter 3 for sample disclosures and reconciliations.) Districts must use the final state aid payment schedule (June 2014) to determine the cash amount of the last two state aid payments prior to withholding. Note that state aid which is not included on the revised payment schedule (e.g., nonpublic school aid, grants) is not included in the last two state aid payments. The cash payment schedule to the school district for state aid may be different from the revenue due to certain adjustments deducted from the receivable for those expenditures that the state pays on behalf of the district, such as tuition to Katzenbach.

Assume that a district is entitled to the following revenues:

Equalization Aid	$208,065,785
Education Adequacy Aid	37,475,295
Transportation Aid	3,624,557
Special Education Categorical Aid	19,778,459
Adjustment Aid	2,936,604
Security Aid	809,780
Total General Fund	272,690,480
Preschool Education Aid	41,273,358
Total Special Revenue Fd	41,273,358
Total State Aid	$313,963,838

Assume that a district has the following deductions (expenditures paid by the state from district funds):

Day Training Tuition	$869,679
State Facility Tuition	4,537,328
Total Deductions	$5,407,007

Based on the revenue and deductions, cash payments to the district for the year would equal $308,556,831. The first 18 payments are each $15,427,842 and the June state aid payments (2) are $15,427,833 each. The following allocation method should be used to convert the budgetary schedules to the GAAP statements:

		General Fund		Special Revenue Fund	Totals
State Aid Revenue	**A**	272,690,480	**B**	41,273,358	313,963,838
Deductions		(5,407,007)		N/A	(5,407,007)
Cash		267,283,473		41,273,358	308,556,831
Divide by 20		/20		/20	
Adjustment		13,364,174		2,063,668	15,427,842
Adjust GF to equal		(9)			(9)
Final Adjustment		$13,364,165		$2,063,668	$15,427,833

The allocation applies the deduction against the general fund revenue and not the special revenue fund revenue. There may be a difference in either of the June state aid payments from earlier payments due to adjustments made during the year. This difference should also be applied only against the general fund. GAAP financial statements aggregate the revenue by three categories - local, state and federal - and not by the individual source. Districts may not need to allocate the adjustment further to a specific individual revenue source unless the district is subject to single audit and needs to complete the schedule of state financial assistance. Where necessary, once the above adjustment is calculated by fund, the district should prorate the total of the general fund adjustment based on the ratio of original revenue source to the total general fund state aid subject to the adjustment. The special revenue fund adjustment is done in the same method.

Below is an example of the proration method:

State Aid	Revenue	% of Revenue	Adjustment Applied to Each State Aid
Equalization Aid	208,065,785	76.30	10,196,858
Education Adequacy Aid	37,475,295	13.74	1,836,236
Transportation Aid	3,624,557	1.33	177,743
Special Education Categorical Aid	19,778,459	7.25	968,902
Adjustment Aid	2,936,604	1.08	144,333
Security Aid	809,780	0.30	40,093
Total GF **[A]**	272,690,480	100 %	13,364,165
Preschool Education Aid	41,273,358	100.00	2,063,668
Total SRF **[B]**	41,273,358	100 %	2,063,668
Total State Aid	$313,963,838		15,427,833

Assuming the district has properly recorded all the adjustments as expenditures, the following journal entry would be required at year end:

		Debit	Credit
General Fund			
10-302	Revenue	13,364,165	
10-141	Intergov. A/R-State		13,364,165
	(To adjust to GAAP basis revenue for last state aid payment)		
10-3176	Equalization Aid		10,196,858
10-3175	Education Adequacy Aid		1,836,236
10-3121	Transportation Aid		177,743
10-3132	Special Education Categorical Aid		968,902
10-3178	Adjustment Aid		144,333
10-3177	Security Aid		40,093
	(Optional posting to revenue ledger, if needed)		
Special Revenue Fund			
20-302	Revenue	2,063,668	
20-141	Intergov. A/R-State		2,063,668
	(To adjust to GAAP basis revenue for last state aid payment)		
20-3218	Preschool Education Aid		2,063,668
	(Optional posting to revenue ledger, if needed)		

Highlighted below are those CAFR pages that are impacted by the timing difference of recording the last state aid payment.

GASB 34 CAFR				
Exhibit	**Statement Title**		**Impact of Last State Aid Payment**	
A-1	Statement of Net Position		Reduced net assets; possible deficit in governmental activities equal to the last state aid payment	
A-2	Statement of Activities		Reduction in state aid revenue	
B-1	Balance Sheet/Governmental Funds		Reduced fund balance; possible deficit in both general fund & special revenue fund equal to the last state aid payment	
B-2	Statement of Revenues, Expenditures and Changes in Fund Balances -Governmental Funds		Reduction in state aid revenue – general and special revenue funds	
C-1	Budgetary Comparison Schedule – General Fund		Include line "Last State Aid Payment not Recognized on GAAP Basis" in the **Recapitulation** section at the end of the schedule – see example below	
C-3	Budget to GAAP Reconciliation or Explanation of Differences Between Budgetary Inflows and Outflows and GAAP Revenues and Expenditures		Include reconciling items due to last state aid payment revenue recognition policy for general and special revenue funds	

Refer to Section II-10.23 for an illustration of the presentation of the last state aid payment on the recapitulation of balances at the end of the *Budgetary Comparison Schedule of the General Fund.*

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SECTION II – SPECIFIC COMPLIANCE

SCHOOL DISTRICT/CHARTER SCHOOL BOOKKEEPING

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

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

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

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

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

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

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

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SECTION II – SPECIFIC COMPLIANCE
FUND 10 –GENERAL FUND

Optional Treasurer of School Moneys

P.L. 2010, c.39, effective July 2, 2010, amended *N.J.S.A.* 18A:13-14 to make the treasurer of school moneys an optional position. Upon the board's election to eliminate the treasurer's position, the law requires a shifting of internal control and internal reporting responsibilities from the treasurer to the board secretary and chief school administrator. Accordingly, Boards of Education/Board of Trustees electing to eliminate the treasurer's position must consider the impact on the district's/charter school's internal controls. The following is an overview of responsibilities of the board secretary when the treasurer position is eliminated. For a complete understanding of the changes, see P.L. 2010, c.39.

N.J.S.A. 18A:17-9.1 - the board secretary will receive and hold in trust all school moneys, except any moneys derived from athletic events or other activities of pupil organizations of the district/charter school.

N.J.S.A. 18A:17-9.2 - the board secretary shall keep a record of the sums received and paid out by him in accordance with the uniform system of bookkeeping prescribed by the State board.

N.J.S.A. 18A:19-9 as amended requires that payrolls must be certified by the president and secretary of the board and the chief school administrator.

N.J.S.A. 18A:19-10 as amended requires the board secretary to draw and deposit the warrants in separate bank accounts as a net payroll account and an agency account for payroll deductions and associated board contributions (agency account); authorized signatories on the payroll account must include the secretary and a board designee.

N.J.S.A. 18A:19-10 amended provides that the board secretary shall draw and deposit the warrants.

Board Secretary and (Optional) Treasurer Reports

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

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

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

Cash Reconciliation

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

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

Petty Cash Funds

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

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

Summer Payment Plans

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

SOC 1 Report (Service Organization Controls Report) – Formerly SAS #70 Reports

N.J.A.C. 6A:23A-16.6 requires that district boards of education/charter school board of trustees which contract for electronic data processing bookkeeping services including services provided by software vendors, payroll service vendors, and other service organizations, 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 is codified at Section 801available on the AICPA website at:* http://www.aicpa.org/Research/Standards/AuditAttest/DownloadableDocuments/AT-00801.pdf . 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. A SOC 1 report (Service Organization Controls Report) is a report on Controls at a Service Organization which are relevant to user entities' internal control over financial reporting. Previously known as SAS #70 Reports, the SOC 1 report may be either a Type 1 or a Type 2 report.

- Type I – Report on policies and procedures placed in operation. This report may be an effective and efficient way for the district/charter school auditor to gain an understanding of the internal controls of the service organization.

- Type II – Report on policies and procedures placed in operation and tests of operating effectiveness. This report includes a description of the tests of operating effectiveness and the results of those tests. If the controls are present and operating effectively, the district's/charter school's auditor may choose to assess control risk below the maximum for financial statement assertions related to the service organization transactions. This is a decision made by the district/charter school auditor.

Auditors are advised to review Chapter 4, Standards for Financial Audits, of the *Government Auditing Standar*ds (2011 edition) available electronically at the website http://www.gao.gov/yellowbook for further guidance on internal controls.

Third Party Disbursements

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

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

N.J.A.C. 5:30-17 et seq., Electronic Disbursement Controls for Payroll Purposes can be found at:
http://www.nj.gov/dca/divisions/dlgs/resources/rules_docs/5_30/njac_53017.pdf

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

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

Investments

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

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

N.J.S.A. 18A:20-37 provides for the specific types of securities that the board of education/board of trustees can authorize to be purchased and sets forth general investment practice requirements. It also provides for the specific types of securities which may be purchased and registered in a school district's/charter school's name. While the types of securities and requirements are too extensive to list, the statute includes governmental money markets funds and bonds or other obligations having a maturity date of not more than 397 days from the date of purchase, approved by the Division of Investments in the Department of Treasury for investment by school districts/charter schools. The division does not publish a listing of approved investments but districts/charter schools may request approval of a specific security by sending a letter to the following address:

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

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

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

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

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

GASB Statement No. 40, "Deposit and Investment Risk Disclosures, an amendment of GASB Statement No. 3" is effective for financial statements for periods beginning after June 15, 2004 and the summary of paragraphs 46 and 47 states:

> "…disclosures generally referred to as category 1 and 2 deposits and investments are eliminated. However, this Statement does not change the required disclosure of authorized investments and it maintains, with

> modification, the level-of-detail disclosure requirements of Statement 3." Statement 40 is designed to inform financial statement users about deposit and investment risks that could affect a government's ability to provide services and meet its obligations as they become due. The reduction of existing custodial credit risk disclosures follow from federal banking reforms adopted since the release of Statement 3.

District/charter school auditors should refer to the statement for further understanding and for illustrations of disclosures.

Revenues and Receipts

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

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

Insurance Recoveries

GASB Statement No. 42, Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries, paragraph 21 provides that an insurance recovery is recognized as soon as it becomes realizable. A recovery is considered to be realizable if the insurer has acknowledged coverage.

Impairment of a capital asset:
In accordance with GASB Statement No. 42, in the governmental funds financial statements, restoration or replacement of an impaired capital asset should be reported as a separate transaction from the associated insurance recovery. The insurance recovery is reported as an "other financing source." Use newly created Audsum line 685 – "Other Financing Sources – Insurance Recovery Related to Impaired Capital Asset–Super Storm Sandy" (10-5901) for this purpose.

In the government-wide financial statements, when the recovery and loss occur in the same year report the "restoration or replacement of an impaired capital asset" as a separate transaction from the impairment loss and the associated insurance recovery. The impairment loss and the insurance recovery should be reported net. When the recovery occurs in a year subsequent to the loss, insurance recoveries reported in the subsequent year should be reported as a non-operating revenue source.

Recoveries other than those related to an impairment of a capital asset:
In the governmental funds financial statements, insurance recoveries other than those related to an impairment of a capital asset should be reported as a separate transaction from the covered loss. The insurance recovery is reported as an "other financing source." Use newly created Audsum line 686 – "Other Financing Sources – Insurance Recovery Related to Other Costs of Super Storm Sandy" (10-5902) for this purpose.

In governmental and in business-type activities in government-wide financial statements if the impairment loss and the insurance recovery occur in the same year, the impairment loss and the insurance recovery should be reported net. Insurance recoveries reported in a subsequent year(s) should be reported as a non-operating revenue source.

Community Disaster Loans (CDL) – FEMA (N/A to Charter Schools)

Executive Order 128 directed all eligible school districts to apply for FEMA Community Disaster Loans. School districts that have received approval of a CDL and have drawn down upon the associated line of credit as a replacement for timely remitted property tax collections, were provided guidance in the 2013-14 software vendor letter and through direct contact from the department to record the CDL proceeds received in revenue line 700 (10-5XXX). Districts receiving CDL were directed 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. Districts receiving CDL were provided guidance to include CDL proceeds requested and received 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).

Broadcast announcement:
http://education.state.nj.us/broadcasts/2013/MAR/26/9343/CDL%20Guidance.pdf

2013-14 Software Vendor's Letter:
vendor letter 13-14.pdf

Community Development Block Grants (CDBG) (N/A to Charter Schools)

Community Development Block Grants (CDBG) were awarded by FEMA to districts based upon the applications submitted by the municipality. Recipients were required to sign an agreement stating that grant funds would be used to pay for essential services only in conformance with the district's CDBG Action Plan as approved by HUD. The applicant was required to specifically identify in the grant agreement those essential services that would be paid for with grant funds awarded for fiscal year 2013-14. Applicants were required to follow all applicable federal and state laws with respect to grant funds, including a separate accounting of the CDBG (Essential Services Grant), as instructed in LFN 2013-15 available at: http://www.state.nj.us/dca/divisions/dlgs/lfns/13/2013-15.pdf. Districts were required to provide the Division of Community Affairs (DCA) with requisition and draw down requests in advance of funding.

Districts were provided guidance in the 2013-14 Software Vendor's Letter and through direct departmental contact to record CDBG funds received in fund 19, a sub-fund of the general fund, in revenue line 565- "FEMA Community Development Block Grant" (19-4526). Districts were also provided guidance to record appropriations against CDBG funds in fund 19 (19-XXX-XXX-XXX). Accordingly, districts were directed to provide a separate reporting of CDBG revenues, appropriations, and expenditures in the Board Secretary Report in fund 19. Audsum for 2013-14 will include revenue line 565. However, Audsum won't provide a separate reporting of fund 19 expenditures. In Audsum, fund 19 expenditures are to be combined with other general fund expenditures recorded in funds 11, 12, and 13. In the CAFR statements and schedules, districts must report CDBG revenues as revenue from federal sources in the general fund. CDBG revenue may be combined with other federal sources

of general fund revenues on the Statement of Activities (A-2) and Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balance (B-2). CDBG revenue must be separately stated as revenue from federal sources in the General Fund Budgetary Comparison Schedule (C-1). Expenditures of CDBG funds may be combined with other general fund expenditures for reporting in the Statement of Activities (A-2) and Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balance (B-2). In the Budgetary Comparison Schedule (C-1), districts are provided with two optional reporting formats for CDBG appropriations and expenditures. One option is to separately report CDBG appropriations and expenditures on the C-1 after special schools (fund 13). Another option is to combine the fund 19 appropriations and expenditures with the other general fund expenditures (funds 11, 12, and 13) on the C-1 and provide the required fund 19 detail on a subsidiary schedule (C-1/b) using the title Community Development Block Grant – Budget and Actual (C-1/b).

As presented on page II-20.1 of this Audit Program, N.J.S.A. 18A:66-90 requires that each local board of education reimburse the State for the employer share of pensions, group life insurance, FICA, and other benefits of the Teachers' Pension and Annuity Fund (TPAF) for TPAF members paid from federally funded programs. It has been determined that where the district has used federal CDBG funds to pay the wages of TPAF employees, those wages are not subject to this statutory reimbursement requirement.

Additional information about the CDBG grant can be found in LFN 2013-15 http://www.nj.gov/dca/divisions/dlgs/resources/lfns_2013.html and in the Software Vendor Letter at: vendor letter 13-14.pdf

Other FEMA Reimbursements

Unrestricted reimbursements are reported as an "other financing source" in the general fund. However, if the FEMA reimbursement is received pursuant to the school district having submitted a project worksheet for expenditures related to a disaster (such as Project SERV funds), those eligible restricted expenditures should be reported in the special revenue fund in the exact amount of the reimbursement received. The reimbursement is recorded and reported as "Other Restricted Grants-in-Aid from the Federal Government through the State" also in the special revenue fund. GASB *Comprehensive Implementation Guide*, Z.42.4 clarifies that the loss and the FEMA reimbursement are separate events that must be recorded and reported separately, rather than netted. See Section II-20 of this Audit Program for additional guidance on restricted reimbursements.

Extraordinary Aid

The awards for 2013-14 extraordinary aid (ExAid) will be posted in the district's state aid folders upon release.

Extraordinary Aid awards are recorded in the general fund, account 10-3131. Since actual payment will not be made until after the end of the fiscal year districts/charter schools must also establish a receivable for the appropriate amount of anticipated payment (*N.J.S.A.* 18A:7F-55c). This amount can be excluded from the June 30, 2014 excess surplus calculation only if the district/charter school can clearly document that they did not budget this additional aid during the 2013-14 fiscal year for which they filed an application.

Audit procedures, similar to the ASSA, can be found in the *State Aid/Grants Compliance Supplement* on the DOE finance website. Extraordinary aid applications are made online, with the Department's determination of aid based on the applications submitted for each individual student. Additional information on ExAid including a Frequently Asked Questions document can be found at https://homeroom.state.nj.us/exaid.htm.

The exclusion of extraordinary aid from the audited excess surplus calculation should be documented on the "Extraordinary Aid Adjustment" line. This will also require the submission of a brief letter or memo explaining the circumstances surrounding the exclusion, and if applicable, how the exclusion relates to the appearance of the excess surplus warning message on the Audit Summary (Audsum) transmittal form.

N.J.A.C. 6A:23A-13.3(d)6 provides that a district board of education may at any time without Commissioner approval appropriate surplus generated from state revenue, such as extraordinary aid, that has been excluded from the excess surplus calculation in the prior year.

District Taxes [Does not apply to Charter Schools]

District taxes must be recorded in the fund for which they were voted (Type II) or were certified by the Board of School Estimate (Type I). Additional amounts certified to the county board of taxation after the issuance of tax bills by the municipality will be shown as an adjustment on the district's subsequent year's certificate and report of school taxes. These adjustments are generally the result of Commissioner restorations for budget appeals and/or additional certifications for unanticipated debt service expenditures. These additional certifications should be reported as revenue via the accrual of a tax levy receivable.

N.J.S.A. 54:4-75, as amended by P.L. 2010, c. 39, states, "The governing body of each municipality shall pay over to the board secretary or treasurer of school moneys, as appropriate, in the case of school districts in which appropriations for school purposes are made by the inhabitants of the school district, within forty days after the beginning of the school year, twenty percent (20%) of the appropriation for local school purposes, and thereafter, but prior to the last day of the school year, the balance of the moneys raised in the municipality for school purposes in such amounts as may from time to time be requested by the Board of Education, within thirty days after each request."

The auditor should comment on any uncollected taxes as of June 30 (other than the special accruals referred to above), and make a recommendation that the board of education request the remittance of the balance from the municipality.

Tuition - Charter Schools Only

Pursuant to N.J.S.A. 18A:36A:8, a charter school is prohibited from charging tuition to enrolled students. The auditor should verify that the charter school charged no tuition for any student attending the charter school. Examination of before and after school care fees should be performed so as to determine that fees to students in these programs are only the reasonable and necessary amounts for the administration of these programs and must be accounted for in the enterprise fund. If the excess revenues over expenditures of before and after school programs are being utilized to offset general fund expenditures, this excess is determined to be tuition fees charged to the students in these programs. The auditor should document this finding in the Auditor's Management Report and make an appropriate recommendation for the discontinuance of this practice.

Tuition-(*N.J.A.C.* 6A:23A-17.1) – School Districts Only

Tuition revenue is recorded in the general fund. The procedures for determining tuition rates are detailed in *N.J.A.C.* 6A:23A-17.1. Because it is "measurable and available" the entire tuition charged for the school year is revenue of the year even though part of the charge is uncollected at year-end. Tuition or program fees should not be charged for accredited Adult Education programs operating for the purposes outlined in *N.J.S.A.* 18A:50-12, since pupils enrolled in such programs are included on the Application for State School Aid. Fees collected for non-accredited Adult Education programs are miscellaneous general fund revenue, not tuition.

Local school district auditors should compare tentative tuition charges in the current fiscal year to the rate certified by the Department of Education. The auditor must comment on whether appropriate billing adjustments have been made for the differences between tentative and actual charges. In accordance with N.J.A.C. 6A:23A-17.1(f), the certification of tuition rates occurs after two years. In the 2013-14 budget, districts were required to include any applicable tuition adjustment for the certification of the 2012-13 rates. Consult N.J.A.C. 6A:23A-17.1(e). Local school district auditors should refer to N.J.A.C. 6A:23A-17.4 for auditing tuition rates for county vocational schools; and *N.J.A.C.* 6A:23A-17.7 for auditing rates for county special services schools when these types of LEAs are audited.

Local school district auditors must perform procedures to determine that the following requirements are met and should refer to the guidance on Fund Balance Classification in Section II-10.20 of this Audit Program for reporting the tuition reserve in the CAFR and to Section III-5 for guidance on including the tuition reserve in Audsum. **There are specific lines for the opening and ending balance for each year of the reserve**.

1. The district used the Budget Software tuition worksheet (only applicable to regular districts) or another Department of Education prescribed method for estimated tuition charges (Estimated Cost Per Pupil for Tuition Purposes).

2. Receivables and/or payables are based upon uncollected tuition billed.

3. Regular tuition adjustments based upon Department of Education certification of rates are not recognized as revenue and/or expenditures until the second year after the contract year and that the tuition adjustments are correctly reflected in the amounts reported as tuition revenue (receiving district) or tuition expenditures (sending district).

4. In accordance with the readoption of *N.J.A.C.* 6A:23A-17.1(f), the certification of tuition rates occurs after two years, not three. In the 2013-14 budget districts were required to include any applicable tuition adjustment for the certification of 2011-12 rates.

5. If at the end of the contract year when a district board of education anticipates that a large tuition adjustment will be required in the second year following the contract year, the district board of education may restrict fund balance up to 10 percent of the estimated tuition cost in the contract year, in a reserve for tuition adjustments. The tuition reserve is available only for districts that have a sending/receiving relationship. Full appropriation must be made in the second year. In the 2013-14 budget districts were required to include any applicable tuition adjustment for the certification of 2011-12 rates.

6. For the 2013-14 budget year districts were required to withdraw and budget the June 30, 2012 deposit to the tuition reserve, which was based upon the estimated 2011-12 tuition costs, to account for the actual 2011-12 certified tuition rate adjustments. The funds were legally

reserved in 2011-12 based on an estimate of the 2011-12 tuition adjustment (estimated vs. actual) that would occur in 2013-14.

7. A district may have at June 30, 2014 a reserve for each applicable year 2012-13 and 2013-14. The tuition reserve for each year should be presented separately on the *Budgetary Comparison Schedule – General Fund* (Exhibit C-1) in the Recapitulation of Balances and on Audsum. There is no authority to increase the tuition reserve by interest earnings.

Local school district auditors must make appropriate comments and recommendations for any findings related to these procedures.

Reporting On-Behalf Payments

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

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

Compensation Reporting

N.J.S.A. 18A:23-2.1 requires that the annual audit include test measures to assure that documentation prepared for income tax related purposes complies fully with the requirements of federal and state laws and regulations regarding the compensation which is required to be reported. See the *State Aid/Compliance Supplement* available on the website: http://www.nj.gov/education/finance/fp/audit/1112 for suggested audit procedures.

The following link is provided to assist auditors and districts/charter schools in complying with this law: Internal Revenue Service Governmental Entities website - http://www.irs.gov/Government-Entities

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

Auditors are advised to contact the NJ Department of Treasury directly for technical questions regarding taxable compensation for state reporting.

N.J.S.A. 18A:17-14.4 requires the school business administrator, or any other person designated by the board of education/board of trustees, to certify to the Department of Treasury that all documentation prepared for income tax related purposes, in regard to superintendents of schools, assistant superintendents of schools and school business administrators, complies fully with the requirements of federal and state laws and regulations regarding the types of compensation which are required to be reported. The certification (not applicable to charter schools) is due annually on or before March 15 for the certification year (calendar year). 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. The form and instructions for this certification are available on the Department of Treasury's website http://www.nj.gov/treasury/taxation/pdf/other_forms/misc/e_cert1.pdf.

Pensionable Wages

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

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

For the Public Employees' Retirement System (PERS), auditors should refer to *N.J.A.C.* 17:2-4.1, for a similar definition of creditable compensation. On July 17, 2012 the Office of the State Comptroller (OSC) issued their report *IMPROPER PARTICIPATION BY PROFESSIONAL SERVICE PROVIDERS IN THE STATE PENSION SYSTEM* available at:
http://www.nj.gov/comptroller/news/docs/pensions_report.pdf

Local Finance Notice (LFN) 2007-28 clarifies that it is the responsibility of the school district for determining and maintaining documentation to support the decision as to whether certain professionals are properly classified as employees of the school district in accordance with criteria established by the Internal Revenue Service for the express purpose of determining employee or contractor status. Auditors should confirm that the district has maintained documentation in the professional employee's personnel file in support of the (Pensions) Certifying Officer's analysis of the decision to classify the professional as an employee or contractor.

LFN 2007-28 is available at: http://www.nj.gov/dca/divisions/dlgs/resources/local_fin_notices.html

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

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

Refunds

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

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

The Schools and Libraries Universal Service Fund, known as the "E-rate" was created as part of the Telecommunications Act of 1996 to provide affordable access to modern telecommunications and information services to all eligible schools and libraries in the U.S. The School and Libraries Corporation (SLC) was established by the FCC to administer the Schools and Libraries Universal Service Fund. All public and private schools and libraries qualify for funding based on their level of economic disadvantage (based on the percentage of students eligible for the national school lunch program) and their location, rural or urban. The offset to the reduction in the expenditure is either to accounts receivable if a refund is due or to accounts payable if unpaid at June 30, 2014. Additional information is available at the Department of Education, Office of Technology website at http://www.state.nj.us/education/techno/toc.htm and at the School and Libraries website at www.sl.universalservice.org.

Cancellations

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

Travel Expenditures

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

Travel Regulation Circular No. 12-14-OMB effective June 25, 2012 supersedes 11-05-OMB and includes a relaxation of the rules regarding rail travel in the Northeast Corridor. Note that *N.J.A.C.* 6A:23A-7.9 (c)(3) continues to reflect limitations upon rail travel in the Northeast Corridor. In accordance with *N.J.A.C.* 6A:23A-7.1 districts and auditors may apply the provisions of 12-14 OMB for 2012-13. Commissioner waiver decisions for in-state travel reimbursements for specific conferences are posted at: http://www.state.nj.us/education/genfo/travel/. The circular places certain restrictions on out-of-state travel. Accordingly, the district /charter school must obtain prior written approval of the Executive County Superintendent for a travel event that exceeded $5,000 as required by N.J.A.C. 6A:23A-5.9

Entertainment, Meals, and Refreshments Circular No. 11-09-OMB effective January 5, 2011 supersedes 06-14-OMB and allows receptions for awards, retirements, not to exceed $25 per month per agency.

Health Insurance Policies

The department issued a hotline concerning audit issues/procedures regarding certain insurance policies held by New Jersey school districts dated August 30, 1995. At that time, we were seeking an opinion from the Office of the Attorney General on questions raised regarding the custody of funds and payment of claims. In response to that request, we were advised that the enactment of Chapter 74, P.L. 1995 authorized school districts to enter into minimum premium insurance policies with insurance companies authorized to do business in the state although those policies may involve different cash management methods than those required by existing statute.

The 1995 hotline was issued after review of policy terms and discussions with both public school accountants and insurance company representatives. Based on that review, the following issues were identified:

Districts/charter schools with minimum premium policies commonly have three accounts with the carrier:

1) a termination reserve account
2) a claims account
3) a premium stabilization account

The termination reserve account generally represents funds earmarked for the district's/charter school's liability for claims which have been incurred but not reported (IBNR), also known as the "run-off" liability. The IBNR liability amount is calculated annually by the carrier's actuaries and provided to the policyholder. The claims account is used for the payment of claims filed. The contracted monthly premium estimate (including the employee's contribution to medical premiums) is deposited into this account. The monthly deposit may or may not include the administrative fee paid to the carrier. In some cases, the fee is a separate remittance. The premium stabilization accounts are used as a mechanism to smooth insurance premium payments. Commonly, any funds remaining in the claims account at the end of the year are transferred to the premium stabilization account for use in future years in the event of "premium" increases. Premium stabilization funds are often attached to participating and fully funded policies in which rebates are based on a retrospective review of claims filed during the policy period. These funds (rebates) are maintained in an account, in the district's/charter school's name, and are used to smooth future years' premium payments. Payments from these accounts for other than insurance premiums are prohibited and circumvent the budgetary process.

In the past, the aforementioned accounts may have not been reflected in the district/charter school accounting records or were inaccurately reported as fund balance. Public school accountants should review the terms of district/charter school policies and statements/monthly activity reports issued by the

carrier. If the district/charter school has a minimum premium policy a confirmation should be issued to the insurance carrier regarding the following:

- The existence of and amount of June 30 balances in accounts in the district's name held on their behalf by the carrier*
- District/charter school liability for the IBNR claims at June 30
- District/charter school liability for claims that were filed but unpaid at June 30
- Composition of the accounts (what are the types of underlying investments made on the district's/charter school's behalf)*
- Investment income earned during the year on district/charter school funds held by the carrier*

Auditors may wish to obtain confirmation from the carrier that the expenditures made from the claims accounts were for valid claims if direct testing is not possible from district/charter school records. Items noted with an (*) should be confirmed in situations where it appears that a premium stabilization account exists under a participating or fully funded policy.

The confirmed information as well as the balances in any accounts related to the policies that are held by the district/charter school itself should be used to determine the proper presentation in the CAFR. The assets (total of the June 30 account balances) will be compared to the related liabilities (total of the June 30 IBNR claims and claims in process at June 30). Any excess assets should be included in the amount reported as unreserved general fund surplus. If the liabilities exceed the assets, the district's/charter school's unreserved general fund surplus must also be considered. The accrual made for the claims should not put the general fund into a deficit position. That is, the total liabilities should be subtracted from the total of the June 30 unreserved general fund surplus plus the total assets. The amount of liabilities in excess of the total of surplus and assets should be shown as a liability in the districtwide/charter schoolwide *Statement of Net Position* and the June 30 general fund unreserved surplus reported as zero. For minimum premium policies, the current year expenditures reported for insurance premiums/claims should represent the total of the amount of claims and administrative fees paid in the current year related to the current year, the accrual for the unpaid claims in process, and the change in the June 30 balance in the IBNR liability between the current year and the prior year. For any type of policy, it must not include any excess premium payments transferred to a premium stabilization account.

The funds held by the district/charter school or the carrier on the district's/charter school's behalf are included in the general fund balance sheet as cash, cash equivalents, or investments.

The June 30 general fund accounts payable balance should include the amount of claims in process as of that date. It should not include the IBNR liability. The IBNR liability should be reported in the general fund balance sheet as an accrued liability labeled "Accrued Liability for Insurance Claims."

The notes to the financial statements should clearly disclose the terms of the policies and provide explanations of the related balance sheet accounts.

Refer to page II-90.1 of this Audit Program for audit guidance regarding employee health insurance withholding.

Sale and Lease-back Contracts

*N.J.S.A.*18A:20-4.2(h) authorizes boards of education/board of trustees to enter into sale and lease-back contracts on certain instructional materials (i.e. textbooks). The district/charter school can acquire

through sale and lease-back textbooks and non-consumable instructional materials provided that the sale price and principal amount of the lease-back do not exceed the fair market value of the textbooks and instructional materials and that the interest rate applied in the lease-back is consistent with prevailing market rates or is less. The lease-back can be for any term not exceeding in the aggregate of five years.

Proceeds from the sale and lease-back of textbooks and non-consumable instructional materials shall not be included in the calculation of excess undesignated general fund balance during the budget year in which they are realized. A board of education may establish a reserve account in the general fund with all or part of the proceeds from the sale and lease-back provided that subsequent appropriations from the reserve account shall only be made within the original budget certified for taxes or as approved by the Commissioner for good cause.

If the board of education establishes a reserve in the year the proceeds are realized, then the calculation of excess surplus will not include the June 30 legally restricted reserve balance in that year and future years. The exclusion of sale and lease-back funds from the audited excess surplus calculation should be documented on the "Sale and Lease-Back" line.

Required Maintenance

Beginning in ten years following enactment of P.L. 2000, c.72 (EFCFA), *N.J.S.A.* 18A:7G-9, to receive funding under EFCFA, districts will be required to demonstrate a net investment in required maintenance of at least 2 percent of the replacement cost of the related school facility (determined pursuant to subsection b. of section 7). For new construction, additions, and school facilities aided under the act, beginning in the fourth year after occupancy of the school facility, districts must demonstrate an investment in required maintenance in the prior year of at least two-tenths of 1 percent of the replacement cost of the school facility.

To support the demonstration of this requirement, districts must include a schedule of required maintenance expenditures for each year by school facility (as defined under *N.J.A.C.* 6A:26-1.2) in the CAFR. **This schedule must reflect each year for the last ten years through 2013-14.**

Districts are required to maintain their accounting records for required maintenance at the school facility level and will be required to "have available the expenditure records, detailed by school facility, for verification by the district auditor beginning in the year 2002-2003" (*N.J.A.C.* 6A:26A-2.2(c)). Auditor verification should include a review of classification of expenditures and documents to support the school level expenditures for object code 261 and random testing of purchase orders/vouchers. Auditors should be aware that salaries split between custodial and required maintenance need "task specific documentation."

A sample Schedule of Required Maintenance for School Facilities (Exhibit J-19) is included on the website http://www.nj.gov/education/finance/fp/cafr/outline/J-16toJ-20.xls. The schedule should indicate the gross square footage in the column preceding the current year expenditure. All district types should complete this schedule. If the district has no school facilities projects, the district should indicate "N/A" on the schedule.

Restricted Appropriations/Balances:

Additional Spending Proposals

Additional spending proposals are supported by: (1) a formal board resolution, "Separate Proposal Summary," (2) an advertised description of the purpose or purposes and amount, (3) a separate ballot question or questions for the associated tax levy, (4) an itemized accounting for the appropriations, and (5) a merged final budget including the base budget and approved appropriations.

N.J.A.C. 6A:23A-12.13(a)10 requires that amounts approved by the local voters or board of school estimate shall be used exclusively for the purpose(s) contained in the associated question(s). Additionally, each question must contain sufficient funds to carry out the specific purpose or purposes contained therein and no funds shall be included in the base budget for implementing such purposes.
Budgeted appropriations are deemed restricted when associated with an additional spending proposal (*N.J.A.C.* 6A:23A-12.13(a)11).

The district board of education is required to maintain a separate accounting of expenditures for each question. Approved amounts that remain unexpended or unencumbered at the end of the school year shall either be anticipated as a part of the designated general fund balance of the subsequent school year budget or reserved and designated in the second subsequent school year budget.

N.J.A.C. 6A:23A-12.13(a)9 requires that a district board of education may not modify the base budget to execute proposed expenditures that have been rejected by the local voters, or board of school estimate, except as specified in *N.J.A.C.* 6A:23A-12.13(a)13, through a donation or contribution from an external source, only if such implementation will not require funding by the district board of education in subsequent budget years.

When a reservation of fund balance is established for unexpended or unencumbered funds pursuant to an additional spending proposal, the annual independent audit shall contain a note to the financial statements indicating the reserved fund balance amount, source and the fiscal year in which it will be appropriated. The financial statements should include the amount of the reserve in general fund equity account in the "Restricted Fund Balance" category (GASBS 54): *reserved fund balance-legally restricted appropriations*.

Capital Reserve Account - General Fund

The capital reserve account (*N.J.A.C.* 6A:23A-14.1) maintained in the general fund allows a district to accumulate funds for future capital projects. A capital reserve account must have been established by board resolution, a copy of which should have been filed with the county superintendent of schools. A district board of education or board of school estimate may establish a capital reserve account at any time pursuant to *N.J.S.A.* 18A:21-2 and 3, and 7G –1.

The regulations *N.J.A.C.* 6A:23A-14.1 et seq. provide procedures for capital reserve accounts (withdrawals, deposits, and transfers). The bulleted points below are highlights of that rule. Additional guidance on School Development Authority (SDA) grant accounting and use of capital reserve can be found in Section II-30.4 of this Audit Program.

General Compliance:

- Funds in a capital reserve account must be used to implement the capital projects in the long-range facilities plan (LRFP). Withdrawals may not be used for current expense.

- Funds in a capital reserve account in existence prior to July 18, 2000 shall be utilized for the original purpose for which the funds were deposited (*N.J.A.C.* 6A:23A-14.1(k)).

- The capital reserve account balance cannot exceed the amount needed to implement the capital projects in the LRFP not met by state support (*N.J.A.C.* 6A:23A-14.1(g)). "All excess amounts in the capital reserve account identified in the annual audit shall be reserved and designated in the subsequent year's budget." (*N.J.A.C.* 6A:23A-14.1(g)2).

Deposits:

- A district board of education or board of school estimate may increase the balance in the capital reserve by appropriating funds in the annual general fund budget certified for taxes to meet the needs of the long-range facilities plan (*N.J.A.C.* 6A:23A-14.1(c)1). For a district with a November election, a deposit to capital reserve that has been included in the original budget certified for taxes is within the budget cap and is deemed to have met the requirements for deposit set forth at *N.J.A.C.* 6A:23a-14.1(c)1.

- A district board of education may deposit any unanticipated revenue or unexpended line-item appropriation by board resolution at year end. The board resolution for deposit at year end into a capital reserve account must be made between June 1 and June 30 of the budget year (*N.J.S.A.* 18A:7F-41, *N.J.A.C.* 6A:23A-14.3).

- A district board of education may request approval of the voters for appropriation of additional amounts into the capital reserve by a separate proposal at budget time or by a special question at one of the four special elections authorized pursuant to *N.J.S.A.* 19:60-2. A district board of education may request approval of the board of school estimate for appropriation of additional amounts into the capital reserve by a separate proposal at budget time or by special resolution. The amount expressly approved by the voters or board of school estimate for deposit into a capital reserve may be from surplus or unrestricted local miscellaneous revenue only if such source is delineated in the question and/or special resolution. (*N.J.A.C.* 6A:23A-14.1(e))

- Interest earned on capital reserve funds in the account, including that earned on current year increases, must automatically be placed in the account. Failure to budget the interest does not change the requirement to deposit the interest earned in the account.

- Deposits are not made for a specific capital project unless specific voter approval was sought and received.

Withdrawals for Local Amount of School Facilities Projects:

- Withdrawals of the local share by board resolution, after receiving voter, board of school estimate or capital project review board approval of the intended capital reserve use and specific amount in an approved referendum(s) question for the school facilities project(s). (*N.J.A.C.* 6A:26A-14.1(h)(4))

- Withdrawals for a non-referendum school facilities project may be made, by board resolution, up to 110 percent of the local share less excess costs. Withdrawals must be transferred to the capital projects fund and accounted for separately with the corresponding SCC/SDA grant. (*N.J.A.C.* 6A:26A-14.1(j)(2))

Withdrawals for Excess Costs or Other Capital Projects:

- By board resolution for the transfer of funds to the line items in the capital outlay major account/fund to fund the total costs, less any excess costs, of an "Other Capital Project" which would otherwise be eligible for State support, and has received approval from the Office of School Facilities as eligible for State support. The amount of the withdrawal should not exceed the amount necessary to complete the "Other Capital Project". Note that an approval of the "Other Capital Project" alone does not constitute eligibility for State funding. (*N.J.A.C.* 6A:23A-14.1(h)(3))

- Upon voter, board of school estimate, or capital project board approval, withdrawals may be made to fund excess costs of a school facilities project, and to fund the total costs of an "Other Capital Project" that would not otherwise be eligible for State support as determined in accordance with N.J.A.C. 6A:26. Note that a project that has not received notification of eligibility for state funding from the Office of School Facilities requires a separate Statement of Purpose in the advertised budget. (*N.J.A.C.* 6A:23A-14.1(h)(5)) It is the position of the department that where the district has moved to a November election, a budgeted withdraw from capital reserve to fund an "Other Capital Project" or "excess costs of a school facilities project" is considered to have met the requirements at *N.J.A.C.* 6A:23A-14.1(h)(5)(i) for voter approval through the original budget certified for taxes provided the budget is within the tax levy cap certified by the board of education or the board of school estimate and approved by the Executive County Superintendent.

- Withdrawals for additional funds to augment a previously approved referendum project may be made if voter approved through the original budget certified for taxes which must include a Statement of Purpose which includes the amount of excess costs to be withdrawn, the date of the referendum, the amount of the local share in the approved referendum, and the reason needed to exceed the original approved amount. (*N.J.A.C.* 6A:23A-14.1(h)(5))

- Withdrawals for referendum approved "Other Capital Projects" may be made if the capital reserve use and specific amount is identified in the approved question. (*N.J.A.C.* 6A:23A-14.1(h)(4))

Withdrawals for Debt Service:

- A district, by board resolution, may withdraw and transfer funds to the debt service fund to offset principal and interest payments for bonded projects in the LRFP.

Unexpended funds remaining after completion of a project:

- Capital reserve funds transferred to Capital Projects to augment a grant that are remaining after completion of a school facilities project must be returned to the capital reserve account or anticipated as part of the designated general fund balance of the subsequent school year's budget or reserved and designated in the second subsequent year budget. (*N.J.A.C.* 6A:23A-14.1(j)3)

- Any unexpended capital reserve funds transferred to capital outlay remaining after completion of the school facilities project shall be returned to the capital reserve or anticipated as part of the designated general fund balance of the subsequent school year budget or reserved and designated in the second subsequent school year budget. (*N.J.A.C.* 6A:23A-14.1(h)5)

Capital Reserve - Accounting and Reporting

The department published accounting guidance for capital reserve that was distributed to districts and copied to the public school accountants on October 19, 2001. The passage of P.L. 2004, c.73 (S1701) supersedes that guidance by eliminating the previous EFCFA authority for districts to make transfers to capital reserve at any time during the year. District staff and auditors should refer to the regulations *N.J.A.C.* 6A:23A-14.1. The following highlights from that document are still applicable.

- Activity is recorded in the budgetary and asset accounts, not fund balance accounts.
- Adjustments to fund balance are recorded as part of the year-end closing entries.
- The Capital Reserve Asset Account (10-116) is required to segregate the restricted capital reserve assets and is used during the year to record all activity.
- There is no requirement to open a separate bank account for this activity, however, it is practical to do so, given the requirements for recording interest.
- Interest earned on the money as it is spent down is an increase in the capital reserve asset account.

The Capital Reserve account is reported in the *Balance Sheet* (Exhibit B-1) of the governmental funds statements as both an asset (Capital Reserve Account) and in the "Restricted Fund Balance" category (GASBS 54) as Reserved Fund Balance - Capital Reserve Account. In the districtwide *Statement of Net Position (*Exhibit A-1) the balance of this account is reported in the net assets section as "Restricted for Other Purposes" in the governmental activities column.

> *Auditor's Note* – The June 30, 2014 Balance Sheet should reflect the actual balance at June 30, 2014 and <u>not</u> increases/withdrawals included in the 2013-14 budget. The department recommends footnote disclosure in the Comprehensive Annual Financial Report.

Excess Surplus

<u>Overview</u>

Charter schools are not subject to the excess surplus limitations. Charter school auditors are required to document the calculation of excess surplus pursuant to *N.J.S.A.* 18A:7F-7 solely for the purpose of adherence to *N.J.A.C.* 6A:23A-22.4(e), which provides that a district board of education may petition the Commissioner to pay a lower per-pupil rate if the charter school spends "significantly less than budgeted and has accumulated a sizable surplus."

Auditors are required to perform the calculation of excess surplus at June 30 in accordance with *N.J.S.A.* 18A:7F-7 for all regular and county vocational school districts. The audited excess surplus calculation is not applicable to Education Service Commissions (ESCs). Special services school districts are subject to an excess surplus calculation in accordance with *N.J.S.A.* 18A:46-31, as amended. This calculation will be performed by the department during the tuition rate certification process. Do not perform the excess surplus calculation or report excess surplus for a special services school district.

The excess surplus calculation is required to be documented in the Auditor's Management Report. The applicable percentage is 2 percent for regular districts and 6 percent for county vocational districts. The minimum is $250,000 for both types of districts.

> *Auditor's Note* – Districts required to use school-based budgeting should refer to the guidance is Section III-4 of this Audit Program for detailed instructions on how to complete the excess surplus calculations.

Audited excess surplus is a budget related calculation using the general fund expenditures for the fiscal year and fund balance as reported in the *Budgetary Comparison Schedule – General Fund* (Exhibit C-1) for the fiscal year. **There is only one excess surplus calculation using budgetary amounts.** The reserve for excess surplus is included in the recapitulation of fund balance presented at the end of the Exhibit C-1 schedule. These amounts are reported on the modified accrual basis with the exception of a state legally mandated revenue recognition policy that is in conflict with GASB 33. See the example on the last page of this chapter.

Amounts included in the 2014-15 certified budget (reserved fund balance – excess surplus designated for subsequent year's expenditure) and any additional amounts reserved for appropriation in the 2014-15 original annual budget (reserved fund balance - excess surplus) must be separately reported in the Audsum on the separate lines provided. See Section III-5 of this *Audit Program* for further clarification. The Audsum includes a warning edit for the calculation of excess surplus at June 30, 2014. Under *N.J.S.A.* 18A:7F-7d, the Commissioner may withhold state aid in an amount not to exceed the audited excess undesignated general fund balances for failure to comply with the required reservation and designation of the audited excess surplus.

A calculation was performed in the 2014-15 budget software in the Budget Tab using projected 6/30/14 surplus balances and revised 2013-14 budgeted appropriations. The software, via the edits, forced the inclusion of the greater of the audited excess surplus at 6/30/13 or the calculated projected excess surplus at 6/30/14 in the 2014-15 budget as budgeted fund balance.

The 6/30/14 audited calculation should be based upon June 30, 2014 total general fund expenditures as reported on the *Budgetary Comparison Schedule General Fund* (Exhibit C-1), including applicable transfers to other funds, and net of TPAF Pension and Social Security on behalf payments and amounts reported as "Assets acquired under capital leases (non-budgeted)." General fund transfers to other funds that are not included in the total general fund expenditures presented in the *Budgetary Comparison Schedule General Fund (Exhibit C-1)*, but may be added to the calculation are, Transfer Capital Outlay to Capital Projects (to augment SCC/SDA grant); Transfer Capital Reserve to Capital Projects (augment SCC/SDA grant); Local Contribution – Transfer to Special Revenue – Regular Preschool; and Local Contribution – Transfer to Special Revenue – Inclusion Preschool. <u>Beginning with June 2012, Transfer to Food Services is no longer an adjustment to expenditures.</u> This calculation is also adjusted for any allowable adjustments such as impact aid, sale and lease-back, extraordinary aid, and additional nonpublic transportation aid, if applicable. The adjustment for extraordinary aid and additional nonpublic transportation aid is limited to the amount of revenue recognized in the current year that was not appropriated. The impact aid adjustment only applies to districts receiving impact aid and the amount that can be deducted as an adjustment generally is the amount recognized as impact aid revenue in the current year.

The surplus used in the calculation is the total general fund surplus net of any reserve for encumbrances, capital reserve, maintenance reserve, emergency reserve, tuition reserve, school bus advertising revenue reserve – 50% fuel offset, and any other state/government imposed or department approved legal reserve that has not been appropriated in the 2014-15 budget and that are in compliance with *N.J.A.C.* 6A:23A-

16.2. Adjustments for legal reserves not appropriated in 2014-15 must be supported by a board resolution establishing the legal reserve. In most cases, this adjustment will not be applicable since most legal reserves require appropriation into the next year's budget.

For any legal reserve that is for other than encumbrances or state/government imposed or other legal restriction, the school district must seek approval from the Assistant Commissioner of Finance for use as an adjustment in the excess surplus calculation. Written approval must be received by September 30 if the district is seeking approval for the current audit year.

Auditors are required to include the calculation of 6/30/14 audited excess surplus in the Auditor's Management Report. The department requires footnote disclosure in the CAFR for those districts where excess surplus is reflected on the general fund balance sheet.

2 Percent Calculation –Regular Districts

Pursuant to *N.J.S.A.* 18A:7F-7, as amended, all regular districts, excluding county vocational districts, must perform the excess surplus calculation using 2 percent of general fund expenditures. The minimum balance is $250,000.

Amounts calculated in excess of 2 percent that have not been appropriated in the 2014-15 original budget certified for taxes must be reported in the "Restricted Fund Balance" category (GASBS 54) as general fund "Reserved Fund Balance - Excess Surplus" in the June 30, 2014 CAFR and appropriated in the 2015-16 budget. The amount which has been included in the 2014-15 budget should be reported in the "Restricted Fund Balance" category (GASBS 54) as general fund "Reserved Fund Balance - Excess Surplus, Designated for Subsequent Year's Expenditures."

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.

The illustrations and instructions for the excess surplus calculation for regular districts and the 6 percent calculation for vocational districts have been relocated to Section III, Chapter 4, "Auditor's Management Report" of this Audit Program. Refer to page III-4.27 et.seq.

Fund Balance Classifications

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

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

Districts/charter schools will continue to maintain the existing general ledger fund balance accounts (as appropriate) such as reserve for encumbrances, capital reserve, reserve for adult education programs, maintenance reserve, legal reserve, tuition reserve, waiver offset reserve, emergency reserve, excess

surplus (current year), and excess surplus – (prior year) designated for subsequent year's expenditures, etc. For purposes of presentation in the *Governmental Funds Balance Sheet, B-1*, reserve balances are further categorized into one or more of the five fund balance categories according to the degree of restriction placed upon those balances. Unreserved general fund balance is further categorized as either "assigned" or "unassigned".

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

Districts use the fund balance classifications reported at the end of the *General Fund Budgetary Comparison Schedule* (Exhibit C-1) for purposes of calculating excess surplus. Fund balance in this Schedule reflects the modified accrual basis with the exception of the last state payment. Districts must include a Recapitulation of Fund Balance at the end of this Schedule with sufficient detail for a reviewer to determine the nature of any restriction, commitment, or assignment. The department has elected to continue to require districts to separately identify the total amount of encumbrances on the fund balance recapitulation on the C-1. The "Reserve for Encumbrances" should be displayed as "Year-End Encumbrances" in the "committed" and/or "assigned" categories. "Unrestricted Fund Balance" should be displayed as "Unassigned Fund Balance". See the illustration at the end of this chapter and also the guidance in Section III-5 on Audsum.

Fund balance in the *Governmental Funds Balance Sheet* (Exhibit B-1) reflects the modified accrual basis and under GASB No. 54 should be classified into nonspendable, restricted, committed, assigned or unassigned fund balance. In the accrual basis *Statement of Net Position* (Exhibit A-1), there are three classifications of net assets: Invested in capital assets, net of related debt, Restricted net assets (with a line item for each fund in which the net assets are restricted), and Unrestricted. Auditors and district/charter school staff should refer to GASB 34, paragraphs 30 – 37 for further clarification of these classifications.

> *Auditor's Note* – No appropriation of surplus after June 30, 2014 is to be reflected in the June 30, 2014 balance sheet as designated for subsequent year's expenditures. The department recommends footnote disclosure in the CAFR.

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

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

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

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

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

- The **capital reserve account** maintained in the general fund allows a district to accumulate funds for future capital projects. See page II-10.16 of this Audit Program for specific procedures affecting capital reserve accounting. A separate line is provided in the Audsum for this reserve account. GASBS No. 54 requires the further categorization of the capital reserve account balance on the *Governmental Funds Balance Sheet* (Exhibit B-1) as restricted, depending on the nature and degree of restriction(s). The Department recommends reporting the capital reserve under "Restricted" fund balance due to the statutory and regulatory restrictions on withdrawals from capital reserve. The same categorization is applicable to the *General Fund Budgetary Comparison Schedule* (Exhibit C-1)

- The **maintenance reserve account** is maintained in the general fund. The maintenance reserve account is used to accumulate funds for the required maintenance of a facility in accordance with the EFCFA (*N.J.S.A.*18A:7G-9) as amended by P.L. 2004, c. 73 (S1701). Districts may increase the balance in the maintenance reserve account by appropriating funds in the annual general fund budget certified for taxes (*N.J.A.C.* 6A:23A-14.2) or by deposit of any unanticipated revenue or unexpended line-item appropriation by board resolution at year end. The board resolution for deposit at year end into a maintenance reserve account must be made between June 1 and June 30 of the budget year (*N.J.S.A.* 18A:7F-41, *N.J.A.C.* 6A:23A-14.3). EFCFA requires that upon district completion of a school facilities project, the district must submit a plan for the maintenance of that facility. Auditors and district staff should refer to the regulations, *N.J.A.C.*6A:26A, for further guidance. A separate line is provided in the Audsum for this reserve account. GASBS No. 54 requires the further categorization of the maintenance reserve account balance on the *Governmental Funds Balance Sheet* (Exhibit B-1) as restricted, committed, and/or assigned. The Department recommends reporting the maintenance reserve under "Restricted" fund balance due to the statutory and regulatory restrictions on withdrawals from maintenance reserve. The same categorization is applicable to the *General Fund Budgetary Comparison Schedule* (Exhibit C-1)

- The **emergency reserve** is maintained in the general fund. The emergency reserve account is used to accumulate funds in accordance with *N.J.S.A.* 18A:7F-41c(1) to finance unanticipated general fund expenditures required for a thorough and efficient education. Unanticipated means reasonably unforeseeable and shall not include additional costs caused by poor planning. The maximum balance permitted at any time in this reserve is the greater of $250,000 or 1 percent of the general fund budget not to exceed $1 million. Deposits may be made to the emergency reserve account by board resolution at year end of any unanticipated revenue or unexpended line item appropriation or both. The department has defined year end for the purpose of depositing surplus into reserve accounts as an amount approved by the district board of education/charter school board of trustees between June 1 and June 30. Withdrawals from the reserve require the approval of the Commissioner unless the withdrawal is necessary to meet an increase in total health care costs in excess of 4 percent. GASBS No. 54 requires the further categorization of the emergency reserve account balance on the *Governmental Funds Balance Sheet* (Exhibit B-1). The emergency reserve has significant externally imposed restrictions on its withdrawal and should be categorized as "Restricted" fund balance. The same categorization is applicable to the *General Fund Budgetary Comparison Schedule* (Exhibit C-1)

- The **reserve for tuition** is maintained in the general fund. The tuition reserve represents a year end fund balance classification to reserve unrestricted fund balance for a foreseeable future tuition adjustment pursuant to *N.J.A.C.* 6A:23A-17.1(f). This reserve is only applicable for formal sending /receiving relationships between two district boards of education established under subchapter 3 of the business services code pursuant to *N.J.S.A.* 18A:38-19. It does not pertain to tuition certification or amounts owed to private schools for the handicapped. It is also not applicable to county vocational districts. The tuition reserve enables the district to reserve fund balance for an anticipated large tuition adjustment for the current contract year. The major contributing factor for tuition adjustments and use of the reserve is a significant change from estimated to the actual enrollment. The maximum amount that may be restricted at year end is 10 percent of the estimated tuition cost of the contract year. Upon certification of rates in the second year following the contract year, full appropriation of the applicable year's reserve must be liquidated and any remaining balance related to that year must be reserved and appropriated in the budget. In the recapitulation of fund balance reported at the end of the *Budgetary Comparison Schedule* (Exhibit C-1), the reserve for each of two possible years should be reported separately. Separate lines are provided in the Audsum data collection for each applicable year's reserve, both the beginning fund balance and the ending fund balance for each of the two years reserve. See this Audit Program, Section III-5 for further clarification on the specific lines. GASBS No. 54 requires the further categorization of the tuition reserve account balance on the *Governmental Funds Balance Sheet* (Exhibit B-1). Based upon the withdrawal requirements, the tuition reserve has significant externally imposed restrictions on its use and should be categorized as "Restricted" fund balance. The same categorization is applicable to the *General Fund Budgetary Comparison Schedule* (Exhibit C-1)

- The **reserved fund balance-legally restricted account(s)** are maintained in the general fund. The legally restricted fund balance account(s) is used to report that portion of the general fund surplus that is legally reserved for specific purposes. In general, funds are legally restricted only when constraints placed on the use are externally imposed by creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. This would include reserves established for register audit recoveries and restricted appropriations such as unspent funds from:

  1) Approved separate proposals as outlined in *N.J.A.C.* 6A:23A-12.13

2) Sale/lease-back reserve *N.J.S.A.* 18A:7F-7(e)
3) The 50% portion of School Bus Advertising Revenue recognized during the current year under audit (6/30/13) (*N.J.S.A.* 18A:7F-7.1) that must be budgeted to offset fuel costs no later than the second subsequent year (2014-15) (*N.J.S.A.* 18A:39-31)

Legal reserves that are for anything other than state imposed or other government imposed legal restriction must be approved by the Assistant Commissioner Administration and Finance. Examples of state imposed legal restrictions include audited excess surplus, unspent separate proposals, ASSA audit recoveries, legally established capital, maintenance, and tuition reserve accounts, and a reserve established for the sale leaseback of textbooks in the year the proceeds are realized. For year end June 30, 2014 and thereafter, 50% of the amount recognized as school bus advertising revenue for the current year under audit must be used to reduce fuel costs and may be legally reserved until designated for use no later than the second subsequent year. Refer to Section III-5 of this Audit Program for specific Audsum lines. All other items must be included only pursuant to an approved **request for approval submitted by the school district/charter school to the Assistant Commissioner Administration & Finance no later than <u>September 30, 2014</u> for the June 30, 2014 year.** The request should state the purpose and legal basis for the reserve (e.g., the specific "constraint imposed on the use by external parties or by laws or regulations of other governments"). Approval will only be granted for those other legal obligations that are in conformity with GAAP.

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

- The notes to the financial statements must contain a discussion of all legally restricted balances, including the amount, source and fiscal year in which it will be appropriated. A separate line is provided in the Audsum data collection for legal reserves - general fund. These balances, if determined prior to the adoption of the budget, should have been anticipated in the 2014-15 "School District Budget Statement" and in the 2013-14 column of the "Restricted – Legal Reserve" section of the Recapitulation of Balances . GASBS No. 54 requires the further categorization of the legal reserve account balance on the *Governmental Funds Balance Sheet* (Exhibit B-1). GASBS No. 54 paragraph 8 requires that amounts placed in legal reserve that are subject to:

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

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

- The **reserved fund balance – excess surplus – designated for subsequent year's expenditures** represents the audited excess surplus from the prior year budgeted in the subsequent year. Any portion of the June 30, 2013 audited excess surplus that was appropriated in the 2014-15 original budget certified for taxes must be categorized on the *Governmental Funds Balance Sheet* (Exhibit B-1) as "Restricted" fund balance. The same categorization is applicable to the *General Fund Budgetary Comparison Schedule* (Exhibit C-1). Audsum line 90031 has been provided for reserved fund balance - excess surplus – designated for subsequent year's expenditures. The following discussion and example illustrates the proper presentation of excess surplus – designated for subsequent year's expenditures.

Example: The school district had audited excess surplus as of June 30, 2013 of $55,000 and an unexpended 2012-13 additional spending proposal of $9,000. The district appropriated $149,000 (sum of the *(a)* items in the 2014-15 original budget (comprised of the $9,000 unexpended 2012-13 additional spending proposal, $55,000 audited excess surplus from June 30, 2013 and $85,000 of "Assigned" fund balance - designated by the BOE for subsequent year's expenditures.) The district recognized school bus advertising revenue of $30,000 during the current year, 50% of which is legally restricted to budget as an offset to fuel costs no later than the second subsequent year (Item (c)). As of June 30, 2014 the district had generated an additional $142,000 *(b)* of excess surplus. The $142,000 is required to be appropriated in the 2015-16 original budget and should also be reported on line 90030 of the June 30, 2014 Audsum data collection.

	June 30, 2014	June 30, 2013
Fund Balances*:*		
Year-End Encumbrances	$ 4,900	$ 50,000
Legally Restricted – Unexpended Additional Spending Proposal		9,000
Legally Restricted – 50% of Current Year School Bus Advertising Revenue, Fuel Costs	15,000 *(c)*	
Legally Restricted – Designated for Subsequent Year's Expenditures	9,000 *(a)*	
Legally Restricted - Excess Surplus	142,000 *(b)*	55,000
Legally Restricted - Excess Surplus - Designated for Subsequent Year's Expenditures	55,000 *(a)*	
Assigned Fund Balance- Designated for Subsequent Year's Expenditures	85,000 *(a)*	235,000
Unassigned Fund Balance	253,000	215,000
	$ 563,900	$ 564,000

- **Legally Restricted – Excess Surplus** represents audited excess surplus generated in the current audit year. Amounts calculated as excess surplus generated during the year ended June 30, 2014 that has not been anticipated and appropriated in the 2014-15 original budget certified for taxes must be reported as Legally Restricted - Excess Surplus – current year and categorized on the *Governmental Funds Balance Sheet* (Exhibit B-1) as "Restricted" fund balance. The same categorization is applicable to the *General Fund Budgetary Comparison Schedule* (Exhibit C-1). Appropriate footnote disclosure should be made in the notes to the financial statements including the amount and an explanation that the amount represents current year surplus that is reserved and designated for use in the 2015-16 budget in accordance with *N.J.S.A.* 18A:7F-7. Audsum line 90030 is used to report the current year reserved fund balance - excess surplus. Please note that the Audsum includes a warning edit for the calculation of excess surplus at June 30, 2014. Auditors are required to include the calculation of excess surplus in the Auditor's Management Report.

Charter schools are not subject to the excess surplus limitations. Charter school auditors are required to document the calculation of excess surplus pursuant to *N.J.S.A.* 18A:7F-7 solely for the purpose of adherence to *N.J.A.C.* 6A:23A-22.4(e), which provides that a district board of education may petition the Commissioner to pay a lower per-pupil rate if the charter school spends "significantly less than budgeted and has accumulated a sizable surplus."

- The **reserved fund balance – adult education programs** is a required separate restricted account. *N.J.S.A.* 18A:50-6 requires that surplus generated from the excess of receipts from donations, tuition fees, or from any source other than local taxation over the actual cost of the maintenance and operation of the district's adult education program remain in a separate account for the restricted fund balance. The account should be displayed as an asset and within the fund balance section on the *Governmental Funds Balance Sheet* (Exhibit B-1) and in the fund balance recapitulation section of the *General Fund Budgetary Comparison Schedule* (Exhibit C-1) in the "Restricted" fund balance category. In the event that the adult education program in any district is discontinued for two consecutive school years any funds remaining in the separate account shall lapse into the unreserved/unassigned general fund balance of the district. A separate line is provided in the Audsum for reserved for adult education programs - general fund.

Fund Balance – Unassigned (Districts Only)

All other fund balance is classified as "**Unassigned" fund balance** and is considered in the excess surplus calculation. Refer to the example calculation in section III-4 of this Audit Program. Following are several points of clarification regarding the determination of "Unassigned" fund balance:

- In determining "unassigned" fund balance, districts may reflect management's intended use of fund balance in the subsequent year's budget certified for taxes as a separate line in the "Assigned" fund balance section of the *Governmental Funds Balance Sheet* (Exhibit B-1) and in the recapitulation of fund balance section of the *General Fund Budgetary Comparison Schedule* (Exhibit C-1). The amount of year end fund balance that has been included in the certified budget should be presented as "Designated for Subsequent Year's Expenditures" and further classified as a component of "Assigned" fund balance. Each assignation should be explained in the notes to the financial statements.
- Separate lines are provided in the Audsum data collection for Unassigned General Fund Balance (90075) and Assigned General Fund Balance Designated Subsequent Year's Expenditure (90080). Include in the "Assigned" fund balance section of Audsum on the designated fund balance line only those amounts which were included in the 2014-15 certified budget as budgeted fund balance on line 580 that have not already been included on another fund balance line of Audsum. Included in the "Unassigned" line are all other fund balances that have not been otherwise reported in Audsum. General Fund Unassigned Fund Balance reported in Audsum must agree with the General Fund Unassigned Fund Balance reported in the recapitulation of fund balance section of the *General Fund Budgetary Comparison Schedule* (Exhibit C-1).

For purposes of the excess surplus calculation, fund balance is the amount derived from the revenue including the last state aid payment. The following recapitulation of fund balance is to be included on the *Budgetary Comparison Schedule for the General Fund* (Exhibit C-1). Note that in the reconciliation to GAAP, the adjustment to fund balance is only to reverse the last state aid payment, not to add in the payment made for the prior year, since that payment has been included in the "budgetary" fund balance which is rolled forward on the *Budgetary Comparison Schedule.*

Fund Balance – Unassigned - Charter Schools Only

All other fund balance is classified as "**Unassigned" fund balance.** Charter schools may reflect management's intent for use of the unassigned fund balance as separate lines in the equity section of the balance sheet under the heading unassigned fund balance. Each designation should be explained in the notes to the financial statements. All other unassigned fund balances should be presented as unassigned-undesignated. The amount of unassigned fund balance that has been included in the upcoming year's general fund budget as budgeted fund balance should be reported in the unassigned fund balance equity section as designated for subsequent year's expenditure. If the budgeted fund balance amount included in the approved budget contains an amount that has been shown in the reserved fund balance section of the balance sheet, do not include it as part of the unassigned designated for subsequent year's expenditure amount. Separate lines are provided in the Audsum data collection for unassigned-undesignated general fund balances and unreserved fund balance that is designated for subsequent year's expenditure. Include on the designated fund balance line only those amounts which were included in the 2014-15 budget as budgeted fund balance on lines 121, 122 and 123 that have not already been included on a reserved fund balance line. Include in the unassigned-undesignated line all other unassigned fund balance.

Sample Recapitulation of Fund Balance (School Districts and Charter Schools):

Nonspendable Fund Balance:	
Inventory	$ xxx
Restricted Fund Balance:	
Legally Restricted – Designated for Subsequent Year's Expenditures	9,000
Reserved Excess Surplus - Designated for Subsequent Year's Expenditures	55,000
Legally Restricted – 50% Current Year School Bus Advertising Revenue; Offset to Fuel Costs	15,000
Reserve for Excess Surplus	142,000
Maintenance Reserve [if applicable]	xxx
Capital Reserve [if applicable]	xxx
Emergency Reserve [if applicable]	xxx
Committed Fund Balance:	
Year-end Encumbrances	4,900
Assigned Fund Balance:	
Designated for Subsequent Year's Expenditures	85,000
Unassigned Fund Balance	253,000
	563,900
Reconciliation to Governmental Funds Statements (GAAP):	
Last State Aid Payment Not Recognized on GAAP Basis	(551,385)
Fund Balance per Governmental Funds (GAAP)	$ 12,515

<u>Deficit Due to Delay of One or More June State Aid Payment(s) – [Does not apply to charter schools]</u>

On the modified accrual statements, a deficit may occur in the general or special revenue fund. Pursuant to *N.J.S.A.* 18A:22-44.2 any negative unreserved, undesignated (Unassigned) fund balance that is reported as a direct result from a delay in the payment of state aid until the following fiscal year, is not considered a violation of New Jersey statute and regulation and does not require corrective action unless the deficit exceeds the last state payment(s). Refer to paragraph 19 of GASBS No. 54 for guidance regarding the reporting of a negative "Unassigned" fund balance.

SECTION II – SPECIFIC COMPLIANCE
FUND 20 – SPECIAL REVENUE FUND

TPAF Reimbursement

N.J.S.A. 18A:66-90 requires that each local board of education/board of trustees reimburse the state for the employer share of pensions, group life insurance, FICA and other benefits of the Teachers' Pension and Annuity Fund (TPAF) for TPAF members carrying out and paid from federally funded programs. It has been determined that where the district has used federal Community Development Block Grant (CDBG) funds to pay the wages of TPAF employees, those wages are not subject to this statutory reimbursement requirement. Refer to pages II-10.6 and II-10.7 of this Audit Program for additional information regarding CDBG. The reimbursement, together with supporting documentation prescribed by the Director of Pensions, must be remitted to the Department of Education within 90 days after the close of the fiscal year. Auditors should refer to the updated letter and downloadable form expected to be posted to the NJDOE website under "Most Requested Items" available July-August, 2014: http://www.state.nj.us/education/finance/

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

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

TPAF and FICA Reimbursement for Districts Required to Use School-Based Budgeting

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. This calculation is necessary to enable the district to remit the correct amount of funds to the Department of Education. This calculation pertains to schools implementing school-based budgeting for the year ended June 30, 2014 and is detailed below and illustrated at the TPAF series of schedules which are linked below.

Procedures to Calculate TPAF and Employer Share of Social Security & Medicare Charged to Federal Programs in a School-Based Budget School to be Remitted to the Department of Education in Compliance with N.J.S.A. 18A:66-90

The following steps one through four must be performed for each school:

1.) Perform a payroll sort from the district's payroll system, by school, detailing the teachers at each school and each teacher's contracted salaries paid during the year. (This amount is to be contracted base wages only and should not include stipends or extra-curricular activity payments.) This amount should be broken out between salaries paid from July 1, 2013 through December 31, 2013 and salaries paid from January 1, 2014 through June 30, 2014. Salaries paid for the calendar year ended December 31, 2013 will also be needed to calculate the social security and Medicare portions of FICA salaries over and under $113,700 for the 2013 calendar year.

2.) The total fiscal year contractual salaries must then be broken down by calendar year to determine the amount paid which is less than or equal to $113,700 for the 2013 calendar year; the amount which exceeds $113,700 for the 2013 calendar year; the amount paid which is less than or equal to $117,000 for the 2014 calendar year; and the amount which exceeds $117,000 for the 2014 calendar year. This information is necessary to calculate the social security and Medicare portions of FICA. This is most easily accomplished by sorting the information into two columns for each calendar year and totaling the columns.

3.) The amounts determined in 2.) above must be accumulated and multiplied by the Title 1 percentage calculated on the current year *Schedule of Expenditures Allocated by Resource Type* to determine the Title 1 proportionate share of salaries. The amounts determined in 2.) above then must be accumulated and multiplied by the "all other federal programs" rate to determine the all other federal programs proportionate share of salaries. The all other federal programs rate is the sum of the percentages calculated on the current year *Schedule of Expenditures Allocated by Resource Type* for all federal programs excluding Title 1.

4.) The reimbursement amounts will also need to be calculated at the school level to enable the reimbursements to be recorded in the individual school's Fund 15. The social security, Medicare and TPAF rates are then applied to the salary amounts determined in steps two and three above to calculate the social security, Medicare and TPAF reimbursements due to the Department of Education for each school-based budget school. The preliminary State payment to the Teacher's Pension and Annuity Fund for FY 2013-2014 is 17.14%. The social security rate remains at 7.65%. Consequently, estimated TPAF and FICA rates now total 24.79% and has been used for illustration purposes in the sample schedule accessible using the link on page II-20.3. **Districts should not use this estimated rate to complete the TPAF and FICA Reimbursement form**. **Districts must use the actual rate which will be available on the Department's website after the release of this Audit Program. When the actual 2013-14 TPAF rate is known, the sample schedule will be revised to reflect the actual TPAF rate.**

The federal program salaries calculated for each school in steps one through four will then be entered onto the worksheet entitled *SBB TPAF and FICA Calculation to Comply with N.J.S.A.* 18A:66-90 in the applicable column and should be included in the salary amounts reported on the reimbursement form entitled, *Reimbursement to State of New Jersey – N.J.S.A.* 18A:66-90. The district should retain the worksheet and the individual school calculations as supporting documentation of the school-based budget salaries included in the amounts reported on the reimbursement form. The district's public school accountant will need to verify these calculations prior to signing off on the reimbursement form.

Districts charge the TPAF and Social Security employer contributions related to salaries charged to federal grants to that grant budget as employee benefits (20-xxx-200-200) using an estimated rate. Throughout the year, districts debit employee benefits and credit Intergovernmental Accounts Payable – State (20-411) using that estimated rate. When the actual combined TPAF/Social Security rate is known, the accumulated expenditures and payable to the State are adjusted. The June 30 financial statement will report the amount due to the State as a liability.

SBB TPAF and FICA Calculation to Comply with *N.J.S.A.* 18A:66-90

To display the total SBB TPAF, and FICA Calculation illustration, click on the following link:

TPAFforms13-14forSBB.xlsx

Restricted State Aid

Overview

Under GAAP, there are no fund balances related to grant revenues in excess of expenditures in the special revenue fund since the revenue is not recognized until expenditures have been incurred. Any payments received but not expended or encumbered must be reported as deferred revenue. This also applies to the Preschool Education Aid being accounted for in the special revenue fund.

Year-end encumbrances are included in the special revenue fund as budgetary expenditures (Exhibit C-2) for the year end June 30, 2014 and are reported as GAAP expenditures (Exhibit B-2) in the subsequent year.

June State Aid Payments
Districts prepare their budgets based on state aid revenue paid over 20 cash payments. Beginning in fiscal year 2002-03, the state determined that the last payment would not be paid until July of the subsequent year. Beginning with 2012-13, the last two state aid payments were not paid until July of the subsequent year. GASB 33 requires that the provider government and recipient government recognize a payable and receivable in the same fiscal period. *N.J.S.A.* 18A:22-44.2 requires that districts include the last two state aid payments as revenue for budgetary purposes only. There may be a year-end difference between the revenue for GAAP reporting and revenue for budgetary comparisons for any fiscal year in which the last state aid payments are deferred to the subsequent fiscal year. Chapters II-8 and III-6 provide an in depth discussion of the budget to GAAP reconciliation.

FEMA Reimbursements

Unrestricted reimbursements are reported as an "other financing source" in the general fund. However, if the FEMA reimbursement is received pursuant to the school district having submitted a project worksheet for expenditures related to a disaster (e.g. Project SERV funds), eligible obligations/expenditures must be specifically identified and reported in the special revenue fund. Documentation in support of eligible obligations/expenditures must be maintained for audit. Districts should have recorded those obligations/expenditures in fund 20 with a unique program code in the 290-299 range. The FEMA reimbursement is recorded and reported as "Other Restricted Grants-in-Aid from the Federal Government through the State" in the special revenue fund. Use newly created Audsum line 817, "Super Storm Sandy - FEMA and Other Restricted Recovery Sources" (20- 4526) for this purpose.

Below is a link to the April 30, 2013 notification of grant awards provided to certain school districts for the purpose of assisting those school districts through the reimbursement of expenditures in support of activities intended address the super storm's after effects. The notification includes a sample listing of the types of expenditures that were considered for reimbursement.

http://www.state.nj.us/governor/news/news/552013/approved/20130430a.html

In November of 2013, $800,000 in Project SERV funding was awarded to certain districts impacted by Hurricane Sandy. This award is in addition to the $1.25 million in Project SERV grants that were previously awarded in the prior fiscal year. Funds were approved based on a project worksheet submitted by the district to FEMA and all revenues and expenditures must be recorded in fund 20. The list of grant awards can be found at **http://www.state.nj.us/education/news/2013/1126sandy.htm**

Preschool Education Aid (PEA)

Pursuant to *N.J.S.A.* 18A:7F-54, districts with high concentrations of low income students shall establish preschool and full day kindergarten for all three- and four-year-olds. The program objective under the School Funding Reform Act (SFRA) is for district factor group A and B school districts, and district factor group CD school districts with a concentration of at-risk children equal to or greater than 40 percent, to provide free access to full-day preschool for all three- and four-year-old children. All other school districts shall provide free access to full-day preschool for at-risk children. The program objective is to be met by the 2013-14 school year. For the 2013-14 fiscal year, only districts receiving preschool aid prior to the passage of the SFRA received Preschool Education Aid. In the 31 SBB districts and in the 4 former Early Childhood Program Aid (ECPA) districts previously approved to expand their program, Preschool Education Aid shall reflect the cost of the child's placement in a district program, a licensed child care provider program, or a Head Start Program which provides high quality full-day preschool in accordance with the Commissioner's regulations.

For 2013-14 the department reviewed and issued approvals for Preschool Education Aid budgets for 4 charter schools, the 31 SBB districts and the 4 former ECPA districts that were approved to expand their preschool programs. The department also reviewed/approved the preschool operational plan updates and budgets for the other former ECPA districts and the ELLI districts receiving 2013-14 Preschool Education Aid.

Charter schools that are located in Preschool-eligible districts may apply to the Department of Education, Division of Early Childhood Education to operate a preschool program. For FY2013-14, four charter schools are operating approved preschool programs: Learning Community Charter School located in Jersey City; Marion P. Thomas Charter School located in Newark; University Heights Charter School located in Newark; and Red Bank Charter School located in Red Bank.

Districts/charter schools must appropriate Preschool Education Aid in the special revenue fund for expenditures. Any Preschool Education Aid not expended during the budget year may be carried forward. Preparation of the year end schedule for Preschool Education Aid is contained on the next page in this Audit Program. Preschool Education Aid may be transferred to the general fund to support kindergarten through grade 12 if the district has served all eligible preschool children and provided the program as required. The district must request and obtain approval by the Commissioner. For 2013-14, one transfer approval was granted.

Revenue that was not expended or encumbered by June 30 of the budget year shall be classified as deferred revenue in the financial accounts and statements of the district/charter school and added to the revenue of the subsequent year preschool education budget. As part of the June 30 CAFR districts/charter schools are required to prepare a budgetary basis schedule for Preschool Education Aid expenditures using the minimum outline required for the special revenue fund, including a calculation of the unbudgeted Preschool Education Aid funds along with June 30, 2014 unexpended/unencumbered funds.

It is incumbent upon the school district auditor to verify that the Actual Budgetary Carryover (reported on Line 8 of the PEA Schedule- see below) is computed correctly and agrees with the carryover reported in Audsum. There is a separate data entry line in Audsum for the reporting of PEA budgetary carryover. This amount must agree to Line 8 of the PEA Schedule. Annually, the department will compare the budgetary PEA carryover reported in Audsum to the budgetary PEA carryover reported on Line 8 of the PEA Schedule in the CAFR. In the event that differences exist, those discrepancies must be resolved by the school district and the school district auditor. Discrepancies will generate correspondence from the department and will only be resolved through the re-transmission of Audsum and/or the revision of the PEA Schedule Exhibit-2. Note that unbudgeted Preschool Education Aid is included in the carry-forward computation.

Auditors should verify that the funds were expended only for approved Preschool Education Aid programs pursuant to *N.J.S.A.* 18A:7F-54 and are in compliance with the department approved Preschool Program Plan Update for 2013-14. Auditors should verify that the 2013-14 Preschool Education Aid plan was amended to reflect audited carryover balances. See the *State Aid/Grant Compliance Supplement* for the applicable year available on the NJ Treasury (OMB) and NJ Department of Education websites for further audit procedures.

PREPARING THE PRESCHOOL EDUCATION RESTRICTED AID SCHEDULE

The Schedule of Preschool Education Aid is prepared from the district/charter school records and is the responsibility of the district/charter school. This schedule is to be included in the Special Revenue Fund section of Other Supplementary Information**.** All districts/charter schools eligible for Preschool Education Aid were required to track Preschool Education Aid expenditures in the special revenue fund using the uniform grant project budget statement coding structure. The following sample schedules are presented in the required format for reporting Preschool Education Aid expenditures for 2013-14.

The format of the schedule was designed to provide an audit trail of the actual versus budgeted expenditures as well as calculate deferred revenue and carryover. This schedule is to be prepared on the budgetary basis where "actual" equals the 2013-14 expenditures less the reversal of the prior year end encumbrances (6/30/13) plus encumbrances at June 30, 2014. These encumbrances must be liquidated within 60 to 90 days of the current year end. The "budgeted" amounts can be obtained from the district's/charter school's 2013-14 certified Detailed Appropriations lines 13010 – 13300 adjusted for any approved carryovers and/or transfers. At the bottom of the schedule is a calculation of the 2013-14 Available & Unbudgeted funds and the Actual Budgetary Carryover as of June 30, 2014.

Line (1) represents the total 2013-14 Preschool Education Aid (PEA) allocation. This amount can be obtained from the district's/charter school's "Estimated 2013-14 State School Aid/State Aid Summary" (NET) and is a budgetary amount.

Line (2) represents the actual audited PEA carryover as of June 30, 2013. Carryover balances may have been anticipated in the 2013-14 original budget. Districts/charter schools were instructed to utilize a Carryover Funds form to request use of June 30, 2013 balances or to adjust prior estimates. Copies of the approved request should be on file at the district/charter school.

Line (3) represents the budgeted transfer from the general fund to fund preschool programs. This amount can be obtained from Line 511 (Account 20-5200) in the 2013-14 certified advertised revenues.

Line (4) represents the total 2013-14 funds available for the 2013-14 preschool education budget (sum of lines 1-3).

Line (5) represents the amount the district/charter school included in its Preschool Education Aid budget for the fiscal year 2013-14, including contribution to charter schools, but not including a transfer to the general fund for preschool programs.

Line (6) represents the difference between Line (4) and Line (5). If a district/charter school did not revise its budgeted original allocation (if different) or revise its budgeted June 30, 2013 carryover, then this amount is considered Available and Unbudgeted as of June 30, 2014. Line (6) is then considered a component of the Actual Carryover – Preschool Education Aid of June 30, 2014.

Line (7) represents the actual June 30, 2014 Unexpended Preschool Education Aid from the variance column of the Budgetary Basis Schedule of Preschool Education Aid. This amount represents the 2013-14 unexpended/unencumbered Preschool Education Aid.

Line (8) represents Commissioner approved transfers to the general fund for kindergarten. Auditors must verify that only Commissioner approved transfers are entered on this line.

Line (9) represents the 2013-14 Carryover of Preschool Education Aid Programs to 2014-15 Preschool Education Aid Programs calculated as Line (6) plus Line (7) minus Line (8). This line is the total Actual Budgetary Carryover – Preschool Education Aid as of June 30, 2014. There is a collection line in Audsum for Actual Budgetary PEA Carryover at June 30, 2014. **The carryover reported on this line of the CAFR schedule and the carryover reported in AUDSUM must agree.** Unbudgeted PEA is included in the carryover computation.

Line (10) 2013-14 Preschool Education Aid Carryover from Line (9) that has been budgeted for preschool Programs in 2014-15 can be found in the 2014-15 Preschool Education Aid "Additional Information" from the 2014-15 certified budget. If the (budgetary) actual carryover transferred to Preschool Programs (Line 9) differs from the budgeted carryover on line 10, the district/charter school should consider contacting the program office to discuss a revision to their 2014-15 Preschool Education Program budget.

The Budgetary Preschool Education Aid Carryover 2013-14 (line 9) is for budgetary purposes and will differ from the June 30, 2014 Preschool Education Aid deferred revenue reported on (GAAP) Schedule B, *Schedule of State Financial Assistance* by the amount of the 2013-14 last two state aid payments. The Schedule of State Financial Assistance (GAAP) will not include the amount of the last state aid payment but instead will include this amount in the MEMO column under "Budgetary Receivable." This state aid adjustment is required because the revenue recognition of the last two state aid payments in 2013-14 is not in conformity with GAAP revenue recognition based on GASB 33; however, districts are legally required to recognize the revenue of the last two state aid payments for fiscal year 2013-14 in their budgetary schedules. The Schedule of State Financial Assistance does not include the last two payments for 2012-13 (received in July 2013) in the beginning balance deferred revenue, but does include it in the cash received column.

Please note that on the following example schedule every possible account is listed. This is an optional format. Districts/charter schools may list only those accounts that are applicable. In addition, the line (#) references on the example schedules should not appear on the actual schedules in the CAFR. The sample schedule has been updated for the revised Chart of Accounts in the preschool education function.

Ex. E-2

Anytown School District/Charter School
Special Revenue Fund
Schedule of Preschool Education Aid
Budgetary Basis
For the Fiscal Year Ended June 30, 2014

	Budgeted	Actual	Variance
EXPENDITURES:			
Instruction:			
Salaries of Teachers	$ 808,955	$ 743,268	$65,687
Other Salaries of Instruction	253,474	252,365	1,109
Other Purchased Services (400-500 series)	325,000	315,000	10,000
Tuition to Other LEAs within State-Regular			
General Supplies	110,500	82,500	28,000
Other Objects			
Total Instruction	1,497,929	1,393,133	104,796
Support Services:			
Salaries of Supervisors of Instruction			
Salaries of Program Directors			
Salaries of Other Professional Staff			
Salaries of Secr. & Clerical Assistants			
Other Salaries			
Salaries of Community Parent Involvement Specialists			
Salaries of Master Teachers			
Personal Services – Employee Benefits	142,071	136,589	5,482
Purchased Educ. Services – Contracted Pre-K			
Purchased Ed. Services- Head Start			
Purchased Professional – Educational Services	25,000	5,689	19,311
Other Purchased Professional - Services			
Cleaning, Repair & Maintenance Services			
Rentals			
Contr. Transportation Service (Betw. Home & Sch.)			
Contr. Transportation. Service (Field Trips)			
Travel			
Miscellaneous Purchased Services			
Supplies & Materials			
Other Objects			
Total Support Services	167,071	142,278	24,793
Facilities Acquisition and Const. Services:			
Instructional Equipment	15,000	10,000	5,000
Noninstructional Equipment	-	-	-
Total Facilities Acquisition and Const. Services	15,000	10,000	5,000
Contribution to Charter Schools	20,000	20,000	-
Total Expenditures	$1,700,000	$1,565,411	$134,589

EX E-2 (cont'd)

CALCULATION OF BUDGET & CARRYOVER

Total revised 2013-14 Preschool Education Aid Allocation	$ 1,642,835	(1)
Add: Actual ECPA/PEA Carryover (June 30, 2013)	212,404	(2)
Add: Budgeted Transfer from the General Fund 2013-14	42,835	(3)
Total Preschool Education Aid Funds Available for 2013-14 Budget	1,898,074	(4)
Less: 2013-14 Budgeted Preschool Education Aid (Including Prior year budget carryover)	(1,700,000)	(5)
Available & Unbudgeted Preschool Education Aid Funds as of June 30, 2014	198,074	(6)
Add: June 30, 2014 Unexpended Preschool Education Aid	134,589	(7)
Less: 2013-14 Commissioner-approved Transfer to the General Fund	(34,000)	(8)
**2013-14 Carryover – Preschool Education Aid Programs	298,663	(9)
2013-14 Preschool Education Aid Carryover Budgeted for Preschool Programs 2014-15	$ 50,000	(10)

**** Enter Line(9) as the 2013-14 Preschool Aid Carryover on Line 90005 of the district Audsum**

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SECTION II – SPECIFIC COMPLIANCE
FUND 30 – CAPITAL PROJECTS FUND

Capital Projects Fund – Charter Schools Only

Accounting procedures related to capital projects are included in Chapter 11 of the GAAP Technical Systems Manual and the capital project fund accounting guidance issued by the department during October 2001 and posted on the department's website at:
http://www.state.nj.us/education/finance/fp/af/crg/capital.pdf
http://www.state.nj.us/education/finance/fp/af/crg/eda.pdf

Establishment and transfer of funds to establish or supplement the capital reserve account. (*N.J.S.A.* 18A:7G-31).

No transfer may be made under *N.J.S.A.* 18A:22-8.2 (c) from appropriations or surplus accounts for items classified as general fund except to other items so classified or to the capital projects fund to supplement the proceeds from lease purchase agreements.

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

The Remainder of This Section Applies Only to School Districts.

Accounting procedures related to capital projects are included in Chapter 11 of the GAAP Technical Systems Manual and the capital project fund accounting guidance issued by the department during October 2001 and posted on the department's website at:
http://www.state.nj.us/education/finance/fp/af/crg/capital.pdf
http://www.state.nj.us/education/finance/fp/af/crg/eda.pdf

Bond and Note Authorizations

Bonds and notes authorized by the voters (Type II) or the Board of School Estimate (Type I) are reported at the face amount as "Other Financing Sources" in the capital projects fund in the year of issuance/sale (GASB 37, par. 16). Debt issuance costs paid out of proceeds should be reported as expenditures (GASB 34, par. 87). Bond debt is reported as a liability on the district-wide *Statement of Net Position.*

Bond Anticipation Notes

Funds received from the sale of bond anticipation notes (BANs) are not considered "Other Financing Sources" but are reported as a liability in the capital projects funds. Refer to Chapter 13 of the *GAAP Technical Systems Manual* for further guidance on BANs.

General Borrowing Authority

The following discussion of statutory authority for boards of education to borrow funds is not intended to be comprehensive, but to provide district personnel and auditors an overview of statutes and regulations relating to borrowing authority for districts. A district board of education should consult with the board

solicitor for interpretation of the law given the particular district's circumstances. Also refer to the Local Bond Law (*N.J.S.A.* 40A:2-1 et seq.) for further guidance when approvals by the Local Finance Board are required. District boards of education do not have statutory authority to borrow in anticipation of Schools Development Authority (SDA) grants, nor to borrow from banks or other lending agencies to finance acquisitions beyond those areas listed below. Regional school districts should refer also to *N.J.S.A.* 18A:13-26 et seq.

N.J.S.A. 18A:20-4.2. Powers of boards concerning real property [Lease Purchase Agreements]

- (f) The board of education may acquire with approval of the Commissioner, the voters or board of school estimate as applicable, improvements or additions to school buildings through lease purchase agreements not in excess of five years. A district may, without separate approval, also acquire equipment through a lease purchase agreement not in excess of five years, or in the case of an agreement entered into for the acquisition of school buses not in excess of 10 years, provided that the amount of each installment payment is included in the budget submitted to the voters or board of school estimate, as appropriate. Lease purchase agreement refers to any agreement which gives the board of education as lessee the option of purchasing the leased equipment or improvements or additions to existing school buildings during or upon termination of the lease, with credit toward the purchase price of all or part of rental payments which have been made by the board of education in accordance with the lease.

- (h) The board of education may acquire through sale and lease-back of textbooks and non-consumable instructional materials provided that the sale price and principal amount of the lease-back do not exceed the fair market value of the textbooks and instructional materials and that the interest rate applied in the lease-back is consistent with prevailing market rates or is less.

N.J.A.C. 6A:26-10.1 et seq. Lease Purchase Agreements

- Provides additional regulation on use, approval, contents of agreements of five years or less and of ground leases, procedures for refinance or defeasance of lease purchase agreements.

N.J.S.A. 18A:22-25 (Type I) or *N.J.S.A.*18A:22-44.1 (Type II). Borrowing against appropriation on notes

- The board of education may borrow after July 1 and before January 1 a sum not exceeding one half of the amount appropriated for the current expenses of the schools, repair and maintenance of a school facility (capital outlay) [Tax Anticipation Notes].

N.J.S.A. 18A:22-42. Borrowing upon notes in anticipation of taxes (Type II)

- Boards of education may borrow in anticipation of taxes to be raised, levied and collected for budgeted expenditures, the amount authorized, notes maturing not later than December 31 of the year in which such taxes shall be raised.

N.J.S.A. 18A:22-44.2 Borrowing when state school aid payments not made until subsequent school budget year

District boards of education have the ability to enter into short term loans with the bank of their choice, if needed, due to the delay in the June State school aid payments. All borrowing under this legislation requires Commissioner approval and will be granted upon written application and demonstration of need by the board of education.

N.J.S.A. 18A:24-1 et seq. Loans, Bonds and Other Obligations

- Provides authorization in general for school district bonds and temporary notes and prescribes maturities, methods of payment, limitations, requirements of form and execution of bonds, sale and use of proceeds, and requirements when refunding.

N.J.S.A. 18A:24-2. Borrowing on tuition due from another district

- Districts may borrow an amount not exceeding 80 percent of the amount due for tuition from another school district.

N.J.S.A. 18A:24-3. Borrowing in anticipation of issuance of bonds [BANs]

- By board resolution, a district which has been authorized to issue bonds may authorize the issuance of temporary notes or loan bonds as money is required for the projects for which the permanent bonds are authorized.

N.J.S.A. 18A:24-5. Purposes and maturities for which bonds may be issued

- Provides for the various maturities of bonds depending on the particular purpose with the maximum being 40 years.

N.J.S.A. 18A:24-61.1 et seq. Funding or refunding bonds at or prior to maturity

- Bonds issued by a district may be funded or refunded prior to maturity. Although there is no minimum period of time for the maturity schedule, *N.J.S.A.* 18A:24-61.8 establishes the maximum period of 40 years. The amount of refunding bonds is determined by the governing body of the municipality, county or board of education, as applicable, and unless meeting the requirements of N.J.A.C. 5:30-2.5 must be approved by the Local Finance Board. The Local Finance Board in virtually all cases requires that the final maturity date of any refunding bond issue not exceed the final maturity date of the bonds being refunded. Effective June 4, 2012, N.J.A.C. 5:30-2.5 permits a school district meeting all of the conditions therein specified to authorize and issue refunding bonds to refund long term debt without prior approval of the Local Finance Board, where the issuance of those refunding bonds realizes debt service savings on the outstanding obligations.

N.J.S.A. 18A:24-61.2. Refunding bond exclusions from net school debt

- Refunding bonds may be authorized and issued for the purpose of refunding the cost of retiring the present value of the unfunded accrued liability due and owing for early retirement incentive benefits granted by the board of education pursuant to P.L.1991, c.231 and P.L.1993, c.163.

- The cost or expense of issuing refunding bonds including printing, advertising, accounting, and financial, legal or other expense in connection therewith may be added to the issue.

- The issuance must be preceded by a "refunding bond ordinance" adopted by the board of education of the school district.

N.J.S.A. 18A:20-4.2, as amended by P.L. 2000, c.72 (*N.J.S.A.* 18A:7G-1 et al.) Acquisition, improvement, lease, etc. of property for school purposes; authority of board of education

- Financing a capital project may be by issuance of certificates of participation for a lease purchase agreement greater than five years only if approved by the Commissioner of Education and the Local Finance Board in the Divisions of Community Affairs prior to EFCFA (July 18, 2000).

N.J.S.A. 18A:18A-4.6 (c)

- Implementation of energy savings improvement program (ESIP) by a board of education permits the financing of an (ESIP) through the issuance of energy savings obligations. Energy savings obligations may be funded through appropriations for utility services in the annual budget of the board and may be issued as refunding bonds pursuant to P.L. 1969, c. 130 (C.18A:24-61.1 et seq.). Obligations may also include the issuance of bond anticipation notes. All such bonds and notes must mature within the periods authorized for such energy savings obligations. Energy savings obligations may be issued either through the board of education or another public agency authorized to undertake financing on behalf of the board. Energy savings obligations may be funded through appropriations for utility services in the annual budget of the board. The Division of Local Government Services issued LFN 2009-11, *Implementing an Energy Savings Improvement Program P.L. 2009, c.4,* which contains guidance for debt issuance and is available at:
  http://www.nj.gov/dca/divisions/dlgs/resources/local_fin_notices.html

There are dedicated budget and accounting lines for payments against energy savings improvement program appropriations/contracts:

- Line 17000, account number 11-000-262-444, "Lease Purchase Payments - Energy Savings Improvement Program"
- Line 17010, account number 11-000-262-837, "Interest - Energy Savings Improvement Program Bonds"

Bond Sales and Capital Projects Fund Activities

All proceeds related to the sale of bonds are recorded in the capital projects fund. The board cannot use a premium in excess of the bond authorization or the accrued interest for capital purposes since the board is limited by the amount voted or certified. Receipts from premiums in excess of the authorization are transferred to the general fund or debt service fund. Receipts from accrued interest are transferred to the debt service fund.

Because of statutory limitations, interest earned on the investment of unexpended cash balances in the capital projects fund must be transferred by board of education resolution to either the debt service fund or the general fund at the discretion of the board of education. Interest earned cannot be used for the referendum project(s) unless expressly authorized, with the amount, in the referendum (*N.J.A.C.* 6A:26-4.2(e). Any amounts not transferred at June 30 must be recorded as an interfund receivable/payable. Other important issues related to the general fiscal administration of the capital projects fund are discussed in Policy Bulletin 200-13 dated October 1996. Guidance is also found in *N.J.A.C.* 6A:26-4. The proper accounting procedures related to capital projects are included in Chapter 11 of the *GAAP Technical Systems Manual*.

Capital Project Approval under Educational Facilities Construction Financing Act (EFCFA)

Under EFCFA, effective July 18, 2000, districts may not advance a school facilities project for which it is seeking state support or another capital project (as defined in *N.J.A.C.* 6A:26-1.1), until the school district has an approved LRFP and has received specific project approval of the school facilities or other capital project. Only school facilities projects approved as an emergent school facilities project under *N.J.A.C.* 6A:26-3.16 may proceed without an approved LRFP. Districts which have begun a school facilities project or other capital project after the passage of EFCFA, should have available for auditors a copy of the DOE final determination letter (approval of the LRFP) and a copy of the school facilities or other capital project approval letter. *N.J.A.C.* 6A:26-4.8 as amended and effective June 7, 2004, permits districts to advertise for bids before the school facilities project or other capital project has received approval from the department, but may still not award contracts until approvals are final.

Districts not required to use school-based budgeting must obtain voter approval or board of school estimate approval for the local amount of the capital project (pursuant to *N.J.A.C.* 6A:26-3.7 and 3.12) or use capital reserve pursuant to *N.J.A.C.* 6A:23A-14.1 and *N.J.S.A.* 18A:7F-41. Districts may transfer funds by board resolution to the line items in the capital outlay fund to fund an "other" capital project which would otherwise be eligible for State support. Districts need to request a determination by the Facilities Division of whether the project is eligible when requesting approval of a project in their LRFP, if they intend to withdraw capital reserve without voter approval.

Pursuant to *N.J.A.C.* 6A:26-3.7(e) and (g), the bond referendum (or board resolution for Type I or Type II districts having a board of school estimate) must identify the final eligible costs of the project, as determined by the Commissioner of Education, the total costs, state share or state debt service percentage, the local share and the amounts that are in addition to the facilities efficiency standards. If the district is using a combination of school bonds and other financing sources, the referendum question must also include the portion of the local support to be raised through other revenue sources, listing separately each source and the amount from that source. This includes capital reserve, interest earned on bond proceeds as well as gifts, grants, private sources and/or municipal surplus.

Unexpended Bond Proceeds

A capital project is considered completed for the purposes of determining unexpended bond proceeds when the project has received its certificate of completion from the contractor; all retainage has been liquidated; and a permanent certificate of occupancy has been received, if applicable (*N.J.A.C.* 6A:26-4.6(a)).

Pre-EFCFA
Any proceeds of school bonds issued by the district for a school facilities project prior to the effective date of EFCFA, and that received no funding under EFCFA except for retroactive funding received pursuant to *N.J.A.C.* 6A:26-13.1(b), or issued by the district for another capital project (as defined under *N.J.A.C.* 6A:26-1.2), which remain unspent upon completion of the capital project, shall be disposed of by the district in accordance with *N.J.S.A.* 18A:24-47 et seq.

1. Unexpended balances may remain in the capital projects fund for six years after the time of issuance or sale of bonds.
2. Within six years of issuance or sale, if a new purpose(s) for the unexpended balances is determined, the board of school estimate, capital projects review board, or voters may approve the change in purpose by resolution or ballot question. The resolution or ballot question for the new purpose shall receive Commissioner approval if the bonds mature beyond the period prescribed for the new purpose(s) by *N.J.S.A.* 18A:24-5.
3. If no new purpose for the unexpended balances is determined within the six years from issuance or sale, the board of education may transfer the funds to either the general fund or debt service fund by board resolution. To meet the criteria for no new purpose, the district's budgeted appropriations and actual expenditures for the year of the transfer may not reflect capital outlay spending.
4. After six years of issuance or sale, unexpended balances must be transferred to either the general fund or the debt service fund by board resolution.

EFCFA
1. Pursuant to *N.J.A.C.* 6A:26-4.6(c), any proceeds of school bonds (or other revenue sources transferred to the capital projects fund pursuant to *N.J.A.C.* 6A:26-4.1) issued by the district for the purpose of funding a non-SDA constructed school facilities project after the enactment of EFCFA which remain unspent upon completion of the school facilities project (and/or other capital project whose funding was authorized by bonds) shall be used by the district to reduce the outstanding principal amount at the earliest call date or annually reduce the debt service principal payments.

2. If the unexpended proceeds are used to annually make debt service principal payments, the proceeds must remain in the capital projects fund and be appropriated in each subsequent year's budget certified for taxes to reduce the debt service principal payment in full each year until the proceeds are exhausted.

Unexpended Project Funds - Other Funding Sources

1. Upon completion by the SDA of a school facilities project, any local share required to be returned to the district pursuant to *N.J.S.A.* 18A:7G-5(p) and *N.J.A.C.* 6A:26-3.7(h), shall be used by the district to reduce the outstanding principal amount of any school bonds issued by the district for said local share. The principal amount shall be reduced at the earliest call date or annually through the reduction of the debt service principal payments in accordance with *N.J.A.C.* 6A:26-4.6(c).
2. If school bonds were not issued for said local share or the principal amount has been fully repaid, the local share returned shall be recorded as revenue in the district's general fund.
3. Any unexpended transferred capital outlay and/or capital reserve funds remaining after completion of the school facilities project must be returned to the capital reserve account or anticipated as part of the designated general fund balance of the subsequent school year's budget or reserved and designated in the second subsequent year's budget. Refer to Section II-10.16 for further discussion.

Schools Development Authority (SDA) Grants under EFCFA

All grants received from the SDA pursuant to *N.J.S.A.* 18A:7G-15 for the state share of approved school facilities projects, except for grants received for retroactive funding under *N.J.A.C.* 6A:26-13.1(c) for completed projects that did not issue short term notes, are recorded by project in the capital projects fund along with the corresponding local share. Pursuant to *N.J.A.C.* 6A:26-3.8(a)(3) and 6A:26-9.1(g), local share budgeted in capital outlay or withdrawn from capital reserve must be transferred to the capital projects fund upon execution of the grant agreement with SDA. Local share may <u>not</u> be transferred prior to execution of the grant agreement. Districts may award contracts only after the SDA grant is signed and executed. Revenue for the state share cannot be recorded until the agreement is signed and executed (*N.J.A.C.* 6A:23A-16.10(c)). The corresponding local share is transferred to the capital projects fund only when the agreement is signed. Auditors may send requests for confirmation of SDA account receivable balances to the district's analyst at SDA.

<u>General Rules for SDA Grant Recording:</u>

The department published accounting guidance for capital reserve that was distributed to districts and copied to the public school accountants on October 19, 2001. The passage of P.L. 2004, c.73 (S1701) supersedes that guidance by eliminating the previous EFCFA authority for districts to make transfers to capital reserve at any time during the year. District staff and auditors should refer to the regulations, *N.J.A.C.* 6A:23A-14.1. Refer to Section II-10 for highlights of the accounting guidance that are still applicable.

Generally Accepted Accounting Principles require that capital grants or shared revenues restricted for capital acquisitions or construction (other than those associated with enterprise and internal service funds) be accounted for in a capital projects fund (Fund 30). SDA grants are capital grants. The following is a summary of procedures to be followed for SDA Grants.

1. If a non-referendum project receives an SDA grant, per regulations, the grant must be accounted for in Fund 30 and the transfer of local funding sources (capital reserve, capital outlay) to Fund 30 should occur upon execution of grant agreement. (*N.J.A.C.* 6A:26-4.3(a) and (b)).

2. If the capital project is approved via referendum question, upon voter approval of referendum, which should have included all other local funding sources (e.g. capital reserve, surplus), any

local sources identified in the question should be transferred to Fund 30. Upon issuance of the bond, bond proceeds would be recorded, along with the local funding sources, and SDA grant in Fund 30. (*N.J.A.C.* 6A:26-4.1(d)).

Over-expenditures

A number of situations have been reported to the department where local school districts over-expended a capital projects fund authorization and in some cases used unauthorized methods to fund the overexpenditure. In managing capital projects, the Business Administrator must certify the availability of funds before the board can award contracts and/or a change order on a capital project that increases the cost of the project. (*N.J.A.C.* 6A:26-4.9(a)(3)). In no instance can approval of change orders increase the cost of the project above the bond referendum approved amount.

Overexpending a capital project authorization has serious consequences. Under the New Jersey Code of Criminal Justice, it is a crime for a public official or employee to knowingly disburse, order, or vote for the disbursement of moneys or incur obligations in excess of appropriations or an amount limited by law (See *N.J.A.C.* 6A:26-4.5 and Division of Finance Policy Bulletin 200-11 issued July 1991). The department will notify the Office of the Inspector General and may notify the Director, Division of Criminal Justice if an over-expenditure/deficit is detected in a capital project. A district over-expending the capital projects fund may also be subject to a reduction in its state aid and other actions pursuant to *N.J.A.C.* 6A:23A-16.10 and *N.J.A.C.* 6A:26-14.1 et seq. if applicable.

In the event that local school districts over-expended capital projects funds or otherwise violated the procedures described by *N.J.A.C.* 6A:23A-16.10 and Division of Finance Policy Bulletin 200-13 issued October 1992, auditors must include appropriate comments and recommendations and the amount in the Auditor's Management Report.

Rebatable Arbitrage

The interest paid on debt issued for public purposes by school districts is not generally subject to federal taxation. Accordingly, purchasers of securities are prepared to accept a lower rate of interest on tax-exempt debt than they would on taxable debt of similar quality and duration. "Arbitrage" occurs when a school district profits from this spread in interest rates by investing funds borrowed at the lower tax-exempt rate of interest in higher yielding, taxable securities.

There are certain exceptions that allow arbitrage earnings and they are defined in the IRS Code Sec. 148. A school district may not be required to remit arbitrage rebate payments until several years into the future, but it still must recognize a liability for rebatable arbitrage as soon as it is both probable and measurable that a liability has been incurred. In calculating the amount of the liability, it should be noted that "excess" earnings of one year may be offset totally or in part by lesser earnings in a subsequent year. Therefore, the liability recognized for the year should be only that portion of the estimated future payment that is attributable to earnings of the current period. Typically, arbitrage rebate payments must be made to the federal government every five years and within 60 days of final maturity.

Guidance issued in the GFOA "Blue Book" – GASB 34 Edition (p. 66) states that "Rebatable arbitrage should not be treated as a reduction of investment revenues in governmental funds: it should instead be treated in the same way as any other claim or judgment."

> *Auditor's Note* – At the close of construction, both the liability for rebatable arbitrage and related assets typically are removed from the capital projects fund and reported instead in the debt service fund.

Secondary Market Disclosures

All school districts should consult with their bond counsel to determine the information disclosures required in accordance with Securities and Exchange Rules, as well as the filing due date and the municipal and state information repository addresses.

Lease Purchase Agreements

Under EFCFA effective July 18, 2000, districts may no longer enter into lease purchase agreements of more than five years duration for the acquisition of a site and building; the acquisition of a site for the construction of new school facilities; or to make additions, alterations renovations and improvements to existing buildings. Lease purchase agreements in excess of five years duration entered into prior to July 18, 2000 may continue in effect through the term of the agreement (*N.J.A.C.* 6A:26-10.8).

Districts may reference the 2001-02 Audit Program for specific details relating to pre-EFCFA lease purchase agreements (greater than five years) involving certificates of participation (COPS), such as accounting, disclosure requirements, and advance refunding of the agreements.

Under EFCFA, a district may acquire improvements or additions to school facilities through lease purchase agreements of <u>five years or less</u> provided that the lease-purchase agreement provides for the funding in full to the district upon commencement of construction of the school facilities project. A district may utilize a lease purchase agreement of five years or less to fund the local support of a school facilities project. The Commissioner will only approve a lease purchase of five years or less which does not include excess costs as defined under *N.J.A.C.* 6A:26-1.1. A lease-purchase agreement of five years or less for improvements or additions to school facilities project that includes excess costs or to another capital project must be approved by the voters, board of school estimate, or capital project review board. Under EFCFA, a district may also acquire equipment through a lease-purchase of five years or less but such acquisition does not require Commissioner or voter approval. Lease-purchase agreement payments for five years or less are to be recorded as an expenditure of the general fund. Districts and auditors should reference *N.J.A.C.* 6A:26-10.1 et seq. for lease-purchase agreements or approval procedures to refinance a lease-purchase agreement.

> <u>Accounting and Reporting Requirements</u>: The Codification Section L20.103 states that "subject to the accounting and financial reporting distinctions of governmental funds, the criteria of FASB Statement No. 13, *Accounting for Leases*, as amended and interpreted, should be the guidelines for accounting and financial reporting for lease agreements...".

N.J.S.A. 18A:18A-4.6 et seq. permits the financing of an energy savings improvement program (ESIP) through a lease-purchase agreement the duration of which may not exceed 15 years, except that the duration of a lease purchase agreement for a combined heat and power or cogeneration project shall not exceed 20 years. Ownership of the energy savings equipment or improved facilities shall pass to the board of education when all lease payments have been made.

Financial Reporting

The year-end financial reporting for capital projects included in the CAFR as Other Supplementary Information (Exhibit F-1 and Exhibit F-2 series) shows a summary by projects (F-1) and each project on a separate schedule (F-2 series) and a summary with line item detail (F-2). Districts should have adequate detail records to prepare these schedules. *N.J.A.C.* 6A:26-3.8(a)(3) requires that all grants and the corresponding local share are to be accounted for separately by project in the capital projects fund in accordance with *N.J.A.C.* 6A:26-4.1. Appendix A of the *NJ Uniform Minimum Chart of Accounts* provides that for the capital projects fund (Fund 30), the program and function codes are the same as in

capital outlay (fund 12) of the general fund. Projects using only capital outlay (general fund) are not reported in the capital projects fund.

The F-1 schedule summarizes each project by total expenditures (prior and current year separately) and unexpended balance and does not show the functional classification of expenditures as in the F-2 series. This schedule should agree to the GAAP capital fund balance in the governmental funds statement (B-2).

The detail Schedules of Project Revenues, Expenditures, and Project Balance (F-2 series) include for each project managed by the district, the (current and prior cumulative) sources of funds, line item expenditures, and a column for authorized cost. Additional project information includes the initial date of the grant agreement (if applicable), bond information and percent completion. Sample schedules are on the NJDOE website http:www.nj.gov/njded/finance/fp/cafr/. These were prepared recognizing the SDA grant revenue in full in the year the grant agreement was signed, to illustrate the full amount of funds available for the project. Under GAAP, for an "expenditure driven" or "reimbursement-type" grant revenue is not recognized until the recipient has met the provider's requirements by incurring costs in accordance with the provider's program. These schedules are intended to provide the reader with information about the status of each project by reporting the full amount of funds authorized.

The Summary F-2 Schedule represents the combined revenue sources and expenditures from the F-2 detail schedules, and the total capital projects balance. The F-2 Summary Schedule supports the information entered into AUDSUM for the capital projects fund **and should include the full amount of any SDA grant revenue**. Presentation of a reconciliation of the projects' balance to GAAP capital project fund balance is optional. Generally, only the SDA grant revenue will be a reconciling item.

Additional items related to the F-2 schedules include:

- If the grant was reduced after being recorded in full (e.g., the project was completed for lower cost), the reversal of an SDA receivable will be shown as negative revenue.

- Transfers of local share within referendum projects permitted pursuant to *N.J.A.C.* 6A:26-4.2(b) are reported on the bond proceeds and transfers line (Revenue and Other Financing Sources).

- Encumbrances are not included in expenditures in this schedule.

- Transfers to the debt service fund upon completion of a project should be reported under the Expenditures and Other Financing Uses section.

- Transfers back to the general fund of unexpended local share originally budgeted in capital outlay should be reported under the Expenditures and other Financing Uses section.

- Percentage completion may be as of the most recent architect's certification prior to the June 30 year end. Note the date if not June 30.

- Interest earnings, if not specifically stated in the referendum as a funding source, is not included in the detail schedules, but should be included in the summary schedule.

F-2

Anytown School District
Capital Projects Fund
Summary Schedule of Revenues, Expenditures, and Changes in Fund Balance-Budgetary Basis
For the Year Ended June 30, 2014

Revenues and Other Financing Sources		
State Sources – SDA Grant	$	2,625,000
Bond proceeds and transfers		3,250,000
Contribution from private source		-
Transfer from capital reserve		337,500
Transfer from capital outlay		437,500
Total revenues		6,650,000
Expenditures and Other Financing Uses		
Purchased professional and technical services		94,251
Land and Improvements		-
Construction services		5,728,749
Equipment purchases		-
Total expenditures		5,823,000
Excess (deficiency) of revenues over (under) expenditures		827,000
Fund balance – beginning		37,500
Fund balance – ending	$	864,500

Anytown School District
Capital Projects Fund
Schedule of Project Revenues, Expenditures, Project Balance, and Project Status – Budgetary Basis
Addition to Elementary School
From Inception and for the Year Ended June 30, 2014

	Prior Periods	Current Year	Totals	Revised Authorized Cost
Revenues and Other Financing Sources				
State sources – SDA Grant	$ -	$ 2,625,000	$ 2,625,000	$ 2,625,000
Bond proceeds and transfers	-	3,250,000	3,250,000	3,250,000
Contribution from private sources	-	-	-	-
Transfer from capital reserve	-	337,500	337,500	337,500
Transfer from capital outlay	-	437,500	437,500	437,500
Total revenues	-	6,650,000	6,650,000	6,650,000
Expenditures and Other Financing Uses				
Purchased professional and technical services	-	89,141	89,141	89,141
Land and improvements	-	-	-	-
Construction services	-	5,696,359	5,696,359	6,560,859
Equipment purchases	-	-	-	-
Total expenditures	-	5,785,500	5,785,500	6,650,000
Excess (deficiency) or revenues over (under) expenditures	$ -	$ 864,500	$ 864,500	$ -

Additional project information:

Project Number	011-05-0468
Grant Date/Letter of Notification	7/15/2004
Bond Authorization (Referendum) Date	3/1/2004
Bonds Authorized	$3,250,000
Bonds Issued	$3,250,000
Original Authorized Cost	$6,250,000
Additional Authorized Cost	$ 400,000
Revised Authorized Cost	$6,650,000
Percentage Increase over Original Authorized Cost	6.40%
Percentage completion	89%
Original target completion date	Jan-12
Revised target completion date	Aug-14

F-2b

Anytown School District
Capital Projects Fund
Schedule of Project Revenues, Expenditures, Project Balance, and Project Status – Budgetary Basis
Rehabilitation & Upgrade of Elementary School
From Inception and for the Year Ended June 30, 2014

	Prior Periods	Current Year	Totals	Revised Authorized Cost
Revenues and Other Financing Sources				
State sources – SDA Grant	$ 175,000	$ -	$ 175,000	$ 175,000
Bond proceeds and transfers	-	-	-	-
Contribution from private sources	100,000	-	100,000	100,000
Transfer from capital reserve	-	-	-	-
Transfer from capital outlay	162,500	-	162,500	162,500
Total revenues	437,500	-	437,500	437,500
Expenditures and Other Financing Uses				
Purchased professional and technical services	21,900	5,110	27,010	27,010
Land and improvements	-	-	-	-
Construction services	378,100	32,390	410,490	410,490
Equipment purchases	-	-	-	-
Total expenditures	$ 400,000	$ 37,500	$ 437,500	$ 437,500
Excess (deficiency) or revenues over (under) expenditures	37,500	(37,500)	-	-

Additional project information:

Project Number	010-04-0231
Grant Date/Letter of Notification	07/02/2003
Bond Authorization (Referendum) Date	NA
Bonds Authorized	NA
Bonds Issued	NA
Original Authorized Cost	$437,500
Additional Authorized Cost	$0
Revised Authorized Cost	$437,500
Percentage Increase over Original Authorized Cost	0.00%
Percentage completion	100%
Original target completion date	Sep-10
Revised target completion date	Jul-14

SECTION II – SPECIFIC COMPLIANCE
FUND 40 DEBT SERVICE FUND
[THIS SECTION DOES NOT APPLY TO CHARTER SCHOOLS]

District Taxes

District taxes must be recorded in the fund for which they were voted (Type II) or were certified by the Board of School Estimate (Type I). Debt Service requirements in Type II districts are certified directly by the secretary. In Type I districts the school debt service is part of the municipal budget and not reflected in the Type I school district's CAFR. Additional amounts certified to the county board of taxation after the issuance of tax bills by the municipality will be shown as an adjustment on the district's subsequent year's certificate and report of school taxes. These adjustments are generally the result of additional certifications for unanticipated debt service expenditures and should be reported as revenue via the accrual of a tax levy receivable.

The auditor should comment on any uncollected taxes as of June 30 (other than the special accruals referred to above), and make a recommendation that the board of education request the remittance of the balance from the municipality.

SDA Assessment

For the 2013-14 school year debt service costs on School Development Authority (SDA) funding were assessed to districts. The amount of the assessment for each district was included in the 2013-14 state aid printouts released during the budget cycle. These costs will be paid by withholding from the district's state aid payments. The districts were instructed to record this amount as an expense in their 2013-14 budget on line 76210 account 12-000-400-896, entitled "Assessment for Debt Service on SDA Funding."

Debt Service Aid

Districts were notified of debt service state aid for the 2013-14-13 budget in February 2013 and provided with the state aid printouts DS 9 and DS 10.

The entry to establish the accounts receivable and recognize the deferred revenue for an increase in Type II debt service aid is shown below. No entry is required to revise the debt service budget since all debt service revenue changes are deferred until 2013-14.

Debt Service Fund
Dr. Intergovernmental Accounts Receivable – State (A/C 40-141)
    Cr. Deferred Revenues (A/C 40-481)

Reporting

N.J.S.A. 18A:7-F-8 requires that districts file an annual report regarding facilities payments to the Commissioner. The report shall include the amount of interest bearing school debt, if any, of the municipality or district then remaining unpaid, together with the rate of interest payable thereon, the date or dates on which the bonds or other evidences of indebtedness were issued, and the date or dates upon which they fall due. In the case of a Type I school district, the board secretary shall secure the schedule of outstanding obligations from the clerk of the municipality.

Transfers

In accordance with *N.J.S.A.* 18A:22-8.2, no transfer may be made under this section from appropriations or surplus accounts for interest and debt redemption charges or items classified as general fund expenses except to other items so classified, or to the capital projects fund to supplement the proceeds from a bond authorization or lease purchase agreement upon application to and a formal finding by the Commissioner that the transfer is in the best interests of both the students and taxpayers of the district.

N.J.S.A. 18A:7G-31(c) authorizes a district board of education, by board resolution, to transfer capital reserve funds to the debt service fund for the purpose of offsetting principal and interest payments for bonded projects which are included in the district's long-range facilities plan.

N.J.S.A. 18A:7F-41c(2) (P.L. 2007, c.62) gives districts the authority to establish a debt service reserve account in the debt service fund for proceeds from the sale of district property. Districts and auditors should refer to *N.J.A.C.* 6A:23A-14.4(a)2 for further clarification on this reserve.

Rebatable Arbitrage

Refer to Section II-30 for guidance on reporting rebatable arbitrage.

SECTION II – SPECIFIC COMPLIANCE
FUND 50 - PERMANENT FUNDS

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

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

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

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

A permanent fund does not include private-purpose trust funds, which are used to report situations in which the district/charter school is required to use the principal or earnings for the benefit of those outside the district/charter school (individuals, private organizations, or other governments), not for district/charter school purposes. See Section II-80 for treatment of trust funds in the fiduciary fund section of the financial statements.

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

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SECTION II – SPECIFIC COMPLIANCE
FUND 60 PROPRIETARY FUNDS

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

Enterprise funds:

Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business operations. The most common examples of enterprise funds in New Jersey school districts/charter schools are those established to account for food services programs and latchkey programs**. Enterprise fund expenditures are accounted for in fund 60 with any board of education contribution to support the food services program reported as a "transfer to cover deficit in food services" in the general fund and as an "operating transfer in" in the enterprise fund.**

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

Food Service – Enterprise Fund

The Board of Education/charter school is considered the Local Education Agency (LEA), and is responsible for the administration and operations of the School Food Authority (SFA). Therefore, income from: daily cash sales, prepayment of meals, special functions, vended meal contracts, vending machine cash receipts, vendor or other purchasing rebates, discounts, credits from vendors, and state and federal reimbursements, are school moneys. As such, these funds must be under the control of the treasurer of school moneys (or school business administrator/board secretary in a district/charter school that elects not to maintain the position of treasurer of school moneys pursuant to P.L. 2010,c.39) and are subject to the state's school laws and federal regulations.

A Board of Education/Board of Trustees may contract with a food service management company (FSMC) to install, equip, supply and operate cafeterias without profit to the district/charter school pursuant to *N.J.S.A.* 18A:33-3. When the school district/charter school participates in any federally funded Child Nutrition Program, the contract for the services of a food service management company must meet federal standards and procurement requirements pursuant to Title 7 of the Code of Federal Regulations [7 CFR Parts 210, 215 and 220]. All districts/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 district/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.

The most widely used FSMC contract method in New Jersey is referred to by the *Accounting Guide for Government Contracts* as the "cost plus a fixed fee (management fee) contract." The food service management company receives a set fee for managing the food service operation and the board of education/LEA/charter school is liable for the reimbursement of all costs incurred. Federal regulations prohibit contracts that permit all receipts and expenses to accrue to the FSMC. Regardless of the FSMC contract method, the local board of education/LEA/charter school is considered the School Food Authority. Even if federal reimbursements are not received, school districts/charter schools using management companies and retaining liability for costs incurred are considered the School Food Authority. Management companies may handle the preparation of food, placing of orders for food and supplies and other associated administrative duties, but they are not permitted under state law to administer or hold school moneys.

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

1. The income from: daily cash sales, prepayment of meals, special functions, vended meal contracts, vending machines, rebates, discounts, credits from vendors, and state and federal reimbursements must be under the control of the treasurer of school moneys (or school business administrator/board secretary in a district/charter school that elects not to maintain the position of treasurer of school moneys pursuant to P.L. 2010,c.39) and when required by resolution of the board, deposit those moneys in any bank or banking institution designated by the State as a depository of school moneys (*N.J.S.A.* 18A:17-34). Such funds may be deposited in the board's general operating account. A separate food service account is not required; however, receipts and disbursements of food service funds must be separately accounted for in the records of the treasurer and/or business administrator/board secretary. The board secretary should maintain the cash records in accordance with *The Uniform Minimum Chart of Accounts (2008 Edition).*

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

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

3. Loans or advances from the board to a food service management company are prohibited (*N.J.S.A* 18A:19-1). All claims and demands must state that articles have been furnished or services rendered before payment can be made. (*N.J.S.A.* 18A:19-3)

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

5. The food service management company must provide itemized claims for services and goods to the board secretary for reimbursement.
   a) The food service management company should process payroll data in such a way that the board secretary can reimburse it in time for payroll checks to be issued. A one-week

lag between payroll period and check disbursement should provide sufficient time for all necessary verifications and payments.

b) The food service management company must submit an itemized claim for reimbursement for all goods and services. Reimbursement claims for payroll should include a copy of the company's payroll for those employees providing service to the district/charter school or an itemized listing of employees, check numbers and date, hours worked and earnings. In the latter scenario, payrolls and support documentation must be made available whenever requested by the board secretary and for the annual audit.

When the food service management company purchases specifically for the school district/charter school, reimbursement claims for goods should list invoice numbers, dates, vendor names and amounts (Sample 1 on page II-60.5). If the food service management company purchases food in bulk for a number of districts/charter schools, it may use the above method allocating invoice amounts between districts/charter schools based on the percentage of each district's/charter school's student enrollment (or participation) to the total enrollment for all schools (Sample 2 in Section II, Chapter 60). It may also use a per-meal cost calculation based on the total amount of the invoices divided by the total meals served to all districts/charter schools. Each district's/charter school's pro-rata share of the costs would be the per-meal cost multiplied by the meals served in each district/charter (Sample 3 in Section II, Chapter 60).

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

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

The foregoing procedures are recommended by the department to comply with the state's statutes for administering school funds. However, these procedures do not replace but rather supplement the requirement contained in 7 CFR 210.16 that the food service management company, shall at a minimum, report claim information to the school district/charter school promptly at the end of each month. Records pertaining to the school food service program shall remain the property of the school district/charter school. **Auditors must include appropriate comments and recommendation in the event that funds are not properly administered as described in Division of Finance Policy Bulletin 200-12. Bulletin200-12.pdf**

SAS No. 70 (*Service Organizations*) Reports
Statement on Standards for Attestation Engagements (SSAE) No. 16 *Reporting on Controls at a Service Organization* and AU Section 324 *Audit Considerations Relating to an Entity Using a Service Organization*`

SAS No. 70 has been replaced by two separate standards; SSAE No. 16 *Reporting on Controls at a Service Organization*, effective for service auditor's reports for periods ending on or after June 15, 2011, and a revision to existing AICPA, Professional Standards, vol. 1, AU section 324. The revision to AU section 324 entitled, AU-C 402 *Audit Considerations Relating to an Entity Using a Service Organization*, is effective for audits of financial statements for periods ending on or after December 15, 2012.

Districts/charter schools were notified by the Department of Agriculture within the Sample 2012-13 FSMC Contract, Clause M, to require the FSMC to obtain a Type 2 report. All food service management company bid specifications, contracts and/or addenda must include this requirement as a condition of bid qualification.

SSAE No. 16 *Reporting on Controls at a Service Organization* is available on the AICPA website or for order from the AICPA website at:
http://www.cpa2biz.com/AST/Main/CPA2BIZ_Primary/AuditAttest/Standards/SSAEs/PRDOVR~PC-023035/PC-023035.jsp

Insurance Recoveries and Impairment Losses

In accordance with GASB Statement No. 42, paragraph 21, in the proprietary funds financial statements, restoration or replacement of an impaired capital asset should be reported as a separate transaction from the impairment loss and associated insurance recovery. Insurance recoveries should be recognized only when realized or realizable. Realizable is defined by an acknowledgement of coverage by an insurer. When the recovery and loss occur in the same year, the impairment loss should be reported net of the associated insurance recovery. When the insurance recovery is reported in a subsequent year(s), report the recovery as a non-operating revenue source (use previously existing Audsum line 90264).

Report an asset impairment loss that has occurred in the food service fund as a special item/extraordinary item using Audsum line 92175 “Impairment Loss - Special” or Audsum line 92176 “Impairment Loss - Extraordinary”.

Recoveries other than those related to an impairment of a capital asset:
In the proprietary funds financial statement, for insurance recoveries which occur in the same year as the loss, the impairment loss and the insurance recovery should be reported net. Insurance recoveries reported in subsequent years should be reported as a non-operating revenue source (use Audsum line 90264).

June 30, 2014

SAMPLE 1

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

October 15, 201X
Invoice #123456

New City School District/Charter School
Highland Street
Old Town, NJ 08111

For reimbursement of costs incurred related to the provision of food services for the schools of the New City School District/Charter School during the month of September 201X. The costs incurred are listed below:

Invoice #	Date	Vendor Name	Amount
06932	8/31/1X	Bakeland	$2,398.61
12555X	9/02/1X	Murray's Meats	6,779.38
431182	9/03/1X	Polly's Produce	796.54
218812	9/07/1X	Dan's Dairy	877.32
06988	9/07/1X	Bakeland	531.89
12682X	9/07/1X	Murray's Meats	153.90
431906	9/13/1X	Polly's Produce	591.83
219601	9/24/1X	Dan's Dairy	877.32
		Total	$13,006.79

Please remit the above amount by November 15, 201X. The listed invoices are available for audit and review. I certify that the within invoice is correct in all its particulars, that the described goods or services have been furnished or rendered and that no bonus has been given or received on account of said invoice.

Franklin Chief
President
Foodland Food Services

June 30, 2014

SAMPLE 2 (1 of 2)

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

October 15, 201X
Invoice #123456

New City School District/Charter School
Highland Street
Old Town, NJ 08111

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

For the month of September 201X $3,107.21

Please remit the above amount by November 15, 201X. The invoices listed on the attached cost allocation are available for audit and review. I certify that the within invoice is correct in all its particulars, that the described goods or services have been furnished or rendered and that no bonus has been given or received on account of said invoice.

Franklin Chief
President
Foodland Food Services

SAMPLE 2 (2 of 2)

NEW CITY SCHOOL DISTRICT/CHARTER SCHOOL FOOD SERVICES ALLOCATION

Invoice #	Date	Vendor Name	New City	Upper	Lower	Middle	Total
			19.7%	14.1%	27.8%	38.4%	100.0%
6932	8/31/201X	Bakeland	$208.09	$148.94	$293.65	$405.61	$1,056.29
12555X	9/2/201X	Murray's Meats	689.23	493.31	972.62	1,343.48	3,498.64
431182	9/3/201X	Polly's Produce	176.45	126.29	249.00	343.94	895.68
218812	9/7/201X	Dan's Dairy	632.22	452.50	892.17	1,232.35	3,209.24
6988	9/7/201X	Bakeland	118.77	85.01	167.61	231.51	602.90
12682D	9/7/201X	Murray's Meats	692.86	49591	977.75	1,350.55	3,517.07
431906	9/13/201X	Polly's Produce	112.21	80.31	158.34	218.71	569.57
219601	7/13/201X	Dan's Dairy	477.38	341.68	673.66	930.52	2,423.24
		Total	$3,107.21	$2,223.95	$4,384.80	$6,056.67	$15,772.63

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

June 30, 2014

SAMPLE 3 (1 of 2)

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

October 15, 201X
Invoice #123456

New City School District/Charter School
Highland Street
Old Town, NJ 08111

For reimbursement of the New City school district's/charter school's pro-rata share of costs related to the shared food services program provided by our company. See the attached per meal cost calculation supporting the amount charged.

For the month of September 201X	
1,598 meals @ $2.45 meal	$3,910.60

Please remit the above amount by November 15, 201X. The invoices listed on the per meal cost calculation are available for audit and review. I certify that the within invoice is correct in all its particulars, that the described goods or services have been furnished or rendered and that no bonus has been given or received on account of said invoice.

Franklin Chief
President
Foodland Food Services

SAMPLE 3 (2 of 2)

NEW CITY SCHOOL DISTRICT/CHARTER SCHOOL FOOD SERVICES ALLOCATION

Invoice#	Date	Vendor Name	Invoice Amount
6932	8/31/201X	Bakeland	$ 2,398.61
12555x	9/2/201X	Murray's Meat	6,779.38
431182	9/3/201X	Polly's Produce	796.54
218812	9/7/201X	Dan's Diary	877.32
6988	9/7/201X	Bakeland	531.89
12682X	9/7/201X	Murray's Meat	153.90
431906	9/13/201X	Polly's Produce	591.83
219601	7/13/201X	Dan's Diary	877.32
		Total	$13,006.79

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

Child Nutrition Program Requirements

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

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

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

Note to auditor: Click on the link below to access a sample NET CASH RESOURCE calculation prepared in the format required by the USDA.

Net Cash Resource Schedule Link.xlsx

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

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

    a) <u>ELIGIBILITY APPLICATIONS</u> – Review household eligibility applications to evaluate completeness of required information and verify eligibility determination. Form number 63 provides guidance for the application approval process and is available on the NJ Department of Agriculture website at http://www.state.nj.us/agriculture/divisions/fn/pdf/form63.pdf. Any incomplete free or reduced price applications should be placed in the Paid (denied) category, and an over claim must be assessed on the Schedule of Meal Count Activity (where applicable). Incorrectly determined applications should be placed in the correct category, and the resulting over claim/under claim must be identified on the Schedule of Meal Count Activity (where applicable). Additionally, audit findings related to the free and reduced

eligibility determination must be reported in the Auditor's Management Report (AMR) in the School Food Service section. The USDA Eligibility Manual for school meals, updated August 2012, provides detailed information on determining and verifying free/reduced eligibility and what characteristics are considered to result in an incomplete application. The manual may be found on the USDA website at: http://www.fns.usda.gov/school-meals/child-nutrition-programs

Eligibility for Free Meals Direct Certification - Determination Process Notes:
Beginning with school year 2012-13, the Direct Certification Process must be done by the school district/charter school three times per school year in accordance with timelines established by the NJDA Division of Food and Nutrition. Please refer to the July, 2013 memo on Direct Certification which specifies the required three times were July15-September 1, 2013, September 9-September 30, 2013 and January 9-January 31, 2014. DirectCertMemo.pdf and Food Eligibility FY2014.pdf. A Copy of this memo is also available at the school district/charter school. Schools can directly certify students as eligible for free school meals by uploading their student database via the SNEARS web-based system and the data is matched against the data from SNAP (Food Stamps)/TANF for the selected municipalities. Direct certification eligibility can be extended to any other students living in the household; see memo dated September 8, 2009, "Important Changes in Determination of Eligibility for Free School Meals/Milk". In order for the district/charter school to identify newly eligible students, direct certification matching against updated SNAP (Food Stamp)/TANF data may be performed monthly during the school year. The Department of Agriculture has determined that errors in reporting are resulting in multiple school districts and/or charter schools duplicating free/reduced eligibility for the same student(s). In an effort to reduce duplication of directly certified students among and between LEAs, beginning with school year 2013-14 each LEA reporting "free meals" eligibility for the same student will receive an email notification when a student directly certified by the LEA has also been certified by another LEA. SNEARS is not able to determine the actual attendance. Each LEA must verify that the student identified as duplicate is actually enrolled in their school. If he/she is not, the LEA must remove the student from the SNEARS listing.

Schools participating in Provision I or II are not required to collect eligibility applications annually. Please refer to eligibility requirements set forth in the August 1, 2013 memo "Annual Application Process for Provisions I and II." AnnualAppProcessProv1&2.pdf

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

- The Household Application for Free and Reduced Price Meals and/or Milk is the only eligibility application in use for this school year.
    - Foster children are no longer considered to be a family of one. Only one Household Application for Free and Reduced Price Meals and/or Milk is filed for all households, including those with foster children.
    - Foster children are categorically eligible. Copies of letters from the NJ Department of Children and Families serve as certification that a student is a foster child under State care; no additional "meals" application is required.
    - A Household Application that includes foster children may have two different eligibility determinations. One will be for the foster children as noted in the previous bullet and a second eligibility determination for all other students in the household.
    - Foster children are included in the computation of household size when determining the eligibility status for all other students in the household.

- Household applications must be maintained centrally. (The Department of Agriculture has strongly recommended that a representative from the Local Educational Agency (LEA) attend a Determining Official Workshop.)
- Household applications must be on the correct state approved format for the school year being reviewed.
- Only one SNAP (Food Stamp)/TANF case number is required for the entire household, when applicable. Note that the Application requires only the last four digits of the social security number of the adult signing the Application.
- The eligibility determination associated with a Household Application is effective for the entire school year. Also there is no provision for "temporary" eligibility status for zero income Applications.
- Every household member listed on the application must either have an income reported **or** the box indicating zero income for that individual must be checked. Income must be listed by the amount received by each household member and the frequency of which the member received the income. Frequency is determined as weekly, every two weeks, twice monthly, or monthly. If more than one frequency is provided the total household income must be converted to annual.
- There is a section on the household application used to identify children who are homeless, migrant or runaway and categorically eligible. LEA's/charter schools must designate an Educational Agency Liaison for the homeless. This liaison and the Migrant Coordinator are the only approved sources of supporting documentation for the application of homeless, migrant or runaway children.

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

Separate sample Schedules of Meal Count Activity for federal and for state over/under claims are presented on pages III-4.21a and III-4.21b. The link is available on page III-4.25 of this Audit Program. **Each of these schedules are prepared only if the Child Nutrition Program is a major program audited in the current audit period in accordance with federal OMB Circular A-133 and instructions for completion are as follows:**

1. Most column headings are self-explanatory.

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

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

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

5. The National School Lunch HHFKA Performance Based (PB) Program reimbursement, see sample schedule, should reflect only those meals (lunch) claimed which were approved by the DOA for an additional six cent reimbursement (may be adjusted annually for inflation). The HHFKA applications were approved by DOA on a case-by-case basis. Therefore, the initial approval date must be verified in order to validate the six cent reimbursement. *See note below.

Unsupported reimbursement(s) must be cited as a finding of noncompliance and a financial assessment identified on the Schedules of Meal Count Activity (Over claim/Under claim) (where applicable). Provide pertinent detail, i.e. school, month.

Note: Schools participating in the Seamless Summer Option (SSO) provide for all children at the "free" rate of reimbursement. SSO schools receive only federal reimbursement – no state subsidy is provided.

*Note: The Healthy Hunger-Free Kids Act of 2010 (HHFKA), in an effort to promote a new healthier meal plan, provided for an additional six cents per lunch available beginning October 1, 2012 and may be adjusted annually thereafter federal lunch reimbursement for those schools that have applied for, and been approved by the DOA, to receive additional reimbursement. No state reimbursement exists. (Reference 7-CFR-PART 210.)

2. Verification Regulations issued by the United States Department of Agriculture require that all sponsors of the National School Lunch and School Breakfast Programs must verify <u>no less and no more than three percent</u> of approved applications on file as of October 1 of each school year. The number of current school year free and reduced price applications on file as of October 1 must be used to determine the number of applications that must be verified. The carryover status is not a factor in determining the size of the current year application count. Sample selection and verification may begin earlier based on projections done by school officials. However, the final sample size must be based on the actual number of approved applications on file as of October 1. The independent auditor's review of eligibility applications should include an examination of the internal verification process and internal sampling records.

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

  a) Use all current year approved applications on file at October 1, 2013 to determine the appropriate sample size and to select the applications for verification. Note that sample size depends on the number of paper applications, NOT the number of children represented.

  b) The required sample size is no less or no more than the established 3 percent. The sample must be selected from "error prone" applications. Refer to "d" below if additional applications are needed to reach 3 percent of all applications.

c) "Error prone" applications are those applications characterized by:
   - Weekly: $0-$25 below the free and reduced price income eligibility limit
   - Every two weeks or twice a month: $0-$50 below the free and reduced price income eligibility limit
   - Monthly: $0-$100 below the free and reduced price income eligibility limit
   - Annually: $0-$1,200 below the free and reduced price income eligibility limit

d) When an insufficient number of error prone applications are identified, randomly select from the remaining (not error prone) applications to meet the required sample size

e) If additional error prone applications are identified during the random selection process (see "d" above), select randomly from the additional error prone pool

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

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

All internal verification activity must be completed by November 15 of each school year. The Local Education Agency (LEA)/charter school must electronically transmit the two parts of the Verification Summary Report. Part 1 of the Verification Summary Report transmits enrollment and total applications (by category) on file as of October 1 and is due by October 15. Auditors should be aware that the report electronically calculates the number of applications the LEA/charter school must verify. Part 2 of the Verification Summary Report is due by November 15, and includes the LEA's /charter school's reporting of the results of the verification process performed pursuant to Part 1. The NJDOA offered verification training sessions during September and October 2013. Failure to complete verification will result in reimbursement(s) being withheld by the Division of Food and Nutrition. The auditor's review of eligibility applications should include a review of the verification files to ensure that the verification process was completed on a timely basis.

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

4. A School Food Authority is required to maintain a nonprofit School Food Service. The nonprofit status of the School Food Service is determined by evaluating net cash resources. Net cash

resources are defined as all monies that are available to, or have accrued to a School Food Authority's nonprofit school food service at any given time, less cash payable. Such monies may include, but are not limited to, cash on hand, cash receivable, earnings on investments, cash on deposit and the value of stocks, bonds or other negotiable securities. Net cash resources may not exceed three months average expenditures. A link to a sample Net Cash Resource Schedule in the format provided by the USDA is available on page II-60.10 of this Audit Program. This sample schedule is guidance for the auditor's use. This schedule is required to be completed and submitted via the auditor's management report (AMR) as part of the review of the school food service fund. The auditor must also comment in the AMR as to whether proper net cash resource balances are maintained by the district/charter school. In the event that net cash resources exceed three months average expenditures, the state agency may require the School Food Authority to reduce the children's meal price, improve food quality, or take other actions designed to improve the nonprofit school food service. (REF 7CFR 210:14)

5. The auditor should comment on whether Food Distribution Program properly processed and warehoused U.S.D.A. Foods (commodities), if received. If the school district/charter school is utilizing a FSMC to operate its food service program, review evidence that the market value of Food Distribution Program processed and warehoused USDA Foods was credited to the LEA/charter school. Year to date amounts must be provided.

6. Auditors should verify that financial arrangements (i.e. fee calculations, presentation of invoices, and other provisions) in the Food Service Management Contract (FSMC) have been complied with; if not, cite exception:

   a) Is FSMC fee calculated in accordance with the contract provisions and properly reported in the year end operating statement? (Refer to Handout 248.pdf, Handout 349.pdf and Locals and Authorities - Integrity Monitor Guidance (2).pdf received by the district or charter school.)

   b) Has the FSMC met or exceeded the food service program operating results guarantee provision stated in the contract/addendum?

   c) Does the contract with the FSMC comply with the requirements of *N.J.A.C.*5:34-4.4(b) with regard to the prohibited inclusion of other goods/services required to be separately and competitively bid?

   d) Has the FSMC complied with the provisions of *N.J.A.C.*5:34-4.4(b) prohibiting the combination of unrelated items with other good/services required to be separately procured through competitive bidding?

   e) Has 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 accounting records and financial reports?

   f) Has 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? Refer to the illustrative FSMC contract section "Rebates, Discounts and Credits". (See Form #17 (FSMC) cost contract FMCContract.pdf)

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

8. Federal procurement requirements for contracts with a FSMC are published in the Federal Register, Vol. 72, No 210, dated October 31, 2007. The state agency prototype contract that was approved as part of the annual FSMC registration process must be used in its entirety.
   - FSMC must either identify allowable and unallowable costs, OR must exclude all unallowable costs and certify that only allowable costs are submitted to the LEA/charter school for payment.
   - FSMC must identify the amount of each discount, rebate and other applicable credit on bills and invoices presented to the LEA/charter school for payment. FSMC determines in contract the frequency of reporting such information (may not be less than annually).
   - FSMC must identify the specific method(s) used to report discounts, rebates and other applicable credits that are not reported prior to conclusion of the contract.
   - FSMC must maintain documentation of costs and discounts, rebates, and other applicable credits and must furnish such documentation upon request to the LEA/charter school, state agency or USDA.

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

The following memoranda and attachments are for the school year 2013-2014 and should be available at local school district/charter school offices:

1. October 24, 2012 – Food Service Management Company (FSMC) registration for School Year 2013-2014
2. February 14, 2013 – Fresh Fruit and Vegetable Program
3. April 17, 2013 – Paid Lunch Equity: School Year 2013- 2014 Calculations and Tool
4. April 26, 2013 – Seamless Summer Option
5. May 10, 2013 – Procurement of Commercially Vended School Meals – Clarification
6. May 17, 2013 – IMPORTANT Updates for FY 2014 Application Packet
7. July 2013 – Certification and Benefit Issuance Workshops/Webinar for Determining Officials (Formerly: Free and Reduced Price Application workshops/Webinar for Determining Officials)
8. July 2013 – Direct Certification
9. August 2013 – Verification Workshop/Webinar Schedule
10. August 1, 2013 – Annual Application Process for Provisions I and II
11. August 8, 2013 – Nutrition Standards for All Foods Sold in School (Interim Final Rule)
12. August 16, 2013 – "Back To School" Information and Reminders
13. September 4, 2013 – Upcoming trainings addressing new changes in the Administrative Review Process
14. December 6, 2013 – Training on Contracting with a Food Service Management Company
15. December 18, 2013 – National Food Service Management Institute (NJSMI) Meal Pattern Trainings
16. January 15, 2014 – Procurement of Food Management Company Services
17. February 3, 2014 – National Food Service Management Institute (NFSMI) Financial Management Trainings
18. Food Service Management Company Prototype Contract Language School Year 2013-2014

FISCAL YEAR 2014

REIMBURSEMENT RATE BREAKDOWN

NATIONAL SCHOOL LUNCH PROGRAM

REGULAR RATE (July 1, 2013 – June 30, 2014) LEAs/charter school w/less than 60% of Free and Reduced			
	FEDERAL	STATE	TOTAL
FREE	2.93	0.055	$2.985
RED	2.53	0.055	$2.585
PAID	.28	0.04	$0.320
HHFKA*	.06	.00	$0.060

HIGH RATE (July 1, 2013- June 30, 2014 – Federal EXTRA .02 CENTS) LEAs/charter school w/more than 60% of Free and Reduced			
	FEDERAL	STATE	TOTAL
FREE	2.95	0.055	$3.005
RED	2.55	0.055	$2.605
PAID	.30	0.04	$0.340
HHFKA*	.06	.00	$0.060

*For "Federal PB Lunch" Healthy Hunger-Free Kids Act of 2010

SCHOOL BREAKFAST PROGRAM

REGULAR RATES – NON-SEVERE NEED			
	FEDERAL	STATE	TOTAL
FREE	1.58	0.00	$1.58
RED	1.28	0.00	$1.28
PAID	0.28	0.00	$0.28

SEVERE NEED RATES			
	FEDERAL	STATE	TOTAL
FREE	1.89	0.00	$1.89
RED	1.59	0.00	$1.59
PAID	.28	0.00	$0.28

AFTER SCHOOL SNACKS

AT RISK/ AREA ELIGIBLE (NO CHARGE)	$0.80
NON-AREA ELIGIBLE	
FREE	$ 0.80
REDUCED	$ 0.40
PAID	$ 0.07

SPECIAL MILK PROGRAM

FREE	Average cost per half pint *Based on Individual LEA's/charter school costs
PAID	$ 0.2025

Commodity Value $ 0.2275

*** LEAs = LOCAL EDUCATION AGENCIES**

4/24/2014

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

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

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

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

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

Local school district/charter school auditors should refer to Chapter 14 of the GAAP Technical Systems Manual for additional guidance. As a reminder, the costs of instructional programs, including regular, special, or adult education, should be accounted for in the general fund. The one exception would be those districts/charter schools which contract with the Department of Education to run its Regional Day Schools.

Self-insurance (Risk Financing):

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

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

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

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

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

Trust Funds:

There are three classes of trust funds:

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

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

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

There are two required trust fund financial statements under GAAP:

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

Refer to the *Statement of Fiduciary Net Position* and the *Statement of Changes in Fiduciary Net Position* (Exhibits B-7 and B-8), the sample fiduciary fund statements, in the Sample Statements section on the NJDOE web site: http://www.state.nj.us/education/finance/fp/cafr/. Note that as of the date of release of this Audit Program, revision of the sample statements for GASBS 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* remains in progress.

Unemployment Trust Fund

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

Effective January 1, 1999, a portion of the employee's deductions for unemployment compensation are required to be deposited in the Unemployment Compensation Insurance Trust Fund. This applies to

districts/charter schools that fund New Jersey Unemployment Compensation Insurance under the "Benefit Reimbursement Method". The percentage breakdown for the worker contributions is as follows:

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

The special reimbursable accounts rates indicated above are subject to change after the publication of this Audit Program and should be verified with the Department of Labor and Workforce Development at: http://lwd.dol.state.nj.us/labor/handbook/chap1/chap1sec4ContributionReports.html#6

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

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. State Aid payments were garnished in an amount including the principal, interest accrued, and penalties assessed. District auditors must inquire as to whether or not related or unrelated insurance or tax liabilities remain unpaid and subject to yearend accrual.

Section 457 Deferred Compensation Plans

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

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

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

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

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

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

Payroll funds: Where a district/charter school uses a central payroll system and reports all payroll deductions in an agency fund, the unremitted balances in the agency fund at year-end are reported by the agency fund as liabilities. Refer to Section II-10.2 for discussion on regulations related to third party disbursements (payroll service organizations). The regulations (*N.J.A.C.* 5:30-17 et seq.) are available on the DCA website.

Health Insurance Withholding

P.L.2010, c. 2 was signed into law on March 22, 2010 and effective May 21, 2010. This law changed various provisions of the State Health Benefits Program and the School Employees Health Benefits Program. Withholding from employees for this purpose should be accounted for in the Payroll Agency Fund as an employee payroll deduction. The withholding is not revenue to the district/charter school but offsets the cost of health benefits paid by the district/charter school. The Division of Pensions issued guidance in a Frequently Asked Questions and answer memo that can be found at http://www.state.nj.us/treasury/pensions/chapter2-faq.shtml. Other information from the division can be found in communication sent to certifying officers at http://www.state.nj.us/treasury/pensions/coltr10.shtml. Local Finance Notice (LFN) 2010-12 highlights important elements of the law, and has a Frequently Asked Questions document (FAQ) attached. LFN can be accessed at the link title Chapter 2 Health Benefits Reform Guidance at the Division of Community Affairs website http://www.state.nj.us/dca/divisions/dlgs/resources/lfns_2010.html. For clarification of provisions of the law, please contact the Division of Pension's Office of Client Services at (609) 292-7524, or email the Division at pension.nj@treas.state.nj.us.

P.L. 2011 c.78, effective June 28, 2011, changes the health care contribution standards set in Chapter 2 of 2010 by increasing the share of health benefits premiums paid by public employees and retirees who receive employer paid health benefits. For 2013-14, each employee's health benefit cost contribution is the higher of 1.5% of base salary (Chapter 2) or Chapter 78, s.39 (subject to phase-in requirements of the law) or any locally or contractually required contribution that applies to an employee. *N.J.S.A.* 18A:16-17.1(a) specifies the withholding rates for school district employees and *N.J.S.A.* 18A:16-17.1(c) specifies the date which those rates commence depending upon the terms of the employee's employment contract. Local Finance Notice 2011-20R provides guidance on the implementation of the 2011 health benefit reforms and is available at: http://www.nj.gov/dca/divisions/dlgs/resources/lfns_2011.html

Health care costs budgeted in appropriations object code 270 should be recorded net of projected employee withholding. Actual withholdings from employees' payroll for this purpose should be recorded in the payroll agency fund as employee withholdings. Regarding the remittance of premiums to the insurer, districts/charter schools were offered the flexibility to issue one general fund check comprised of both the employer and employees' share of health benefit cost, or to remit the employer share from the general fund and the employees' share from the payroll agency fund.

Section 125 Flexible Spending Accounts
P.L. 2011 c.78 requires boards of education/board of trustees to establish a cafeteria plan for employee medical or dental expenses not covered by a health benefits plan. This may be accomplished through a Flexible Spending Account (FSA), which allows an employee to voluntarily set aside a portion of their earnings to pay for expenses qualified under the plan to include the use of pre-tax dollars to satisfy the employee's required contributions to health benefits costs under the law.

A Flexible Spending Account may require the district board of education/charter school board of trustees to pre-fund a portion of the employee accounts at the inception of the program and annually at the beginning of each plan/budget year. The pre-funding is necessary to have funds available to pay/reimburse claims during the initial period until employee salary deductions are sufficient to pay these claims. The prefunding may be repaid to the district/charter school by the plan provider once sufficient funds are accumulated through the deduction process.
In the event the district's/charter school program required pre-funding, an interfund transfer is the appropriate method of providing the short-term funding for the program to become operational. The transfer should be reversed once the fund achieves a level sufficient to maintain itself.

At the end of the plan/budget year (including any grace period) the employer retains the unexpended balance of the employees' contributions. These funds may be used to pre-fund the following year's plan, to pay the employer's administrative costs, or to recoup the pre-funding amount at the start of the year.

Refer to Local Finance Notice 2011-34 *2011 Health Benefit Reform Supplemental Guidance* available on the DCA website at: http://www.state.nj.us/dca/divisions/dlgs/resources/lfns_2011.html

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

Organizations under the Auspices of the School

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

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

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

(2) Disbursements shall be recorded chronologically showing date, vendor, check number, purpose and amount. All disbursements should be made by check and supported by a claim,

bill or written order to persons supervising the fund. Checks should bear two or more authorized signatures.

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

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

(5) Borrowing from the student activity is prohibited.

Local school district/charter school auditors should refer to Chapter 15 of the *GAAP Technical Systems Manual*.

Fund Raising in Schools by Outside Organizations

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

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

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

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

Funds of Teacher Organizations and Parent/Teacher Organizations

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

Funds Collected by Teachers from Pupils for Immediate Purchase of Items

Teachers may receive money from children to buy magazines, tickets, etc., in bulk to save the children money. It is our opinion that in so doing the teacher represents the children and not the school board/board of trustees and assumes full responsibility for the transactions.
Refer to Section I Chapter 1 for information on GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*.

SECTION II – SPECIFIC COMPLIANCE
CAPITAL ASSETS

Overview

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

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

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

Reporting Capital Assets

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

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

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

Statement of Net Position

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

Governmental Accounting Standards Board Statement (GASB) 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, changes the Statement of Net Assets to the Statement of Net Position. Along with the name change, the Statement of Net Position will include two new classifications separate from assets and liabilities. Amounts reported as deferred outflows of resources are required to be reported in a Statement of Net Position in a separate section following assets. Likewise, amounts reported as deferred inflows of resources are required to be reported in a Statement of Net Position in a separate section following liabilities. In addition, the totals of these two new classifications should be added to the total for assets and liabilities, respectively. GASBS 63 also changes the definitions and calculations of former net asset classifications—invested in capital assets, net of related debt, restricted and unrestricted. Invested in capital assets, net of related debt will

be titled "Net Investment in Capital Assets." The title of the other two classifications will remain the same. The calculations used in arriving at the balances of the classifications will be similar to what they were before, but each will include the new components of deferred outflow and deferred inflow of resources consistent with the placement of assets and liabilities, respectively. For example, the restricted component of net position now will generally consist of restricted assets reduced by liabilities and *deferred inflows of resources* related to those assets. At the time this Audit Program is published, the department is in the process of updating the financial statements on the department's website to conform to GASBS 63 (and GASBS 65 which is not yet mandatory).

> Note to Auditor: GASBS 65 *Items Previously Reported as Assets and Liabilities*, reclassifies as deferred inflows/outflows of resources or deferred inflows/outflows of resources certain items that were previously reported as assets and liabilities. Examples of deferred outflows of resources provided by GASB that might impact the financial statements of districts include grant expenditures paid in advance meeting timing requirements e.g. disbursement of amounts in advance of receipt of grant funds subsequently drawn down; and deferred amounts from debt refunding (debits). Examples of deferred inflows of resources include grant amounts received in advance of meeting timing requirements e.g. a drawdown of grant funds in advance of actual expenditure; and deferred amounts from debt refunding (credits). Upon implementation of GASBS 65, the use of the word "deferred" in financial statements is exclusive to deferred inflows of resources and deferred outflows of resources.

Funds Statements

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

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

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

Capital Leases

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

Construction in Progress

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

Charter school auditors are to ensure that charter schools that have constructed facilities are not in violation of N.J.S.A. 18A:36A-10, which states that a charter school shall not construct a facility with public funds other than federal funds.

Reporting of Capital Assets Acquired Through Non-cash Grants

Capital assets acquired through non-cash grants are reported only in the district/charter-wide Statement of Net Position at fair market value. This is applicable to buildings constructed for a district/charter school by the Economic Development Authority/School Construction Corporation (SDA). Districts/charter schools are to obtain the June 30 value of SDA constructed assets from the SDA.

Sample Format for the Capital Asset Subsidiary Ledger

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

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

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

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

Depreciation Expense

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

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SECTION II – SPECIFIC COMPLIANCE
LONG-TERM LIABILITIES

Overview

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

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

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

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

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

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

Compensated Absences

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

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

Pension and Other Postemployment Benefits (OPEB)

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

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

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

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

School districts are prohibited from implementing an early retirement incentive program (unauthorized ERIP) without the prior approval of the State. According to the Division of Pensions, in Fact Sheet #52, which can be accessed at http://www.state.nj.us/treasury/pensions/pdf/factsheets/fact52.pdf; the prohibition against employer-sponsored retirement incentive programs is in place primarily to protect the financial integrity of the retirement systems. If employers were able to offer employees incentives to retire, it would seriously degrade the ability of the pension system to establish reasonably accurate experience assumptions upon which pension funding is based.

During 2014, several school districts were cited as having offered prior period unauthorized early retirement incentive programs to district employees. Early retirement incentives must have the prior approval of the State Department of Community Affairs and the Department of Treasury. Districts that fail to obtain full approval will be held fiscally responsible to reimburse the Division of Pensions and Benefits for the additional pension and other benefits costs resulting from the unauthorized programs. The billings are not considered fines and are only intended to cover the actuarially determined costs of the unauthorized program(s).

Auditors are required to inquire as to whether the district has been notified of prior implementation of an unauthorized ERIP, or implemented an unauthorized ERIP during the year under audit. Auditors must determine whether school district financial statements and schedules should reflect an unauthorized ERIP liability (or payment of the liability) and proper note disclosure in accordance with GASBS No. 10, paragraph 58 and GASBS No. 62 paragraphs 104, 107, and 109.

*N.J.S.A.*18A:24-61.2 permits NJ school districts to issue refunding bonds to fund their remaining ERIP liabilities. Auditors should refer to the Question and Answer Guidance on the web site http://www.nj.gov/njded/finance/fp/af/faq_retire.shtml. At the time the payment is made to retire the unfunded liability, the old balance is removed from the district's general long-term liabilities, the new balance recorded as a general long term liability and subsequently reported in the district-wide statement of net assets. The refunding transaction is reported in the S*tatement of Revenues, Expenditures, and Changes in Fund Balances* as "Other Financing Sources – Long-Term Debt Issued" and "Other Financing Uses – Repayment of ERIP Liability".

If there is not a requirement in the bond agreement to use the debt service fund, the transaction is recorded in the general fund. Districts and auditors should refer to GASB Codification sections 1500 and D20 for further guidance on year-end reporting and disclosures.

Termination Benefits

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

Arbitrage Requirements

The glossary of The Government Finance Officers Association's publication *Governmental Accounting, Auditing, and Financial Reporting* (the "blue book") describes rebatable arbitrage as "A term used in connection with the reinvestment of the proceeds of tax-exempt debt. A requirement to remit to the federal government interest revenue in excess of interest costs when the proceeds from the sale of tax-exempt securities are reinvested in a taxable money market instrument with a materially higher yield."

Districts should refer to page 66 of the GASB 34 edition of the "blue book" for guidance on rebatable arbitrage. "Rebatable arbitrage should *not* be treated as a reduction of investment revenues in governmental funds; it should instead be treated in the same way as any other claim or judgment. There should be no recognition in the governmental fund's balance sheet or operating statement until rebatable liability amounts are actually due and payable to the federal government."

The AICPA Audit and Accounting Guide, *State and Local Governments* includes guidance on arbitrage requirements in section 5.07. "Governments generally should calculate the arbitrage liability annually to determine whether it is material and thus should be reported in the financial statements." If material, the arbitrage liability is reported in the district wide statements and when actually due and payable, reported in the funds statements.

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SECTION II – SPECIFIC COMPLIANCE
SINGLE AUDIT

Federal and State Audit Requirements

Federal Single Audit Act

The Single Audit Act Amendments of 1996 (Act) establishes uniform requirements for audits of federal awards administered by non-federal entities. The Act promotes sound financial management, including effective internal controls, with respect to federal awards administered by non-federal entities. The Federal Office of Management and Budget (US OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, provides the government wide guidelines and policies on performing audits to comply with the Single Audit Act and requires the use of generally accepted government auditing standards (GAGAS). Non-federal entities that expend $500,000 or more in a year in federal awards are required to have a Single Audit in accordance with provisions in Circular A-133. (Advance note: Beginning December 26, 2014, the expenditure threshold increases to $750,000). When auditing federal programs for the fiscal year ending June 30, 2014, auditors are required to follow the provisions of the 2007 revision of *OMB Circular A-133* available at: http://www.whitehouse.gov/sites/default/files/omb/assets/a133/a133_revised_2007.pdf.

The Act requires that GAGAS be followed in audits of state and local governments. *Government Auditing Standards (The 2011 Revision)* issued by the Comptroller General of the United States specifies the standards and guidance generally known as GAGAS. This document is commonly known as the Yellow Book and is available in electronic format through the GAO website www.gao.gov. The printed version of the December 2011 revision of *Government Auditing Standards* can be purchased through the Government Printing Office (GPO) online via the GPO website at http://bookstore.gpo.gov

The 2014 edition of OMB A-133 *Compliance Supplement* was issued on May 22, 2014 and is available at: http://www.whitehouse.gov/omb/circulars/a133_compliance_supplement_2014

Auditors should select from a list of departments in Part 4 of the Supplement, (e.g., Dept. of Agriculture, Dept. of Education, Dept. of Health and Human Services) to determine compliance requirements for a specific program or grant. Appendix 5 of the document contains a list of changes in the 2014 Supplement.

The applicable Catalog of Federal Domestic Assistance (CFDA) number for a federal grant or federal aid can be found on the New Jersey Department of Education (NJDOE) Contract. A listing of grants available through NJDOE with their CFDA numbers can be found beginning on page II-SA.17 of this Audit Program and the auditor can look up a program at the CFDA website: http://www.cfda.gov. Click the heading "Search For Assistance Programs (HTML)." Here there are several different ways to search for programs including by number, or if necessary you can click on the heading of All Programs Listed Numerically.

State of New Jersey Single Audit Act

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

AICPA Single Audit Guidance

The AICPA audit guide, *Government Auditing Standards and Circular A-133 Audits (Guide)* 2013 edition published April 17, 2013 is available for purchase from the AICPA website at http://www.aicpa.org/Publications/Pages/publications.aspx. The updated guide incorporates guidance from the following:

- AICPA clarified auditing standards
- Auditor report illustrations
- 2011 edition of Government Auditing Standards

Risk-based Approach

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

§___.520 Major program determination.

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

(b) **Step 1**.

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

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

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

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

(c) **Step 2**.

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

The Report on the National Single Audit Sampling Project issued by the President's Council on Integrity and Efficiency in June 2007 indicated numerous errors in the single audits. To address single audit deficiencies and to enhance the overall quality of single audits, the NJDOE Office of Fiscal Accountability and Compliance (OFAC) designed the Single Audit Summary Sheet. This Summary replaces the Type A Programs Worksheets, and the CAFR Submission Checklist and is required as part of the CAFR Reporting Package submitted to New Jersey Department of Education. Shaded areas are entered by the department or are automatically calculated. The auditor must complete all questions in sections A, C and F for every district/charter school, and all questions in Section D of the Summary for districts/charter schools that have a federal and/or state single audit. The form is accessible through the FY14 Single Audit Summary link at the OFAC website:

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

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

Auditing Standards and Circular A-133 Audits and the USOMB Circular A-133 (Section .520) should be referenced for further guidance on this approach.

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

Schedules of Expenditures of Federal Awards and State Financial Assistance

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

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

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

Upon approval of the Final Expenditure Report by the NJDOE Office of Grants Management (OGM), any unexpended funds a district/charter school elects to carry over are identified as prior year carryover funds and are brought forward into a separate line in the Allocation section of the subsequent year Grant Application in the Electronic Web Enabled Grant (EWEG) system (SAGE for IDEA). In addition, any funds paid in excess of expenditures, are brought forward into a separate line marked “Overpayment” in the Allocation section of the subsequent year Grant Application. If the subsequent year application has final NJDOE approval, the district/charter school must submit an Amendment Application to budget the prior year carryover and overpayment funds.

Unexpended Funds at Year End

When the district/charter school elects not to carry over the unexpended current year balance approved through the Final Expenditure Report, **and** this balance of funds was not paid to the district/charter school, the balance is considered “released” by the district/charter schools to the DOE. Released funds are unexpended and unpaid funds that have been reported/recorded as “Released Funds” in the Final Expenditure Report. Those funds will not be claimed by the district/charter school. The amount of funds released by the district/charter school (not expended by the district/charter school and not paid/remitted by the DOE) should be presented on Schedule A, in the column entitled “Adjustments”. When the unexpended current year balance of funds has been paid/remitted by the DOE to the district/charter school, this balance is recorded/reported in the Final Expenditure Report as a refund due from the

district/charter school to the DOE. Where the funds are expired (may not be expended in the subsequent year) the Final Expenditure Report will automatically classify and report those funds that have been received by the district/charter school but are no longer available for expenditure by the district/charter school as, "Refundable to the NJDOE." Report this amount on Schedule A in the column entitled, "Due to Grantor."

All funds that have been refunded during the fiscal year shall be shown on Schedule A, in the column entitled, "Repayment of Prior Year Balances."

In January 2009, the NJDOE moved to a reimbursement method of payment. If a district/charter school submits for reimbursement of current year (2013-2014) expenditures and has carryover from the prior year (2012-2013) grant, the balance of the prior year carryover funds is offset against the reimbursement until the prior year carryover funds have been fully expended/deducted from the available funds. Generally, a district/charter school submits for reimbursement by the 15th of the month for expenditures incurred as of that date or anticipated to be incurred by the end of the month. The reimbursement for that month will be made in the subsequent month. When the amount of cash received is less than budgetary expenditures, a receivable shall be shown as a negative amount on Schedule A, in the column entitled "(Accounts Receivable)." No negative cash balances are permissible in the balance sheet. There should be an interfund payable set up to reflect advances from the General Fund.

Beginning with the FY 2012 *NCLB* grant year, districts/charter schools were given a forty-five day liquidation period until October 15, 2012, to liquidate all FY 2012 *NCLB* funds. This shortened liquidation period was a direct result of the notification by the United States Department of Education (USDE) that an extension would not be granted to the FY 2012 *NCLB* liquidation period, as well as to avoid jeopardizing payment of any remaining grant funds for the FY 2012 NCLB project year. This forty-five day liquidation period will be in effect for the FY 2013 *NCLB* grant year and subsequent grant years.

Example – June 30, 2014
An NCLB award for the period September 1, 2012 to June 30, 2013 must have been obligated by June 30, 2013 and liquidated by August 15, 2013. Grant funds awarded to the district/charter school and received by the district/charter school that remained unencumbered or unexpended at June 30, 2013, should have been reported as deferred revenue in the June 30, 2013 *Schedule of Expenditures of Federal Awards*. Funds encumbered but unexpended at June 30, 2013 (the end of the grant obligations period), are considered carryover funds in the EWEG system. Carryover funds (for which payments were received by the district/charter school) that have not been reported as expended by the August 15, 2013 liquidation date are reported as overpayment funds in the EWEG system. Upon OGM approval of the Final Expenditure Report for the 2012-2013 grant period any carryover and/or overpayment funds were made available for budgeting in the current year (2013-2014) project period. The district/charter school may budget carryover and/or overpayment funds in the original (subsequent year) grant application, or where the original grant application has received final NJDOE approval as recorded in the EWEG system in advance of the carryover/overpayment determination, in an Amendment Application. The carryover/overpayment funds are considered expended first during the current grant period. Where a district/charter school has not obligated the full amount of prior year carryover (2012-2013) by June 30, 2014 <u>and</u> does not liquidate the full amount of the prior year carryover (2012-2013 grant) by August 15, 2014, the amounts not so obligated and liquidated are considered due back to the grantor in the EWEG system. At June 30, 2014, any amounts received by the district/charter school but not as yet remitted back to the DOE should be reported in the June 30, 2014 *Expenditures of Federal Awards* as Due to Grantor; and every year until the funds are repaid to the grantor.

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

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

The No Child Left Behind Act (NCLB) of 2001 (P. L. No. 107-110) reauthorized the Elementary and Secondary Education Act of 1965 (ESEA). NCLB contains fiscal compliance issues including, but not limited to, supplement not supplant, commingling of funds, allowable costs, administrative costs caps, maintenance of fiscal effort, comparability, transferability, and schoolwide programs. NCLB Policy Guidance is available at http://www2.ed.gov/policy/elsec/guid/states/index.html. Fiscal guidance on the FY 2013 NCLB Application can be found in the New Jersey NCLB FY 2011 Reference Manual Section IV "Fiscal Regulations and Responsibility" available at http://www.nj.gov/education/grants/entitlement/nclb/.

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

The USDE approved New Jersey's request for an ESEA Flexibility Waiver that may affect requirements that school districts would otherwise implement during the 2012-2013 and 2013-2014 school years. Auditors are encouraged to consult the 2013 and 2014 OMB Circular A-133 Compliance Supplements for a final listing of the waived requirements.
ESEA Flexibility.pdf
https://www2.ed.gov/policy/elsec/guid/esea-flexibility/index.html

Federal Awards: Title I schoolwide status

All schools with approved Title I schoolwide programs may combine certain federal funds. If the school does combine these resources, the expenditures are then accounted for down to the function object level as a combined federal source. Those expenditures will need to be allocated back to the original federal funding sources at June 30, in a manner similar to that applied to the Blended Resource Fund 15 in a district that is required to use school-based budgeting. This activity for the districts not required to use school-based budgeting and charter schools will be recorded in Fund 20, not Fund 15. This applies to all schools with an approved Title I schoolwide program in the 2012-13 school year.

One of the requirements of implementing schoolwide programs is to integrate, whenever possible, all local, state and federal resources into one funding stream to implement the applicable year of the school's schoolwide plan. It is therefore important that districts/charter schools are cognizant of the federal laws permitting blending of federal resources, particularly the Improving America's Schools Act of 1994 (IASA) P.L. 103-382, amendments to the Elementary and Secondary Education Act of 1965 (ESEA), Title I, Part A. ESEA was reauthorized by the No Child Left Behind Act of 2001 (NCLB) (P. L. No. 107-110 enacted January 8, 2002). Refer to http://www2.ed.gov/policy/elsec/guid/states/index.html and *http://www.nj.gov/education/grants/entitlement/nclb/* for details of NCLB. In addition, the United States Department of Education (USDOE) website (*www.ed.gov*) provides written guidance, program ideas and audit information on schoolwide programs at *http://www.ed.gov/admins/lead/account/swp.html?exp=0*. Included at that site is a July 2, 2004 document titled "Notice Authorizing Schoolwide Programs to Consolidate Federal Education Funds." A power point presentation on schoolwide programs can be

found at *http://www.ed.gov/admins/lead/account/sw/edlite-index.html*. Information on Title I is available at *http://www.ed.gov/programs/titleiparta/legislation.html?exp=0* . Non-Regulatory Guidance "Title I Fiscal Issues: Maintenance of Effort, Comparability, Supplement, Not Supplant, Carryover, Consolidating Funds in Schoolwide Programs, Grantback Requirements" was issued in February 2008. This guidance is available at *http://www.ed.gov/programs/titleiparta/fiscalguid.doc* .

The basics of a schoolwide program are summarized below. The above resources should be referenced for more detailed and specific information related to operating a schoolwide program.

NCLB permits a local educational agency (LEA)/charter school to consolidate and blend funds "together with other federal, state and local funds, in order to upgrade the entire educational program of a school that serves an eligible school attendance area in which not less than 40 percent of the children are from low-income families, or not less than 40 percent of the children enrolled in the school are from such families" (NCLB §1114). The purpose is to increase the academic achievement for **all** students in the school by allowing schools to integrate their programs, strategies and resources.

A Title I targeted assistance program uses Title I, Part A funds only for the provision of supplementary educational services to eligible children who are failing, or at risk of failing, to meet state standards. In a Title I schoolwide program, a school is not required to provide supplementary services to identified children but instead can upgrade the entire educational program in the school.

In order to be eligible for a Title I schoolwide program, the school must be eligible for the Title I program; receive Title I, Part A funds; have at least 40 percent of the children enrolled in the school or residing in the school attendance area be from low-income families; comply with a year of planning; meet the nine essential program components and, have an approved schoolwide program plan. Simply being a school in a district required to use school-based budgeting does not make the school eligible to operate a schoolwide program. To promote effective, long-term planning, a school can maintain its schoolwide program eligibility even if it drops below the 40 percent poverty threshold. However, the school must still meet Title I eligibility and receive Title I funds.

Title I eligibility is a prerequisite of schoolwide program eligibility. Without an approved schoolwide program, a school is not permitted to blend federal funds with state and local finds. These ineligible schools that are required to use school-based budgeting may only blend state and local funds.

Only eligible Title I schools receiving Title I funds may operate schoolwide programs.

The auditor should review the district/charter-wide and school-based budgets to identify which funds were combined to support the schoolwide program.

The auditor should also ensure that the individual schools have approved schoolwide status if federal funds are being blended in the school's school-based budget and that only allowable program funds are blended in the school-based budget.

<u>Fund 15 - GAAP Basis Expenditure Testing (Not applicable to charter schools)</u>

The district is required to prepare a *Schedule of Blended Expenditures – Budget and Actual* (Exhibit D-3) for each school-based budget school. This schedule accounts for all Fund 15 GAAP basis expenditures for a particular school. The auditor should obtain the detailed general ledger from which these statements were prepared, ensure that the amounts included in the schedules agree with the general ledger and then select specific expenditures for testing from the general ledger. Each expenditure tested is paid from the combined/blended funds, and therefore is paid for in part by each funding source combined/blended in Fund 15 and cannot be specifically identified to a particular funding source. Each expenditure selected

for testing must be analyzed to determine whether it is consistent with the applicable year of the schoolwide plan for that school. The auditor must perform sufficient detailed expenditure testing to ensure that the GAAP expenditures recorded in Fund 15 are valid expenditures consistent with the school's approved schoolwide program plan. This procedure should be performed to test expenditures in all school-based budget schools in the district.

Fund 15 – Blended Resources Testing (Not applicable to charter schools):

A school **must** be operating an approved Title 1 schoolwide program in order to blend federal funds. If a school implementing school-based budgeting does not have approved Title 1 schoolwide status, they can only blend state and local funds in their school-based budgets.

The auditor should review the district's/charter school's approved FY 2014 NCLB Consolidated Application (Application) to determine which schools within the district have Title 1 approved schoolwide program status. Only schools with approved schoolwide status may blend federal funds with state and local funds. The auditor should ensure the amounts from each federal program blended in the individual school-based budgets agree with the approved Application. This procedure should be performed to test revenues in all school-based budget schools in the district.

Once the auditor has determined that the resources transferred to Fund 15 agree with the approved Application; that the expenditures reported in Fund 15 are valid expenditures consistent with the approved schoolwide plan and recorded any adjustments necessary to reflect the effect of errors noted during testing, the auditor should test the district's/charter school's calculations of allocated GAAP expenditures and allocated GAAP surplus/carryover to ensure that they are calculated in accordance with the instructions provided by the department. If the auditor recorded any Fund 15 adjustments, the district's/charter school's allocated GAAP expenditures and GAAP surplus/carryover should be recalculated. Instructions on how to perform this allocation are available on the department's CAFR website http://www.nj.gov/education/finance/fp/cafr/under the link for "School Based Budget CAFR Presentation" select "Preparing the Blended Resource Fund 15 – Schedule of Expenditures Allocated by Resource Type – Actual (Exhibit D-2 series)."

Fund 15 – Budgetary Basis Encumbrance Testing

Expenditures incurred in Fund 15 are recorded on the GAAP basis. Expenditures included in the *PreKEA*,(Exhibits E-2), the *Special Revenue Fund Combining Schedule of Program Revenues and Expenditures – Budgetary Basis* (Exhibit E-1) and the *Schedules of Expenditures of Federal Awards and State Financial Assistance* (Exhibits K-3 and K-4) are reported on the budgetary basis and therefore include encumbrances as expenditures. The amounts calculated on the *Schedule of Expenditures Allocated by Resource Type – Actual* (Exhibit D-2) are on the GAAP basis and will need to be adjusted for any encumbrances when including those expenditures in these schedules.

Once the auditor has determined that the encumbrances for each school are valid, and recorded any adjustments necessary to reflect the effect of errors noted during testing, the auditor is required to test the district's/charter school's calculations of allocated encumbrances to ensure that they are calculated in accordance with the instructions provided by the department. If the auditor recorded any encumbrance adjustments, the district's/charter school's encumbrances should be reallocated. Instructions on how to perform this allocation are available on the department's CAFR website http://www.nj.gov/education/finance/fp/cafr/ under the link for Special Revenue Fund Combining Schedule of Program Revenues and Expenditures– Budgetary Basis (Exhibit E-1).

A sample encumbrance calculation (Exhibit D-2 Worksheet) is available on the department's website http://www.nj.gov/education/finance/fp/cafr/ to illustrate the calculations and the reporting of the amounts on Exhibit D-2. This worksheet should not be included in the CAFR. The sample encumbrance calculation includes an allocation of encumbrances to the Combined General Fund Contribution and State Resources. This was done to illustrate how the total encumbrances are allocated based on the "% of Total Resources." Encumbrances are not reported as expenditures in Fund 15. The Reserve for Encumbrances is reported in the "Assigned" and/or "Committed" sections of the fund balance recapitulation as "Year-end Encumbrances" in the Fund 15 column of the Combining Balance Sheet (Exhibit D-1). The Combining Balance Sheet is required to be included in the CAFR.

Once the auditor has gained assurance that the Fund 15 expenditures and encumbrances are valid expenditures and encumbrances consistent with the approved schoolwide plan and the allocations of the total Fund 15 GAAP basis expenditures and encumbrances are correct, the auditor must ensure the correct amount of school-based budgetary expenditures has been included in the *Schedules of Federal Awards and State Financial Assistance* (Exhibits K-3 and K-4) for each restricted federal or state program, the *Special Revenue Fund – Combining Schedule of Program Revenues and Expenditures – Budgetary Basis* (Exhibit E-1) and the *PreKEA Restricted Aid Schedules* (Exhibit E-2 series). The school-based budget expenditures included on the *Schedules of Federal Awards and State Financial Assistance* for each restricted federal or state aid the *Special Revenue Fund Combining Schedule of Program Revenues and Expenditures – Budgetary Basis and the PreKEA Restricted Aid Schedule* should be the total of the GAAP basis expenditures allocated to the particular restricted aid plus the total current year encumbrances allocated to the particular restricted aid less the total prior year encumbrances allocated to the particular restricted state aid at all school-based budget schools in the district.

State Awards: Carryover/Deferred Revenue/Due Back To Granter

The restricted formula aid Preschool Education Aid which is not fully expended or encumbered by year end must be carried over and reported as deferred revenue on Schedule B in the column entitled "Deferred Revenue."

Districts may not carry over Nonpublic state aid. In the event the budgetary expenditure incurred by a district is less than the amount of state aid cash received (Nonpublic), the district shall refund the unexpended state aid after the completion of the school year. Refunds of unexpended state aid for Chapters 192 and 193 shall be paid no later than December 1 (*N.J.S.A.* 18A:46-19.8 and 18A:46A-14). Any return of funds will be accomplished through the reduction of state aid payments to the district in the year immediately following the current year under audit. The Division of Finance will adjust the amount of aid based on the unexpended balances reported on the *Schedule of Expenditures of State Financial Assistance* (Schedule B) of the single audit report, column entitled "Due to Grantor". Where the public school district responsible for the provision of supplies or services enters into a contract with a third-party provider of supplies or services for nonpublic school students (parentally placed students with disabilities), the third-party provider must provide the school district with a monthly detailed statement of expenditures made by the third-party provider on behalf of the student(s) receiving the supplies or services. The school district's annual Nonpublic Project Completion Report (NPCR), and Schedule B, must reflect only the actual expenditures reported by the third-party provider. The transfer of funds by the district to the third-party provider is not an expenditure of funds for purposes of the NPCR, Schedule of Expenditures of State Awards, or Audsum.

The following state guidance is applicable for grant close out procedures:

> Circular Letter 07-05-OMB: XXIV
> (C) "The Grantee will, together with the submission of the final report, refund to the Department any unexpended funds or unobligated (unencumbered) cash advanced, except such sums that have been otherwise authorized in writing by the Department to be retained."

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

Two separate schedules, the *Schedule of Expenditures of Federal Awards* and the *Schedule of Expenditures of State Financial Assistance*, are prepared from the district/charter school records and must include all active (i.e. - not closed) financial assistance programs in which a district/charter school is participating regardless of the fund in which they are accounted. Each schedule must reflect the current fiscal year's activity as well as total disbursements by program in the format presented in this chapter of the Audit Program (II-SA-21). The information presented on these schedules must agree with the amounts reported in the *Budgetary Comparison Schedules* and the *Combining Schedule of Program Revenues and Expenditures, Special Revenue Fund – Budgetary Basis*. Explanations of the information required to be included are presented below.

These schedules are prepared using budgetary expenditures which must be reconciled to the *Balance Sheet – Governmental Funds* on the *Budget to GAAP Reconciliation in the Notes to RSI*. The adjustment for the state aid payments made in July 2013 (recognized on GAAP in 2013-14) and July 2014 (not recognized on GAAP until 2014-15) (general and special revenue fund) as well as encumbrances in the special revenue fund will be reported as reconciling items. See Section I-8 and III-3 for additional guidance.

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

Districts/charter schools may have received from the department grant funds in advance of the expenditure of the grant funds received. When the district/charter school elects to carry over the unexpended current year balance approved through the Final Expenditure Report, and the district/charter school has received advance funding, the Allocation Section of the subsequent year's Grant Application includes the received but unexpended funds on a separate line marked "Overpayment." At year end, any portion of the "Overpayment" funds for which the liquidation period associated with the prior year carryover funds has expired and has not yet been returned to the department, remains refundable to the department, and shall be reported on Schedule A, in the column entitled "Due to Grantor." When the district/charter school elects <u>not</u> to carry over the unexpended current year balance approved through the Final Expenditure Report, and the district/charter school has received advance funding that has not been returned to the department at year end, this amount remains refundable to the department, and shall be reported on Schedule A, in the column entitled "Due to Grantor."

When the district/charter school elects not to carry over the unexpended current year balance approved through the Final Expenditure Report, and this balance of funds was not advance paid to the district/charter school, the balance is considered "released" by the district/charter school to the DOE. Released funds are unexpended award amounts that have not been received by the district/charter school and are reported/recorded as a release of funds in the Final Expenditure Report. Those funds will not be claimed by the district/charter school. The amount of funds released by the district/charter school (not expended by the district/charter school and not advanced/remitted by the DOE) should be presented on Schedule A, in the column entitled "Adjustments".

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."

Definitions/Headers

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

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

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

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

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

6) **Balance at June 30, 2013:** This is used to report deferred revenue, intergovernmental accounts payable (due to grantor), or intergovernmental accounts receivable for those prior year programs which have balances as of the end of the prior fiscal year. On the *Schedule of Expenditures of Federal Awards* these amounts are shown netted in one column, but the district/charter school may separate them into multiple columns. On the *Schedule of Expenditures of State Assistance* a separate column is presented for Due to Grantor. A positive amount reflects deferred revenue or intergovernmental accounts payable. A negative amount for unrestricted revenue sources represents an intergovernmental accounts receivable and a negative amount for restricted revenue sources represents a deficit in the program attributable to the deferral of the last state aid payment as required GAAP reporting under GASB 33. The budgetary receivable included in the 2012-13 *Schedule of Expenditures of State Assistance* is not included in this column.

7) **Carryover/(Walkover) Amount:** Reflects the movement of award proceeds which have been approved for carryover into a carryover program code. Note that any walkover amount must be

reflected as a negative amount on the line from which it was transferred, and a positive amount on the grant/aid program line to which it was transferred. Prior year state restricted formula aids would be reflected in this column. Where a deficit (negative in the Balance at June 30, 2013 column) in the preceding year was attributable to the deferral of the last state aid payment (GASB 33 GAAP revenue recognition), the Carryover/(Walkover) column will show a positive on the line for the previous year and a negative on the line for the audit year. This would occur only in the restricted state aid programs.

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

9) **Budgetary Expenditures:** Represents the total costs chargeable to the program during the current fiscal year. The budgetary expenditures amount must agree with the *Budgetary Comparison Schedules* (General Fund (GAAP) and Special Revenue Fund (Grant Accounting)) and the *Budgetary Comparison Schedule, Note to RSI* and the *Special Revenue Combining Schedule of Program Revenues and Expenditures – Budgetary Basis*.

   For Preschool Education Aid, this reflects the total actual expenditures for Preschool Education. Budgetary expenditures include contribution to charter schools.

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

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

12) **(Intergovernmental Receivable) at June 30, 2014:** Amounts due from the grantor, as of fiscal year end, are reflected here. The amounts reported must agree with the amounts reported in the Balance Sheet (Exhibit B-1) for the governmental funds or with the Food Service column in the Statement of Net Position (Exhibit B-4) for the Proprietary Funds.

13) **Deferred Revenue at June 30, 2014:** Unexpended award proceeds as of fiscal year end which are expendable in the subsequent fiscal year are reflected here. For Preschool Education Aid, if the district/charter school has deferred revenue, the amount reported in the Schedule B plus the state aid payment made in July of the subsequent year should agree to the amount calculated on the Special Revenue Restricted Aid Schedules as actual carryover.

14) **Due to Grantor at June 30, 2014:** Unexpended award proceeds which are due back to the grantor as of fiscal year end are listed here. These amounts are reflected in the general ledger as Intergovernmental Accounts Payable and should reconcile to the amounts reported in the *Basic Financial Statements* and in the *Combining Schedules* by the amount of the state aid payment (general and special revenue fund) made in July of the subsequent year. This column will be utilized by the Department of Education to identify and collect moneys due to the state for federal and state programs. If a district/charter school has amounts due back to the grantor at the end of the fiscal year, that amount must appear in the Due to Grantor column of the current fiscal year, and also in each subsequent year's CAFR as a balance at June 30 of the prior year until the amount is ultimately repaid. If a district/charter school has no unexpended award proceeds due back to the grantor, show the column heading and leave the column blank. See the discussion on pages II-SA.5 and 6.

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

16) **Cumulative Total Expenditures:** This column is a memo only column, used on the *Schedule of Expenditures of State Financial Assistance*, and reports the cumulative expenditure of a grant. If the grant crosses fiscal years the amount may differ from the budgetary expenditures since the budgetary expenditures represents expenditures for only the current fiscal year. These amounts will most likely be the same for most forms of state aid reported by NJ school districts/charter schools.

Specific Program Information

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

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

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

Individuals with Disabilities Education Act (IDEA), expends funds on a first-in-first-out basis. School districts/charter schools should expend available carry-over funds first during the fiscal year before expending current year IDEA funds. A portion of the IDEA funding is available for expenditure on behalf of public school students (public aid) and a portion of the IDEA funding is available for expenditure on behalf of nonpublic school students (nonpublic aid). The portion of IDEA funding that is available for expenditures made for services provided to parentally placed students with disabilities in

private schools (nonpublic aid) must be expended in accordance with 34 CFR 300.133 (a)(3). When a school district/charter school has not expended for equitable services all of the funds described in paragraphs (a)(1) and (a)(2) of this section by the end of the federal fiscal year associated with those funds, the school district/charter school must obligate the remaining funds for special education and related services to parentally-placed private school children with disabilities during a carry-over period of one additional year. If there are unexpended funds at the end of the second federal fiscal year, and the district/charter school can provide assurance that the district/charter school has consulted with the private school service providers, the unexpended two-year-old nonpublic IDEA funding (nonpublic school aid) is recast as public school funds (public school aid). Any amount so transferred and recast as public school aid is first applied to expenditures of the most recently ended school district/charter school fiscal year. The resultant increase to unexpended and available public school aid may be used to increase the current public school aid grant.

IDEA funds may be provided for Coordinated Early Intervening Services (CEIS). School districts/charter schools are either classified as required to use these funds for this purpose or as having elected to use funds for this purpose. In general, CEIS expenditures are capped at 15 percent of the current grant defined as he combined amount of the Basic plus Preschool awards. School districts /charter schools that were required to use the funds for this purpose must carryover the unexpended CEIS dedicated funds for the same purpose. For the CEIS "required" districts/charter schools, current year funds available for CEIS are equal to 15 percent of the current year grant plus the carryover of unexpended CEIS funds. If a CEIS "required" district/charter school has not expended the carryover CEIS funds by the end of the second year, the district/charter school must return/release the unexpended funds to the department. School districts /charter schools that had elected to use the funds for CEIS must carryover unexpended funds at the end of the first year as regular public school funds (public school aid) and are not required to return unexpended elected CEIS funds to the department. CEIS "elected" districts/charter schools are capped at 15 percent each year.

Audit Findings

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

The department's Office of Fiscal Accountability and Compliance (OFAC) acts on the Commissioner's behalf in the receipt, exchange, review and investigation of information relevant to the efficient supervision of all schools in the state receiving support or aid from federal and state appropriations, N.J.S.A. 18A:4-23. The office performs investigations and many auditing functions, including the coordination of monitoring activity related to allowable uses of federal funds. The auditor is required to perform follow-up tests/procedures, as necessary, to ensure that all the findings contained in audit reports issued by the OFAC have been properly resolved. The conclusions drawn from the follow-up tests and procedures performed on OFAC findings by the independent auditor where the district is subject to a federal and/or state single audit must be summarized in the Federal and/or State Financial Assistance Findings and Questioned Costs (Section III) of the Schedule of Findings and Questioned Costs. Where the district is not subject to a federal and/or state single audit, the status of the OFAC findings should be addressed in the Legal or Regulatory Requirements section of the Independent Auditor's Report.

The Auditor's Management Report and the Schedule of Findings and Questioned Costs must indicate whether the district/charter school has not complied with federal and state regulations in a timely manner. Grant refunds are to be submitted with the Final Expenditure Reports. Discretionary grant refunds are required by the department upon approval of the Final Expenditure Report. If grant periods extend

beyond the audit deadline of June 30, unexpended funds should be listed as Deferred Revenue and refunded with the Final Expenditure Reports. Do not list Repayment of Prior Years' Balances unless refunds have been sent to the grantor. If the school district/charter school Schedule of Finding and Questioned Costs or Audit Findings indicate that refunds are due, the refunds are to be submitted promptly with an explanation regarding the findings.

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

Note: A school district or charter school that does not have any CAFR and AMR findings is not required to file a "NONE" corrective action plan with the New Jersey Department of Education.

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

CFDA #	
10.553	School Breakfast Program
10.555	National School Lunch Program
10.556	Special Milk Program for Children
10.558	Child and Adult Care Food Program
10.559	Summer Food Service Program for Children
10.582	Fresh Fruits and Vegetable Program
84.010A	Title I Part A Grants to Local Educational Agencies
84.011A	Title I, Part C Education of Migrant Children
84.013A	Title I, Part D Neglected & Delinquent Children
84.027	Individuals with Disabilities - States Grant
84.040	Impact Aid – Facilities Maintenance
84.041	Impact Aid
84.048A	Career and Technical Education - Basic Grants
84.144F	MEP Consortium Incentive
84.144G	MSIX State Data Quality Grants
84.173	Preschool Grants for Children with Disabilities
97.036	Project School Emergency Response to Violence (SERV) (Disaster Grants- Public Assistance)
84.185	Byrd Honors Scholarship
84.186A	Safe and Drug-Free Schools and Communities (SEA Portion)
84.186B	Safe and Drug-Free Schools and Communities (GOV Portion)
84.196	Education for Homeless Children and Youth
84.213C	Title I, Part B Even Start Family Literacy
84.215V	NJ Character Pilot Program

FEDERAL PROGRAM NUMBERS (cont'd.)

CFDA #	
84.243A	Career and Technical Prep Education
84.282	Public Charter Schools
84.287C	21st Century Community Learning Centers
84.293C	Foreign Language Assistance
84.298A	Innovative Programs Title V, Part A (Formerly Title VI)
84.318X	Enhancing Education through Technology (Title II, Part D)
84.323A	State Program Improvement Grants
84.326C	Deaf and Blind Centers
84.330	Advanced Placement Fee Program
84.336A	Teacher Quality Enhancement State/Partnership Grants
84.336C	Stepping Up Teacher Recruitment
84.357A	Reading First
84.358B	Rural Education
84.365A	English Language Acquisition (Title III)
84.366B	Mathematics & Science Partnerships
84.367A	Improving Teacher Quality State Grants (Title II Part A) SEA
84.367B	Improving Teacher Quality State Grants (Title II Part A) Higher Ed
84.369A	State Assessment Program (Title VI, Part A)
84.371B	Striving Readers
84.372A	State Longitudinal Data Systems
84.377A	School Improvement Grants
84.386A	ARRA – Educational Technology State Grants

FEDERAL PROGRAM NUMBERS (cont'd.)

84.387A	ARRA – Homeless
84.388A	ARRA – School Improvement Grants
84.389A	ARRA- Title I Part A
84.391	ARRA – IDEA Part B
84.392A	ARRA – Preschool Grants
84.394A	ARRA-SFSF-ESF (Educ. State Grants)
84.397A	ARRA-SFSF-GSF (Government Services)
84.410A	Education Jobs Fund
84.413A	Race To The Top Phase 3 (RTT3)
84.938C	Hurricane Relief Grant
93.600	Head Start Collaboration
93.708	ARRA – Early Childhood Advisory Council
93.778.1	Medical Assistance Program
93.938	Comprehensive School Health/HIV
94.004	Learn and Serve America

STATE AID AND STATE GRANT
STATE ACCOUNT NUMBERS

GENERAL FUND

13 495-034-5120 -078	Equalization Aid
13 495-034-5120 -083	Education Adequacy Aid
13 495-034-5120 -089	Special Education Categorical Aid
13 495-034-5120 -084	Security Aid
13 495-034-5120 -085	Adjustment Aid
13 495-034-5120 -068	School Choice Aid
13 495-034-5120 -014	Transportation Aid
13 495-034-5120 -005	Payment for Institutionalized Children- Unknown District of Residence
13 495-034-5095 -001	Teachers' Pension and Annuity Fund – Post Retirement Medical
13 495-034-5095 -002	Social Security Tax
13 495-034-5095 -006	Teachers' Pension and Annuity Fund
13 495-034-5095 -007	Teachers' Pension & Annuity Fund – Non-contributory Insurance
13 100-034-5062 -032	Career & Technical Education
13 495-034-5120 -071	Charter School Aid

SPECIAL REVENUE FUND

13 495-034-5120 -086	Preschool Education Aid
13 100-034-5120 -064	N.J. Nonpublic Textbook Aid
13 100-034-5120 -066	N.J. Nonpublic Handicapped Aid
13 100-034-5120 -067	N.J. Nonpublic Auxiliary Services Aid
13 100-034-5120 -068	N.J. Nonpublic Auxiliary/Handicapped Transportation Aid
13 100-034-5120 -070	N.J. Nonpublic Nursing Services
13 100-034-5120 -373	N.J. Nonpublic Technology Initiative
13 100-034-5062 -032	Vocational Aid

DEBT SERVICE FUND

13 495-034-5120 -017	School Building Aid
13 495-034-5120 -075	School Construction Debt Service Aid

ENTERPRISE FUND

13 100-010-3350 -023	State School Lunch Program

INSERT *SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS*
SCHEDULE A/ EXHIBIT K-3

Schedule of Expenditure of Federal Awards

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

SchSA-A.xlsx

Selecting print will produce page II-SA.21 of The Audit Program.

INSERT *SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE*
SCHEDULE B/ EXHIBIT K-4

Schedule of Expenditure of State Financial Assistance

SchSA-B.xls
To display the K-4 illustration, click on the following link:

Selecting print will produce page II-SA.22 of The Audit Program.

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

Section I --Summary of Auditor's Results

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

Type of auditor's report issued: _____

Internal control over financial reporting:

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

2) Significant deficiencies identified? _____ yes _____ none reported

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

Federal Awards

Internal Control over major programs:

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

2) Significant deficiencies identified? _____ yes _____ none reported

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

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

Identification of major programs:

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

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

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

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

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

State Awards

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

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

Internal Control over major programs:

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

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

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

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

Identification of major programs:

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

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

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

Section II -- Financial Statement Findings

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

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

Finding XX-X

Criteria or specific requirement:

Condition:

Context:

Effect:

Cause:

Recommendation:

Views of responsible officials and planned corrective actions:

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

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

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

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

FEDERAL AWARDS

Finding XX-X

Information on the federal program(1):

Criteria or specific requirement:

Condition (2):

Questioned Costs (3):

Context (4):

Effect:

Cause:

Recommendation:

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

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

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

STATE AWARDS

Finding XX-X

Information on the state program (1):

Criteria or specific requirement:

Condition (2):

Questioned Costs (3):

Context (4):

Effect:

Cause:

Recommendation:

Management's response (5):

(1) Provide the federal program (CFDA number and title) and state program (NJCFS number) and agency, the federal/state awards number and year, and the name of the pass-through entity, if applicable.
(2) Include facts that support the deficiency identified in the audit finding.
(3) Identify questioned costs as required by section .510(a)(3) and .510(a)(4) of Circular A-133 and NJOMB Circular Letter 04-04.
(4) Provide sufficient information for judging the prevalence and consequences of the finding, such as the relation to the universe of costs and/or number of items examined and quantification of audit findings in dollars.
(5) To the extent practical, indicate when management does not agree with the finding and/or questioned cost. For further guidance, auditors should refer to *Government Auditing Standards*, par. 5.26 through 5.30, Chapter 4 and par. 12.34 and 12.38 of the AICPA Guide *Government Auditing Standards* and Circular A-133 Audits.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

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

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

- OMB 133, 500(e) states "The auditor shall follow-up on prior audit findings, perform procedures to assess the reasonableness of the summary schedule of prior audit findings prepared by the auditee in accordance with ¶ 315(b) and report, as a current year audit finding, when the auditor concludes that the summary schedule of prior audit findings materially misrepresents the status of any prior audit finding. The auditor shall perform audit follow-up procedures regardless of whether a prior audit finding relates to a major program in the current year."
- OMB 133, 315 (b)(1) states "When the audit findings were fully corrected, the summary schedule need only list the audit findings and state that corrective action was taken."
- OMB 133, 315 (b)(2) states "When the audit findings were not corrected, or were only partially corrected, the summary schedule shall describe the planned corrective action as well as any partial corrective action taken."
- OMB 133, 315 (b)(3) states "When corrective action taken is significantly different from corrective action previously reported in a correction action plan or in the federal agency's or pass-through entity's management decision, the summary schedule shall provide an explanation."

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

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

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

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

STATUS OF PRIOR YEAR FINDINGS

Finding #_____

Condition

Current Status

SECTION III – REPORTING
CHAPTER 1 – AUDIT CRITERION AND SUBMISSION

Legal or Regulatory Requirements

In any governmental audit in which the auditor is expected to give an opinion on the fairness of the presentations in financial reports, compliance with applicable laws and regulatory requirements is a matter of importance because noncompliance might result in liabilities not disclosed in the financial reports. Compliance with laws and regulatory requirements, in many instances, assumes an even greater importance since the recipients of the financial reports and the audit reports also want to know whether funds designated for certain purposes were spent for those purposes.

The standards for examination and evaluation require consideration of applicable laws and regulations in the auditor's examination. The standards for reporting require a statement in his report regarding any significant instances of noncompliance disclosed by his examination and evaluation work. What is to be included in this statement requires judgment. Significant instances of noncompliance, even those not resulting in legal liability to the audited entity, should be included.

Although the reporting standard is generally on an exception basis, i.e., that only noncompliance need be reported, it should be recognized that governmental entities often want positive statements regarding whether or not the auditor's tests disclosed instances of noncompliance. This is particularly true in grant programs where authorizing agencies frequently want assurance in the auditor's report that this matter has been considered. For such audits, auditors should obtain an understanding with authorizing agencies as to the extent to which such positive comments on compliance are desired. When coordinated audits are involved, the audit program should specify the extent of comments that the auditor is to make regarding compliance.

When noncompliance is reported, the auditor should place his findings in proper perspective. The extent of instances of noncompliance should be related to the number of cases examined to provide the reader with a basis for judging the prevalence of noncompliance.

Peer Review

N.J.A.C. 6A:23A-16.2(i) requires that districts/charter schools engage only public school accountants who have had a peer review and obtain a copy of the audit firm's peer review. The board of education/board of trustees is required to review the peer review report prior to the engagement of a public school accountant for the annual audit, and to acknowledge its evaluation of the report in the minutes in which the board authorizes the engagement of the public school accountant to perform the annual audit. Generally, auditors will submit the peer review with the engagement letter for a repeat audit or if a new audit, with the proposal when responding to a board of education's request for proposal. The department recommends that auditors review the board minutes to determine that the peer review report has been reviewed prior to the audit engagement.

> "In accordance with NJOMB Circular Letter 98-07 including any amendments or revisions thereto [NJOMB 04-04], a district board of education or charter school board of trustees shall ensure that the public school accountant provides a copy of the most recent external peer/quality report to the Department, within 30 days after the initial engagement of a licensed public school accountant or firm and within 30 days after the issuance of a subsequent peer/quality report."

It is the responsibility of the district/charter school to comply with the regulation of submitting the peer review report to the Department. Auditors are asked to inquire, early during field work, if the district/charter school has done this. A copy of the most recent peer review report must be provided to the department as soon as possible after the engagement letter has been signed.

Government Auditing Standards (the 2011 Yellow Book) includes peer review requirements. Any letter of comment and any subsequent peer review reports and letters of comment received during the period of the contract should be provided to the district/charter school which has contracted for the audit or attestation engagement. Auditors should refer to Sections 3.82- 3.107 of the 2011 *Yellow Book* for guidance on Quality Control and Assurance Standards.
http://www.gao.gov/assets/590/587281.pdf

Audit Submission

N.J.S.A. 18A:23-1 provides that the annual audit must be completed no later than five months after the end of the fiscal year (December 1). *N.J.S.A.* 18A:23-3 requires "…such accountant shall within five days thereafter file two duplicate copies thereof certified under his signature in the office of the commissioner" (December 5, 2014). No provision is made for the issuance of extensions beyond the statutory due date. If a school district /charter school fails to have an annual audit completed by December 1, the Commissioner of Education can appoint a qualified auditor to conduct the audit of the school district/charter school. The cost of conducting such an audit would be paid out of the funds of the school district/charter school.

The following section provides information on the required documents to be submitted. A checklist (see page III-1.4) to organize the various documents should be completed and included as part of the submission to the department. This has been developed to assist audit firms in packaging the correct number of documents, and to minimize correspondence from the department. The filing addresses and other pertinent information are outlined below. Failure to follow the filing instructions will result in notification to the district/charter school by the department.

Audit Reporting Package

- The (CAFR) Audit Reporting Package for all districts/charter schools consists of two separate and required audit reports; the CAFR and the Auditor's Management Report (AMR). Both reports must be signed by the appointed public school accountant performing the audit, not by the firm or corporation that employs the auditor, and submitted to the district board of education/board of trustees.
  - Auditors must refer to the "Instructions for Completion of the FY14 Single Audit Summary" at http://www.state.nj.us/education/business/audit.htm for a list of files that must be included on each CD-ROM submitted. Save the entire submission package on one CD-ROM and affix a label to the CD case or envelope which indicates "OFAC Copy," the district/charter school county, district/charter school code, and district/charter school name. In addition to the "OFAC Copy", districts that are not required to prepare school-based budgets must submit one appropriately labeled CD-ROM copy (to the Department of Education) containing the files specified in the "Instructions for the Completion of the FY 14 Single Audit Summary. School districts that prepare school-based budgets must submit two appropriately labeled CD-ROM copies (to the Department of Education) each containing only the files specified in the "Instructions for the Completion of the FY14 Single Audit Summary." School districts and charter schools are to refer to the Single Audit Summary and related instructions for completion for the Fiscal Year Ended June 30, 2014 to determine the number of paper copies required (**Section C**- Audit Items Submitted – Number of Copies), file names/formats required (Instructions to Section C), and the number of CD-ROM copies required (Section C). Note that school districts required to use school-based budgets provide three paper copies of the CAFR and AMR. Charter Schools and their audit firms are to refer to page III-1.5 of this Audit Program for additional filing requirements applicable to Charter Schools.
- Use of the exact file naming conventions when preparing CD-ROMs, flash drives and email attachments for distribution of the electronic files. This uniformity will facilitate transmission to the OFAC CAFR Repository.
- OFAC CAFR Repository. Districts/charter schools were first alerted to the creation of an OFAC CAFR Repository through the release of a broadcast memorandum dated November 7, 2011 available at: http://education.state.nj.us/broadcasts/2011/NOV/07/4886/CAFR%20Repository.pdf.

Refer to Attachment A to the November 7 2011 broadcast which presents a table detailing the file extensions. Note that transmission to the CAFR repository is to be completed by the district/charter school. File names must conform to exact file naming convention (file format) that must be followed when preparing all CD-ROMs, flash drives, and email attachments for distribution to the district/charter school and/or to the department. Files may not be password protected.

- It is the responsibility of every district/charter school to obtain the aforementioned electronic copy of the Audit Reporting Package from the auditor and also to ensure the file names and formats are prepared in accordance with the instructions referenced above. It is also the responsibility of district/charter school personnel to access the OFAC CAFR Repository and upload the entire Audit Reporting Package prior to the corresponding statutory deadlines. The OFAC CAFR Repository is an add-on to an existing application, DOE Folders. Each district/charter school may access DOE Folders at http://homeroom.state.nj.us/. The OFAC CAFR Repository has been added to the menu of available items. The OFAC CAFR Repository is designed to automatically append the district/charter school code and a date stamp to each file name during the upload process. Electronic documents which are subsequently modified must be saved and resubmitted with the original file name. The date stamp will distinguish the revised file from earlier submissions. Files modified after the closing date (March 31, 2015 for FY 14 documents) must be burned to a CD-ROM and mailed to the department.

Audit Summary (Audsum)

- The audited data is entered in the DOE web application by the auditor and must be signed (electronic signature) by both the auditor and the district/charter school business administrator.
- The Audsum data is transmitted to the department by the school business administrator.

Auditor Questionnaire (see Section III-6 of this Audit Program)

- The Auditor Questionnaire is not a required submission for districts/charter schools. It must still be signed by the auditor, maintained in the auditor's workpaper files, and available to the department upon request.
- The Auditor Questionnaire should not be sent to the Department of Agriculture.

Additional reports/worksheets submitted to the department

- Peer Review report
- Data Collection Form (if applicable; see Single Audit section III-1.6)

  Single Audit Summary (see Single Audit Section II-SA and the OFAC Website http://www.state.nj.us/education/business/audit.htm) Note that sections A, C, and F apply to all districts/charter schools and section D applies to those districts/charter schools subject to a federal and/or state single audit. Because the federal due date is later than the statutory submission date for filing the reporting package with New Jersey, 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, the CD-ROMs of audit items submitted may be submitted on time without including the archived copy of the SF-SAC which then must be submitted at a later date under separate cover. Once the final SF-SAC is available, the auditor must provide a final copy to the district/charter school which the district/charter school must then transmit through the CAFR Repository. As stated above, the electronic data stamp will identify the time of submission. The submissions summary table on the following page is applicable to school districts and charter schools unless labeled "charter schools only."

MAILING ADDRESS * (Note that the US Post Box should be used for mailing. The street address is for other forms of delivery.)	AUDIT DOCUMENTS	TIME AFTER AUDIT TO SUBMIT/ # COPIES
Federal Audit Clearinghouse Bureau of the Census (Must use federal IDES to submit SF-SAC and Single Audit reporting package electronically to the Federal Audit Clearinghouse)**	Federal Package** Federal Data Collection Form (Only required for districts/charter schools expending $500,000 or more in federal awards)	Within 30 days One copy of each

****see Single Audit Report Submission Requirements on page III-1.6**

Commissioner of Education Department of Education Office of Fiscal Accountability and Compliance/Single Audit *100 Riverview Plaza *Trenton, NJ 08625 PO Box 500 Trenton NJ 08625-0500 Telephone 609-984-5935	See Single Audit Summary for DOE submission requirements; number of copies required http://www.state.nj.us/education/business/audit.htm	Within five days

NJ Department of Agriculture Bureau of Child Nutrition Programs 33 W. State St. – 4th Floor P.O. Box 334 Trenton, NJ 08625-0334 Attn. Mr. Gary Bur	Audit Reporting Package to include– AMR, & Corrective Action Plan (CAP) (Either CD or paper copy is acceptable. See mailing address to the left.)**	Within five days; One Copy

****IMPORTANT NOTE: Audit reporting package must be filed with the NJ Department of Agriculture <u>only</u> if the LEA received total combined funding in excess of $100,000 from State Child Nutrition Programs and/or USDA Foods**

Executive County Superintendent of Schools	Audit Reporting Package – CAFR, AMR, & Corrective Action Plan (CAP)	Within five days - **One copy**

	CHARTER SCHOOLS ONLY	
NJ Department of Education Office of Charter Schools Attention: Kathy Ambrosio P.O. Box 500 Trenton, NJ 08625-0500 Telephone 609-341-5298	Audit Reporting Package – CAFR (electronic copy only), AMR, Data Collection Form, Single Audit Summary & Corrective Action Plan (CAP) -email one copy to CharterFinance@doe.state.nj.us **NO HARD COPIES SHOULD BE MAILED TO THIS ADDRESS, ONLY ELECTRONIC**	Within five days - **One copy**

Applicable to school districts and charter schools – Single Audit Summary:

The Single Audit Unit in the Office of Fiscal Accountability and Compliance (OFAC) has designed a Single Audit Summary form which must be completed by auditors as follows:

- All Reporting packages must have Sections A, C and F completed (all questions must be answered).
- Auditors of districts/charter schools which have federal single audits and/or state single audits must complete Section D (all questions must be answered).
- The shaded sections are either completed by the Single Audit Unit or are automatically calculated.

This form replaced the Type A worksheet and the CAFR Information Schedule/Checklist which is no longer required. The form is available at the link titled "FY14 Single Audit Summary" accessed through the following link to OFAC's website:

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

Single Audit Report Submission Requirements

Federal Single Audit Requirements

For districts/charter schools subject to the Single Audit Act pursuant to USOMB Circular A-133, the report submission requirements are as follows:

- The Data Collection Form (SF-SAC) and the Federal Single Audit Reporting Package described below must be submitted to the Federal Clearinghouse within 30 days after receipt of the auditor's report(s).
- Based on the statutory deadline for filing the annual audit report for New Jersey School Districts/Charter Schools, no submission to the Federal Clearinghouse should occur beyond November 30.
- The submission of anything other than a complete Data Collection Form and Reporting Package will be returned to the auditee.
- The Form SF-SAC and the Single Audit Reporting packages must be submitted online.
- Only one copy of the reporting package is required. If the audit requires distribution to another federal agency, the Federal Audit Clearinghouse will copy and distribute the required reporting packages to the federal agencies per §__.320(d) of the Circular.

Data Collection Form
The Data Collection Form provides information on the type of audit, the auditee, the auditee's federal programs, and the results of the audit.

Data Collection Form information is entered electronically through the Federal Audit Clearinghouse Internet Data Entry System (IDES) at the website:
http://harvester.census.gov/fac/collect/ddeindex.html. Auditors should refer to the instructions at: https://harvester.census.gov/fac/collect10/main_instruct.pdf . For SF-SAC and OMB 133 submission questions contact the Federal Audit Clearinghouse by email govs.fac@census.gov or phone 1-800-253-0696 (toll free) , or 301-763-1551.

Federal Reporting Package
The Reporting Package must include the following:

- Financial statements (discussed in OMB-133, ¶__.310(a))
- Schedule of Expenditures of Federal Awards (¶__.310(b))
- Summary schedule of prior audit findings (¶___.315(b))
- Auditor's reports (¶___.505)
- Corrective action plan (¶ ___.315(c))

Corrective action plan
The corrective action plan filed with the Federal Clearinghouse (A-133 corrective action plan) addresses each audit finding included in the current year auditor's reports in the Single Audit Section of the CAFR. In accordance with OMB Circular A-133 section .320(c), the corrective action plan is a required component of the Reporting Package.

District /charter school staff should prepare the A-133 corrective action plan in a timely manner so as to meet the filing deadline for submission to the Executive County Superintendent (see State Submissions below).

Submission of Federal Reports to State Departments
In addition to the required submissions to the Federal Clearinghouse, the auditee must also submit one copy of the Reporting Package to each pass-through entity when the schedule of findings and questioned costs and/or the summary schedule of prior audit findings disclosed audit findings or reported on the status of prior audit findings relating to federal awards that the pass-through entity provided. The reporting package must be transmitted to the federal collection center electronically.

The Audit Reporting Package must be filed with the NJ Department of Agriculture only if the LEA received total combined funding in excess of $100,000 from the State Child Nutrition Programs and/or USDA Foods.

If the schedule of findings and questioned costs and/or the summary schedule of prior audit findings disclosed no audit findings or did not report on the status of prior audit findings relating to federal awards that the pass-through entity provided, the auditee shall provide written notification to the pass-through entity in accordance with Section .320(e)(2).

State Single Audit Requirements

Districts/charter schools may be subject to New Jersey state single audit requirements as established by NJOMB Treasury Circular Letter 04-04 which states that "in addition to federally required reports and opinions, recipient single audits must contain similar reports and opinions for State grant or State aid funds."

State Single Audit Reporting Package
Federally required reports and opinions
Financial statements
Schedule of Expenditures of State Financial Assistance
Corrective Action Plan (if different from federal CAP)
Single Audit Summary

Corrective Action Plan – State requirements
The corrective action plan for the fiscal year under audit filed with the Executive County Superintendent addresses each finding included in the Auditor's Management Report for the year under audit and must be filed within 30 days following the board meeting at which the audit was discussed. Refer to Section III, Chapter 7 for guidance on the corrective action plan to be filed with the Executive County Superintendent. This corrective action plan may differ from the federal corrective action plan if there are findings which the auditor deems to be immaterial for federal reporting, but which must be included for state purposes. Where a district does not have any audit findings and recommendations in their CAFR and AMR it is not necessary to prepare and file (with the Executive County Superintendent) a State Form corrective action plan marked "NONE."

Reporting Errors

Auditor's Management Report (AMR)
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." This statute applies to the Auditor's Management Report filed with the Department of Education. All findings must be included in that report of audit. This includes all items contained in a separate schedule of findings and questioned costs included in the single audit section of the district's/charter school's CAFR.

- Immaterial Errors and Omissions
  Sometimes an auditor will detect an error which requires disclosure pursuant to *N.J.S.A.* 18A:23-9. However, the auditor may not believe a recommendation is needed because the error was insignificant and an isolated unintentional deviation from the board's standard operating procedure. In such instances the auditor must report the item as a finding, state in the comments that in his or her opinion no recommendation is necessary, and elaborate on the reason(s) for this opinion. Any negative comment without a corresponding recommendation will be cited during the Quality Assessment Review unless accompanied by such an explanation. The reviewer will consider the explanation and the nature of the disclosure for adequacy. Auditors should exercise caution when determining which findings require disclosure and recommendations.

- Other Recommendations to the Board of Education/Board of Trustees
  Auditor recommendations which are not required comments or related to a finding of noncompliance or questioned cost but rather represent suggestions to management should be grouped together and included at the end of the Auditor's Management Report in a section titled "Suggestions to Management." Management suggestions are not required to be included in the district's/charter school's Corrective Action Plan.

Schedule of Findings and Questioned Costs (Single Audit - Federal and State)
In accordance with the Single Audit Act, USOMB Circular A-133, and NJOMB Circular Letter 04-04, questioned costs and findings of noncompliance with applicable federal and state laws and regulations pertaining to federal and state financial assistance programs must be reported in the *Schedule of Findings and Questioned Costs* in the single audit section of the district's/charter school's CAFR if they meet the criteria for reporting audit findings as detailed in Circular A-133 (Section .510). See Section II-SA of the Audit Program for sample format of the schedule. As noted above, all items reported in the single audit section must be repeated in the Auditor's Management Report. Illustrative Auditor's Report Under OMB Circular A-133, Example 13-6, Schedule of Findings and Questioned Costs, is available on page 353 of the 2013 edition of the AICPA Audit *Guide Government Auditing Standards and Circular A-133 Audits*.

The 2014 edition of the *Guide* is anticipated for release July 2014 at:
http://www.cpa2biz.com/AST/AICPA_CPA2BIZ_Browse/ONLINE_SUBS/Sets_on_AICPA_RESOURCE/Audit_and_accounting_guides/PRDOVR~PC-012743/PC-012743.jsp?selectedFormat=Paperback

The Governmental Accounting Quality Control (GAQC) has posted to the AICPA website illustrative reports 13-1 through 13-3 updated for the clarity auditing standards and the 2011 *Government Auditing Standards*. These illustrative audit reports are excerpts from Appendix A of chapter 13 of the 2013 AICPA Audit Guide, *Government Auditing Standards and Circular A-133 Audits*. These report illustrations, as well as 13-4 through 13-6 (13-6 is the illustrative Schedule of Findings and Questioned Costs) are incorporated into the 2013 edition of the *GAS-A133 Guide*. The 2014 edition of the *GAS-A133 Guide* is anticipated to be available for purchase on the AICPA website July 2014. Alternatively, auditors are encouraged to monitor the AICPA website for the posting of illustrative report 13-6, Schedule of Findings and Questioned Costs.

The illustrations include various examples of the reports issued to meet the reporting requirements of Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations (Circular A-133) for compliance for each major federal program and internal control over compliance. All reports reflect the requirements of the 2011 *Government Auditing Standards* and various clarity auditing standards. Access selected illustrative reports on the AICPA website at:

http://www.aicpa.org/InterestAreas/GovernmentalAuditQuality/Resources/IllustrativeAuditorsReports/Pages/IllustrativeAuditorReportsforClarity.aspx

The applicable Single Audit reports required under the circumstances of the audit are to be included in the single audit section of the CAFR.

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SECTION III – REPORTING
CHAPTER 2 SAMPLE OPINION REPORTS

Directives for Auditor's Reports

The Single Audit Act Amendments of 1996 (the Act) replaced the Single Audit Act of 1984 which established uniform requirements for audits of Federal awards administered by non-Federal entities. The federal Office of Management and Budget (USOMB) issued the publication *Audits of States, Local Governments, and Non-Profit Organizations* (OMB A-133) to implement the Single Audit Act Amendments. Pursuant to OMB A-133 the audit threshold for all recipients, including state and local governments is $500,000.

The State of New Jersey Office of Management and Budget (NJOMB) Circular Letter 04-04, *Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid*, revised state policy regarding audits of grant recipients to require those recipients that expend $500,000 or more in federal financial assistance or State financial assistance within their fiscal year to have annual single audits in accordance with the Act, Amendments, OMB A-133 Revised, and State policy. Recipient single audits must contain reports and opinions for State funds similar to those required for federal single audits. A recipient is any local government (including school board) that receives from a State agency any federal grant, State grant or State aid funds to carry out or administer a program.

The AICPA Audit Guide *Government Auditing Standards and Circular A-133 Audits (GAS Circular A-133)* (*AICPA Audit Guide - February 1, 2014*) is available through the AICPA website and incorporates recent changes to the AICPA auditing standards and Governmental Auditing Standards.
http://www.cpa2biz.com/AST/AICPA_CPA2BIZ_Browse/ONLINE_SUBS/Sets_on_AICPA_RESOURCE/Audit_and_accounting_guides/PRDOVR~PC-012743/PC-012743.jsp?selectedFormat=Paperback

During the spring of 2013 the AICPA posted selected updated illustrative auditor reports for audits performed under *Government Auditing Standards* (Yellow Book), as well as under Office of Management and Budget (OMB) Circular A-133 to the AICPA Government Audit Quality Center (GAQC) webpage. The illustrative auditor reports are effective for audits of periods are reflective of the AICPA clarity auditing standards and the 2011 edition of *Government Auditing Standards*. The *GAS Circular A-133 Guide* is available for purchase from the AICPA and those select Government Auditing Standards Report illustrations and select OMB Circular A-133 Report illustrations are available through the AICPA website at:
http://www.aicpa.org/InterestAreas/GovernmentalAuditQuality/Resources/IllustrativeAuditorsReports/Pages/IllustrativeAuditorReportsforClarity.aspx
For additional guidance, the revised 2011 *Government Auditing Standards* (the 2011 Yellow Book) issued December 2011 by the U.S. General Accounting Office is available at http://www.gao.gov/

Component Units

Government Accounting Standards Board Statement (GASB) 14 as amended by GASB 39 requires that separately issued financial statements of a component unit indicate that the entity is a component unit of another government. The notes to the component unit's financial statements should disclose the identity of the primary government of the financial reporting entity and describe the relationship with the primary government. For the auditor's report, the AICPA's publication *State and Local Governments*, issued May 2007 (Paragraph 14.45) refers to the language used in the introductory paragraph of the illustrative auditor's report in appendix A, Example 14A.2. - "We have audited the accompanying basic financial statements of Sample County School District/Charter School, a component unit of Sample County, as of and for the year ended June 30, 20X1, as listed in the table of contents…". District/charter school staff and auditors should refer to the aforementioned GASB statements and GASB 37 for additional information on component units.

Independent Auditor Reports

The reports generally required in connection with an audit performed under the Single Audit Act of 1984, P.L. 98-502 as amended by the Single Audit Act Amendments of 1996, P.L. 104-156 and required by NJOMB Circular Letter 04-04 have been revised for periods ending after December 15, 2012 to coincide with the issuance of the AICPA's clarity auditing standards. The illustrative reports are published in Appendix A of chapter 13 of the 2013 AICPA Audit Guide, *Government Auditing Standards and Circular A-133 Audits (GAS-A133)*. Select Illustrative Auditor's Reports Under GAS (4-1 through 4-7) and OMB A-133 (13-1 through 13-3) have been posted to the AICPA GAQC website at:

http://www.aicpa.org/InterestAreas/GovernmentalAuditQuality/Resources/IllustrativeAuditorsReports/Pages/IllustrativeAuditorReportsforClarity.aspx

Example No.	*Title*
4-1	Unmodified Opinions on Basic Financial Statements Accompanied by Required Supplementary Information and Other Information—State or Local Governmental Entity

New Jersey Specific References to be included:

- In the **Auditor's Responsibility** paragraph after "…issued by the Comptroller General of the United States" the phrase *"and audit requirements as prescribed by the, Office of School Finance, Department of Education, State of New Jersey"* should be added.
- If the audit has been conducted in accordance with OMB A-133, refer to the illustrative auditor's reports 13-1 through 13-6 issued by the AICPA during 2013. Expand the title of the paragraph (as illustrated) "**Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133"** to include **"and State Financial Assistance"** and the content of the paragraph to include the phrase, *"and New Jersey OMB's Circular 04-04, Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid."*

4-3 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 (No Material Weaknesses No Significant Deficiencies Identified, No Reportable Instances of Noncompliance or Other Matters)*

New Jersey Specific References to be included:

- The 3rd line of the first paragraph should be expanded to include the phrase *"and audit requirements as prescribed by the Office of School Finance, Department of Education, State of New Jersey"* .
- In the section for Compliance and Other Matters", the last sentence should be expanded to include the phrase *"and audit requirements as prescribed by the Office of School Finance, Department of Education, State of New Jersey"* at the end of the sentence.
- The New Jersey Department of Education should also be included in the list of agencies for which the report is intended for use.

The sample audit reports listed above are based on the assumption that no modifications of opinion are required. Reports 4-4 through 4-7 include language as to reportable instances of non-compliance and separate communications to management of immaterial instances of non-compliance and certain matters involving internal control audit findings that should be included in the reports if such findings apply.

Auditors should reference the link above for the appropriate language to be included if significant deficiencies, material weaknesses, or reportable instances of noncompliance and other matters are identified.

SAS No. 117, Compliance Audits establishes standards and provides guidance on performing and reporting (in accordance with GAAS, Government Auditing Standards, and a governmental audit requirement that requires an auditor to express an opinion on compliance) on an audit of an entity's compliance with applicable compliance requirements of a governmental audit requirement.

Updated for the 2011 edition of *Government Auditing Standards*, as well as the clarity auditing standards, the 2013 edition of the AICPA Audit Guide, *Government Auditing Standards and Circular A-133 Audits*. is available for purchase from the AICPA website. An update through February 1, 2014 is anticipated for release during July 2014. During the spring of 2013, the AICPA posted select illustrative auditor's reports from the Audit Guide to the AICPA GAQC webpage. Available at the link below:

http://www.aicpa.org/InterestAreas/GovernmentalAuditQuality/Resources/IllustrativeAuditorsReports/Pages/IllustrativeAuditorReportsforClarity.aspx

Expansion of the auditor's reports to include reference to New Jersey specific requirements is necessary. For example:

Example No.	*Title*
13-1	Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133 *(*Unmodified Opinion on Compliance; No Material Weaknesses or Significant Deficiencies in Internal *Control Over Compliance* Identified)

New Jersey Specific References to be included:

- In paragraph 1, sentence 1, of the Report on Compliance for Each Major Program, the phrase *"and the New Jersey State Aid/Grant Compliance Supplement"* should be added after the reference to the OMB Circular A-133 Compliance Supplement.
- In the Auditor's Responsibility, Opinion of Each Major Federal Program, Other Matters, Report on Internal Control Over Compliance, and Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133 paragraphs , , the phrases *"and the New Jersey State Aid/Grant Compliance Supplement"*; and the *"Schedule of Expenditures of State Financial Assistance"*; and *"the audit requirements as prescribed by the Office of School Finance, Department of Education, State of New Jersey"* and *"New Jersey OMB's Circular 04-04, Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid*" should be added, as appropriate..
- The New Jersey Department of Education should also be included in the list of agencies for which the report is intended for use.

13-6 Schedule of Findings and Questioned Costs

The illustrative audit reports listed above are based on the assumption that no modification of opinion is required. Reports 13-2 through 13-5 include language as to reportable instances of non-compliance and separate communications to management of immaterial instances of non-compliance and certain matters involving internal control audit findings that should be included in the reports if such findings apply.

Auditors should reference the link above for the appropriate language to be included if significant deficiencies or material weaknesses are identified.

SAS No. 119, *Supplementary Information in Relation to the Financial Statements as a Whole* (AICPA, *Professional Standards*, AU-C sec. 725) is effective for audits of financial statements for periods beginning on or after December 15, 2010. The AICPA issued an illustrative auditor's report under Circular A-133 that reflects updated reporting on the Schedule of Expenditures of Federal Awards under SAS No. 119 to be used when a separate single audit package is issued. When a separate single audit package is issued, the paragraph referencing the schedule of expenditures of federal awards is modified. The AICPA issued an illustrative report to address this specific situation:

That illustrative report (13-1) is available on the AICPA website at:
http://www.aicpa.org/interestareas/governmentalauditquality/resources/illustrativeauditorsreports/downloadabledocuments/illustrativeauditorreports2013a133.pdf

District/charter school auditors should refer to footnote #7 for changes to report verbiage applicable to audits of governmental entities updated for SAS No. 119.

New Jersey Specific References to be Included:

- Sentence 7, the phrase, "and the Schedule of Expenditures of State Financial Assistance" should be added after reference to the Schedule of Expenditures of Federal Awards
- Sentence 8, the phrase, "*and New Jersey OMB's Circular 04-04"* should be added after reference to OMB Circular A-133
- Sentence 16, the phrase, "and the Schedule of Expenditures of State Financial Assistance" should be added after reference to the Schedule of Expenditures of Federal Awards
-

SECTION III – REPORTING
CHAPTER 3 – NOTE DISCLOSURES AND STATISTICAL SECTION

Disclosure

A governmental entity's reports and statements, both financial and operational, ideally should contain the information necessary for users--management, the electorate, creditors, grantors, and others--to form an opinion on the effectiveness of the stewardship exercised by the responsible public officials. The responsibility for providing such information is that of management. However, the auditor should comment if the data provided is insufficient to disclose any matters that may have a material effect upon the financial reports.

Adequate disclosure is that which is required by generally accepted auditing standards as promulgated by the American Institute of Certified Public Accountants (AICPA), as well as adherence to the accounting standards promulgated by the Governmental Accounting Standards Board (GASB). Disclosure should be fair, manageable and reasonably complete; not complex or difficult to understand.

Weight should be given to materiality, which is the relative importance or relevance of an item included in or omitted from a financial or operating report. There are no universal ratios or percentages that can be used as standards of materiality for financial or operational processes or transactions. Materiality should be based on judgment. Auditors should reference the AICPA Audit and Accounting Guides, *State and Local Governments* and *Government Auditing Standards and Circular A-133 Audits* for guidance on materiality. This guide specifies that auditor reporting on governmental financial statements should be based on opinion units.

The following notes for the schedules of expenditures of awards and financial assistance are required by OMB Circular A-133, Sec. 310. The sample financial statement disclosures presented in this chapter are illustrative of some of the more common disclosures or unique to New Jersey school districts/charter schools. They are not intended to be a boilerplate and should be included **only** if they apply to that district's/charter school's CAFR. The source of reference (e.g. GASB Codification Section or NJ Dept. of Education) is included at the end of each sample note. Additional information and samples of disclosures can be found in the GFOA *Governmental Accounting, Auditing and Financial Reporting* (the "Blue Book"), *GASB Codification of Governmental Accounting and Financial Reporting Standards*, and the ASBO International Self-Evaluation Worksheet.

SAMPLE NOTES TO THE SCHEDULES OF EXPENDITURES OF AWARDS AND FINANCIAL ASSISTANCE

Anytown School District/Charter School
Notes to Schedules of Expenditures of Awards and Financial Assistance
June 30, 200X

NOTE l. GENERAL

The accompanying schedules of expenditures of federal awards and state financial assistance include federal and state award activity of the Board of Education/Board of Trustees, Anytown School District/Charter School. The Board of Education/Board of Trustees/ is defined in Note l to the board's basic financial statements. All federal and state awards received directly from federal and state agencies, as well as federal awards and state financial assistance passed through other government agencies is included on the schedule of expenditures of federal awards and state financial assistance.

NOTE 2. BASIS OF ACCOUNTING

The accompanying schedules of expenditures of awards and financial assistance are presented on the budgetary basis of accounting with the exception of programs recorded in the food service fund, which are presented using the accrual basis of accounting. These basis of accounting are described in Note 1 to the board's basic financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements. This does not apply to charter schools as districts are not permitted to defer the June payments to charter schools.

NOTE 3. RELATIONSHIP TO BASIC FINANCIAL STATEMENTS

The basic financial statements present the general fund and special revenue fund on a GAAP basis. Budgetary comparison statements or schedules (RSI) are presented for the general fund and special revenue fund to demonstrate finance-related legal compliance in which certain revenue is permitted by law or grant agreement to be recognized in the audit year, whereas for GAAP reporting, revenue is not recognized until the subsequent year or when expenditures have been made.

The general fund is presented in the accompanying schedules on the modified accrual basis with the exception of the revenue recognition of the one or more deferred June state aid payments in the current budget year, which is mandated pursuant to *N.J.S.A.* 18A:22-44.2. For GAAP purposes payments are not recognized until the subsequent budget year due to the state deferral and recording of the one or more June state aid payments in the subsequent year. The special revenue fund is presented in the accompanying schedules on the grant accounting budgetary basis which recognizes encumbrances as expenditures and also recognizes the related revenues, whereas the GAAP basis does not. The special revenue fund also recognizes the one or more state aid June payments in the current budget year, consistent with *N.J.S.A.* 18A:22-4.2

The net adjustment to reconcile from the budgetary basis to the GAAP basis is $_____ for the general fund and $_____ for the special revenue fund. See *Note* 1 [the Notes to Required Supplementary Information] for a reconciliation of the budgetary basis to the modified accrual basis of accounting for the general and special revenue funds. Awards and financial assistance revenues are reported in the board's basic financial statements on a GAAP basis as presented on the following page:

SAMPLE NOTES FOR SCHEDULES OF EXPENDITURES OF AWARDS AND FINANCIAL ASSISTANCE (CONT'D.)

Anytown School District/Charter School
Notes to Schedules of Expenditures of Awards and Financial Assistance (Cont'd.)
June 30, 200X

NOTE 3. RELATIONSHIP TO BASIC FINANCIAL STATEMENTS (CONT'D.)

	Federal	*State*	*Total*
General Fund	$	$	$
Special Revenue Fund			
Debt Service Fund			
Food Service Fund			
Total Awards & Financial Assistance	$	$	$

NOTE 4. RELATIONSHIP TO FEDERAL AND STATE FINANCIAL REPORTS

Amounts reported in the accompanying schedules agree with the amounts reported in the related federal and state financial reports.

NOTE 5. FEDERAL AND STATE LOANS OUTSTANDING

Anytown School District/Charter School had the following loan balances outstanding at June 30, 200X:

Loan Program Title	Federal CFDA Number	Amount Outstanding
Federal EPA	N/A	$XXX,XXX

NOTE 6. OTHER

Revenues and expenditures reported under the Food Distribution Program represent current year value received and current year distributions respectively. The amount reported as TPAF Pension Contributions represents the amount paid by the state on behalf of the district/charter school for the year ended June 30, 201X. TPAF Social Security Contributions represents the amount reimbursed by the state for the employer's share of social security contributions for TPAF members for the year ended June 30, 201X.

NOTE 7. SCHOOLWIDE PROGRAM FUNDS

School/charter wide programs are not separate federal programs as defined in OMB Circular A-133; amounts used in schoolwide programs are included in the total expenditures of the program contributing the funds in the Schedule of Expenditure of Federal Awards. The following funds by program are included in schoolwide programs in the district/charter school.

Program	Total
Title I, Part A: *Grants to Local Educational Agencies*	$ 615,764
Title I, Part D: *Neglected & Delinquent Children*	150,319
Title I, Part C: *Education of Migratory Children*	497,682
Title II, Part D: *Enhancing Education Through Technology*	112,071
Title III: *Language Instruction for Limited English Proficient and Immigrant Students*	170,987
Total	$1,546,823

FINANCIAL STATEMENT DISCLOSURES – OVERVIEW AND SAMPLE NOTES

Please note that the sample notes included in this section are not intended to be all inclusive and auditors and district/charter school staff should also refer to GASB Codification Section 2300 and the AICPA Checklists and Illustrative Financial Statements for State and Local Governmental Units for further guidance on disclosures.

Categories of disclosures affected by GASB 34 and GASB 38 are indicated below with the paragraph of the Statement noted. Illustrative disclosures are reflected in both GASB Statements. In addition, GASB 38, Appendix B, par. 68 includes a list of disclosure requirements not changed. Samples for the capital assets and long-term liabilities may be found on the NJDOE website http://www.nj.gov/njded/finance/fp/cafr/ **.**

Summary of Significant Accounting Policies – GASB 34, par.115 amended by GASBS 62, par. 4 ; GASB 38, 6-8

Violations of Finance- related Legal or Contractual Provisions – GASB 38, par.9

Capital Assets – GASB 34, par.116-118 amended by GASBS 63, par. 8; Capital Asset Impairment - GASB 42, par. 17 amended by GASBS 62, par. 45-49 and GASB 63, par. 8

Long-term Liabilities – GASB 34, par.116, 119 amended by GASBS 63, par. 8

Debt and Lease Obligations –GASB 38, par. 10-11

Short-term Debt – GASB 38, par. 12

Disaggregation of Receivable and Payable Balances – GASB 38, par.13 amended by GASB 63 par. 8 and GASB 68 par. 122

Interfund Balances and Transfers – GASB 38, par. 14

The disclosures should be revised where applicable more recent applicable GASB statements have been released.

Disclosures Effected by the Delay of One or More June State Aid Payments (N/A to charter schools)

The SAMPLE NOTES section of this chapter has been updated to include disclosure examples relating to the recording of the delayed state aid payment(s). Alternative presentation formats are also acceptable. (See also NCGAI 10, *State and Local Government Budgetary Reporting* and GASB 34 and GASB 38, NCGAI 6 *Notes to the Financial Statements Disclosure*, Appendix, as amended, and GASB Codification 2300.106, 107 and 901).

The following three disclosures affected by the revenue recognition policy of the one or more delayed June state aid payments for budgetary purposes are discussed below:

- Disclosure of the district's/charter school's policy for revenue recognition.
- Reconciliation of the revenue for budgetary comparison statements/schedules to the GAAP statements.
- Disclosure of a deficit fund balance.

Disclosure of the District's/Charter School's Policy for Revenue Recognition
The department recommends that the district's/charter school's policy for revenue recognition of the one or more June state aid payments for budgetary purposes be disclosed in the Budgets/Budgetary Control section of Note 1 - Summary of Significant Accounting Policies. The revision to the second paragraph of the sample Note on Budgets/Budgetary Control is in boldface type.

Reconciliation of Revenue for Budgetary Comparisons to GAAP Statements
GASB 34 requires a reconciliation of inflows and outflows from the Budgetary Comparison schedules to the GAAP basis funds statements. The reconciliation of the revenue difference due to the delay of one or more June state aid payments should be included in the general fund and the special revenue fund columns and is presented in the Notes to Required Supplementary Information.

Fund Balance Disclosures Including Disclosure of Deficit Fund Balance
GASBS No. 54, paragraphs 23 through 27 provides guidance for required disclosures regarding fund balance classification policies and procedures, reporting encumbrances, classification disclosures, and minimum fund balance policies. GASBS No. 54 paragraphs 18 and 19 provide the process for reporting negative residual restricted, committed, or assigned amounts.

The Note on Deficit Fund Balance, if applicable, will need to be modified to disclose if the deficit in the GAAP statement fund balances occurred as a result of the adjustment for the one or more June state aid payments. Under GAAP, in accordance with GASB 33, *Accounting and Financial Reporting for Nonexchange Transactions*, the one or more delayed June state aid payments are not considered revenue to the school district if the state has not recorded the corresponding expenditure, even though state law dictates recording the revenue. The sample note included on the last page of this chapter of the Audit Program has been modified to reflect this. This delay in the June payment is not applicable to charter schools.

SAMPLE BASIC FINANCIAL STATEMENT NOTES

NOTE 1, SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
D. BUDGETS/BUDGETARY CONTROL

Formal budgetary integration into the accounting system is employed as a management control device during the year. For governmental funds there are no substantial differences between the budgetary basis of accounting and generally accepted accounting principles with the exception of

the legally mandated revenue recognition of the one or more June state aid payments for budgetary purposes only and the special revenue fund as noted below. Encumbrance accounting is also employed as an extension of formal budgetary integration in the governmental fund types. Unencumbered appropriations lapse at fiscal year end.

GASB 34 Model Illustration of Reconciliation

Notes to Required Supplementary Information
Budgetary Comparison Schedule

Explanation of Differences between Budgetary Inflows and Outflows and GAAP Revenues and Expenditures

	General Fund	Special Revenue Fund
Sources/inflows of resources		
Actual amounts (budgetary) "revenues" from the budgetary comparison schedules	$23,101,430	$ 7,983, 526
Difference – budget to GAAP:		
Grant accounting budgetary basis differs from GAAP in that encumbrances are recognized as expenditures, and the related revenue is recognized.		(21,204)
State aid payment recognized for GAAP statements in the current year, previously recognized for budgetary purposes.	553,478	347,560
State aid payment recognized for budgetary purposes, not recognized for GAAP statements until the subsequent year.	(551,385)	(243,142)
Total revenues as reported on the statement of revenues, expenditures and changes in fund balances – governmental funds.	$ 23,103,523	$ 8,066,740
Uses/outflows of resources		
Actual amounts (budgetary basis) "total outflows" from the budgetary comparison schedule	$ 24,209,664	$ 7,983,526
Differences – budget to GAAP:		
Encumbrances for supplies and equipment ordered but not received are reported in the year the order is placed for budgetary purposes, but in the year the supplies are received for financial reporting purposes.		(21,206)
Transfers to and from other funds are presented as outflows of budgetary resources but are not expenditures for financial reporting purposes. Net transfers (outflows) to general fund.		(2,668,125)
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances – governmental funds.	$ 24,209,664	$ 5,294,195

Auditor's Note – The following POST-RETIREMENT BENEFITS information is statewide data and should be utilized in the 2013-14 district/charter school CAFR. The data in this note is obtained from the NJ CAFR, June 30, 2013.

NOTE *X*. POST-RETIREMENT BENEFITS

P.L. 1987, c. 384 and P.L. 1990, c.6 required Teachers' Pensions and Annuity Fund (TPAF) and the Public Employees' Retirement System (PERS), respectively, to fund post-retirement medical benefits for those state employees who retire after accumulating 25 years of credited service or on a disability retirement. P.L. 2007, c.103 amended the law to eliminate the funding of post-retirement medical benefits through the TPAF and PERS. It created separate funds outside of the pension plans for the funding and payment of post-retirement medical benefits for retired state employees and retired educational employees. As of June 30, 2013, there were 100,134 retirees receiving post-retirement medical benefits, and the State contributed $1.07 billion on their behalf. The cost of these benefits is funded through contributions by the State in accordance with P.L. 1994, c.62. Funding of post-retirement medical benefits changed from a pre-funding basis to a pay-as-you-go basis beginning in Fiscal Year 1994.

The State is also responsible for the cost attributable to P.L. 1992, c.126, which provides employer paid health benefits to members of PERS and the Alternate Benefit Program who retired from a board of education or county college with 25 years of service. The State paid $173.8 million toward Chapter 126 benefits for 17,356 eligible retired members in Fiscal Year 2013.

(GASB Cod. Sec. 2300.107(v)

Auditor's Note – The following sample footnote disclosures are notes that are frequently omitted from school district/charter school CAFR's filed with the Department of Education. If applicable, the department **recommends** the following disclosures are included in the notes to the financial statements if applicable to that district/charter school.

NOTE *X*. COMPENSATED ABSENCES

The district/charter school accounts for compensated absences (e.g., unused vacation, sick leave) as directed by Governmental Accounting Standards Board Statement No. 16 (GASB 16), "Accounting for Compensated Absences." A liability for compensated absences attributable to services already rendered and not contingent on a specific event that is outside the control of the employer and employee is accrued as employees earn the rights to the benefits.

District/charter school employees are granted varying amounts of vacation and sick leave in accordance with the district's/charter school's personnel policy. Upon termination, employees are paid for accrued vacation. The district's/charter school's policy permits employees to accumulate unused sick leave and carry forward the full amount to subsequent years. Upon retirement employees shall be paid by the district/charter school for the unused sick leave in accordance with the district's/charter school's agreements with the various employee unions.
In the district/charterwide *Statement of Net Position*, the 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.

X = *Applicable footnote number in the district's /charter school's CAFR.*

The liability for vested compensated absences of the proprietary fund types is recorded within those funds as the benefits accrue to employees. As of June 30, 201X, a liability existed for compensated absences in the Food Service Fund in the amount $XX,XXX.

(GASB Cod. Sec. C60)

NOTE *X*. CAPITAL RESERVE ACCOUNT [N/A to charter schools]

A capital reserve account was established by the _____ of _____ Board of Education by inclusion of $_____ on _____, 200X for the accumulation of funds for use as capital outlay expenditures in subsequent fiscal years. The capital reserve account is maintained in the general fund and its activity is included in the general fund annual budget.

Funds placed in the capital reserve account are restricted to capital projects in the district's approved Long Range Facilities Plan (LRFP). Upon submission of the LRFP to the department, a district may increase the balance in the capital reserve by appropriating funds in the annual general fund budget certified for taxes or by transfer by board resolution at year end (June 1 to June 30) of any unanticipated revenue or unexpended line-item appropriation amounts, or both. A district may also appropriate additional amounts when the express approval of the voters has been obtained either by a separate proposal at budget time or by a special question at one of the four special elections authorized pursuant to *N.J.S.A.* 19:60-2. Pursuant to *N.J.A.C.* 6A:23A-14.1(g), the balance in the account cannot at any time exceed the local support costs of uncompleted capital projects in its approved LRFP.

The activity of the capital reserve for the July 1, 20__ to June 30, 20__ fiscal year is as follows:

Beginning balance, July 1, 20__		$ _____
Interest earnings		_____
Deposits		
Approved at April 200_ election		_____
Withdrawals		
Board resolution [ENTER DATE]	$_____	
Board resolution [ENTER DATE]	$_____	
Total Withdrawals		_____
Ending balance, June 30, 20__		$ _____

The June 30, 201_ LRFP balance of local support costs of uncompleted capital projects at June 30, 201_ is _____. The withdrawals from the capital reserve were for use in a DOE approved facilities project, consistent with the district's Long Range Facilities Plan.

(NJ Department of Education & GASB Cod. Sec. 2300.107(l))

NOTE X. TRANSFERS TO CAPITAL OUTLAY [N/A to charter schools]

During the year ending June 30, 201_, the district transferred $_____ to the capital outlay accounts. The transfer was made from the capital reserve account to supplement a capital project previously approved by the voters [OR STATE IF TYPE I DISTRICT, BY THE BOARD OF SCHOOL ESTIMATE] in the budget certified for taxes pursuant to *N.J.A.C.* 6A:23A-8.4 [OR STATE IF THE TRANSFER WAS APPROVED BY THE EXECUTIVE COUNTY SUPERINTENDENT TO SUPPORT AN EMERGENT CIRCUMSTANCE PURSUANT TO *N.J.A.C.* 6A:23A-13.3(h).]

(NJ Department of Education)

NOTE *X*. RISK MANAGEMENT

The district/charter school is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

Property and Liability Insurance - The district/charter school maintains commercial insurance coverage for property, liability, student accident and surety bonds. A complete schedule of insurance coverage can be found in the Statistical Section of this Comprehensive Annual Financial Report.

New Jersey Unemployment Compensation Insurance - The district/charter school has elected to fund its New Jersey Unemployment Compensation Insurance under the "Benefit Reimbursement Method." Under this plan, the district/charter school is required to reimburse the New Jersey Unemployment Trust Fund for benefits paid to its former employees and charged to its account with the state. The district/charter school is billed quarterly for amounts due to the state. The table on the following page is a summary of district/charter school contributions, employee contributions, reimbursements to the state for benefits paid and the ending balance of the district's/charter school's trust fund for the current and previous two years:

Fiscal Year	District/ Charter school Contributions	Employee Contributions	Amount Reimbursed	Ending Balance
2013 – 2014	$	$	$	$
2012 – 2013				
2011 – 2012				

(GASB Cod. Sec. 2300.107(a))

NOTE *X*. INTERFUND BALANCES AND TRANSFERS

Auditors Note - GASB Statement No. 38, paragraphs 14 and 15 revised the required disclosures for Interfund Balances and Transfers. District/ charter school staff and auditors should refer to that statement for further discussion. Sample disclosures for Interfund Balances and Transfers, as well as other disclosures required by GASB 38 can be found in Appendix C of that document. The GASB Codification section 2300.903 also provides illustrations of certain required disclosures.

NOTE *X*. DEFICIT FUND BALANCES [N/A to charter schools]

The District has a deficit fund balance of $_____ in the General Fund and $_____ in the Special Revenue Fund as of June 30, 20__ as reported in the fund statements (modified accrual basis). *N.J.S.A.* 18A:22-44.2 provides that in the event a state school aid payment is not made until the following school budget year, districts must record the delayed one or more June state aid payments as revenue, for budget purposes only, in the current school budget year. The bill provides legal authority for school districts to recognize this revenue in the current budget year. For intergovernmental transactions, GASB Statement No. 33 requires that recognition (revenue, expenditure,

asset, liability) should be in symmetry, i.e., if one government recognizes an asset, the other government recognizes a liability. Since the State is recording the June state aid payment(s) in the subsequent fiscal year, the school district cannot recognize the June state aid payment(s) (on the GAAP financial statements) until the year the State records the payable. Due to the timing difference of recording the June state aid payment(s), the General and Special Revenue Fund balance deficit does not alone indicate that the district is facing financial difficulties.

Pursuant to *N.J.S.A.* 18A:22-44.2 any negative unreserved, undesignated general fund balance that is reported as a direct result from a delay in the June payment(s) of state aid until the following fiscal year, is not considered in violation of New Jersey statute and regulation nor in need of corrective action. The District deficit in the GAAP funds statements of $_____ [is equal to (or) is less than] the last state aid payment. *[If the deficit exceeds the one or more delayed June state aid payment(s), the auditor should revise this note and indicate that the deficit is not a direct result from a delay in the June payment(s) of state aid and corrective action is required.]*

The District has an accumulated deficit of $_____ in the Capital Projects Fund as of June 30, 20__. This deficit is the result of the _____ of _____ utilizing temporary financing to fund expenditures for certain capital projects. As the District permanently finances these appropriations the District will realize as revenues the proceeds of the financing. This deficit does not indicate that the District is facing financial difficulties and is a permitted practice under generally accepted accounting principles.

(GASB Cod. Sec. 2300.108)

NOTE *X*. FUND BALANCE APPROPRIATED [N/A to charter schools]

General Fund [Exhibit B-1] - Of the $_____ General Fund fund balance at June 30, 201_, $_____ is reserved for encumbrances; $_____ has been legally restricted in accordance with *N.J.A.C.* 6A:23A-8.5(j) as the 2013-2014 additional spending proposal was not fully expended; $_____ has been legally reserved for tuition adjustment in accordance with *N.J.A.C.* 6A:23A-3.1(f)(8); $_____ is reserved as excess surplus in accordance with *N.J.S.A.* 18A:7F-7 ($_____ of the total reserve for excess surplus has been appropriated and included as anticipated revenue for the year ending June 30, 20__); $_____ has been reserved in the Capital Reserve Account [OR STATE OTHER APPLICABLE RESERVE ACCOUNT E.G., MAINTENANCE OR CURRENT EXPENSE EMERGENCY RESERVE,]; $_____ has been appropriated and included as anticipated revenue for the year ending June 30, 20__; and $_____ is unreserved and undesignated. During the fiscal year, authorized and approved appropriations of $_____surplus were made on [ENTER DATE OF APPROPRIATION] and $_____ made on [DATE OF APPROPRIATION].

Debt Service Fund – Of the Debt Service Fund fund balance at June 30, 20__, $_____ is reserved in accordance with *N.J.S.A.* 7F-41c(2) and $_____ is unreserved and undesignated.

(GASB Cod. Sec. 2300.107(l))

NOTE *X*. FUND BALANCE APPROPRIATED [Charter Schools Only]

General Fund [Exhibit B-1] - Of the $_____ General Fund balance at June 30, 201_, $_____ is reserved for encumbrances; $_____ is unreserved and undesignated.

(GASB Cod. Sec. 2300.107(l))

NOTE *X*. CALCULATION OF EXCESS SURPLUS [N/A to charter schools]

The designation for Reserved Fund Balance – Excess Surplus is a required calculation pursuant to *N.J.S.A.* 18A:7F-7, as amended. New Jersey school districts are required to reserve General Fund fund balance at the fiscal year end of June 30 if they did not appropriate a required minimum amount as budgeted fund balance in their subsequent years' budget. The excess fund balance at June 30, 2014 is $_____ .

(NJ Department of Education & GASB Cod. Sec. 2300.107(l))

NOTE *X*. FEMA Community Disaster Loan (CDL)

General Fund [Exhibits A-1, A-2, B-1, B-2, C-1] – The school district applied for and received a CDL in response to the devastating effects on the property tax ratable base of the municipality due to Superstorm Sandy in October 2012. The district was approved for $ _____total loan and chose to withdraw $_____ as a reduction of the tax levy assessed for the 2013-14 school year. The amount of principal and interest accrued through June 30, 2014 is $_____ and $_____respectively. This loan is subject to FEMA review in 2016 and may be fully or partially cancelled based upon FEMA's calculation of the revenue loss that the district experienced over a specified period. The loan matures in 2018.

NOTE *X*. Community Development Block Grant (CDBG)

General Fund [Exhibits A-1, A-2, B-1, B-2, C-1 and C-1/b] – The school district received a CBDG in the amount of $ _____ which reduced the General Fund Levy for 2013-14. The grant was received in response to an application filed by the municipality due to devastating effects on the property tax ratable base of the municipality due to Superstorm Sandy in October of 2012. This essential service grant was used to fund "essential services" including "_____" expenditures are detailed in fund 19.

(GASB Cod. Sec. 2300.107(l))

STATISTICAL SECTION OF THE CAFR

Overview

The Governmental Accounting Standards Board (GASB) issued Statement No. 44, "Economic Condition Reporting: the Statistical Section;" an amendment of NCGA Statement 1, in May 2004, effective for periods beginning after June 15, 2005, and since amended by GASBS 54 and 63. This statement (GASB 44) revises the current statistical section of the Comprehensive Annual Financial Report (CAFR). New Jersey school districts/charter schools first implemented GASB 44 for year end June 30, 2006.

GASB 44 was issued to improve the understandability and usefulness of the statistical section information. Although most of the data is reported in the current model, GASB 44 modifies the presentation by establishing five categories – financial trends, revenue capacity, debt capacity, demographic and economic information, and operating information. GASB also addressed what it considered issues in the statistical tables section as currently presented:

- Consistency in statistical reporting among governmental entities,
- Completeness in statistical reporting by the entity, and
- Incorporation of the new governmentwide reporting format required by GASB 34 into the entity's statistical section.

Illustrations

The department is providing samples of the statistical tables that use the format of illustrations in GASB 44. The samples are intended to meet the requirements of GASB 44 as applied to New Jersey school districts/charter schools. In tables which had optional placement of certain data or inclusion of data, the department selected the format that is most consistent with the current tables and most meaningful to the school districts/charter schools. Districts/charter schools may elect to present additional relevant statistical data, but for purposes of comparability between districts/charter schools, they should follow the basic format presented in the samples. The school district illustrations are available on the NJDOE Office of School Finance website http://www.nj.gov/njded/finance/fp/cafr/ with additional guidance on preparation of the tables.

Years of data

GASB 44 requires the presentation of the information described for the most recent ten years, unless otherwise specified in the statement (or if not available in previous statistical sections). Governments are not required to report retroactively the district/charterwide financial data (Exhibits NJ J-1 through NJ J-2) but are encouraged to report this information starting with the year they implemented GASB 34. For other tables, NJDOE strongly encourages reporting ten years data when it is available to provide trend information. Data which was not previously required must be reported at a minimum of one year. When currently reported data differs from the new requirements, districts/charter schools are encouraged to restate the prior data if possible for comparability or explain how the data differs.

- If statistical data cannot be obtained or estimated
    - Note N/A on the face of the schedule and explain on the schedule why the information is unavailable.

The Outline on the next two pages shows the tables that are to be included. The illustrations on the website assume the district/charter school is retroactively reporting to the year GASB 34 was implemented, 2002-03 for illustration purposes, and ten years for data that would be available where applicable.

OUTLINE OF NJ DOE STATISTICAL TABLES SECTION (GASB 44)	
Revised NJ Exhibit #	**Category/New Title**
* = 10 years data should be reported unless not available	
Financial Trends Information/Schedules	
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 (NJ)
Revenue Capacity Information	
J-6	*Assessed Value and Estimated Actual Value of Taxable Property [N/A to Charter Schools]
J-7	*Direct and Overlapping Property Tax Rates [N/A to Charter Schools]
J-8	Principal Property Taxpayers (Current Yr and Nine Years Ago) [N/A to Charter Schools]
J-9	*Property Tax Levies and Collections [N/A to Charter Schools]
Debt Capacity Information	
J-10	* Ratios or 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 Schools]
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, Current and Nine Yrs Ago

OUTLINE OF NJ DOE STATISTICAL TABLES SECTION (GASB 44) (continued)	
Revised NJ Exhibit #	**Category/Title**
* = 10 years data should be reported unless not available	
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 Allowable Maintenance Expenditures by School Facility (NJ) [N/A to Charter Schools]
J-20	Insurance Schedule (NJ)
J-21	Charter School Performance Framework, Financial Performance, Fiscal Ratios (Charter Performance Indicators.xls) Refer questions to : charterfinance@doe.state.nj.us

Note to charter school business offices and charter school auditors:

The Financial Performance Framework, Financial Performance, and Fiscal Ratios 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** Section II-Financial Performance provides the explanations for the mandatory computations of the J-21 indicators for inclusion in the charter school Statistical Tables section.

Indicators and Measures:

1. Near-Term Indicators
   a. Total Margin
   b. Debt to Asset Ratio
   c. Cash Flow
   d. Debt Service to Coverage Ratio
2. Sustainability Indicators
   a. Current Ratio
   b. Unrestricted Days Cash on Hand
   c. Enrollment Variance
   d. Default on Loans

SECTION III – REPORTING
CHAPTER 4 – AUDITOR'S MANAGEMENT REPORT (AMR)

AUDITOR'S MANAGEMENT REPORT ON ADMINISTRATIVE FINDINGS - FINANCIAL, COMPLIANCE AND PERFORMANCE

The Auditor's Management Report on Administrative Findings - Financial, Compliance and Performance (Auditor's Management Report or AMR), is the auditor's report to the board of education/board of trustee of the findings and recommendations as a result of the audit. It is issued separately from the CAFR and has the same due date for submission of December 5, 2014.

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." This statute applies to the Auditor's Management Report filed with the Department of Education. All findings must be included in that report of audit. This includes all items contained in the separate schedule of findings and questioned costs included in the single audit section of the district's/charter school's CAFR. A separate report to the board of education /board of trustee outlining findings not included in the report of audit is considered a violation of this statute.

If an auditor detects an error which requires disclosure pursuant to *N.J.S.A.* 18A:23-9, and the auditor believes a recommendation is not needed because the error was insignificant and an isolated unintentional deviation from the board's standard operating procedure, the auditor must report the item as a finding, state that in his or her opinion no recommendation is necessary, and elaborate on the reason(s) for this opinion.

The report presents the recommendations immediately after the comments. Since this is a stand-alone document, a brief explanation of the statute or procedure for which there is noncompliance should be included so that the reader can understand the issue. The auditor should then include the finding and recommendation.

This section is applicable to school districts and charter schools unless specifically identified as applicable/not applicable to either charter schools or school districts. The section provides a sample of the Auditor's Management Reports and auditors are cautioned to tailor the report language to the school district or charter school as appropriate. **This sample AMR is not meant to be a boilerplate and should be adapted to the circumstances of the individual district/charter school audit.**

The standard format of the Auditor's Manager Report includes the following sections:

A. Table of Contents
B. Report of Independent Auditors
C. Comments, Findings and Recommendations
D. Schedule of Meal Count Activity [if applicable]
E. Schedule of Audited Enrollments
F. Excess Surplus Calculation

A. The Table of Contents is for organization purposes and is included to assist the reader in reviewing the report.

B. The Report of Independent Auditors provides the reader with the basis and intent of the report as well as its distribution. The sample in this chapter may be expanded to include an opinion on the report if that is the individual firm's policy. The report should contain both the firm name as well as the signature and license number of the public school accountant. The report should be on firm letterhead and dated the same as the auditor's reports included in the CAFR.

C. The Comments, Findings and Recommendations section includes items noted during the audit that require comments and recommendations, including a repeat of any items contained in a separate schedule of findings and questioned costs included in the single audit section of the district's/charter school's CAFR. Such items 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. Repeat audit findings should be cross-referenced to the current year finding (2014-x). The comments and recommendations must be specific under the following applicable headings:

1. Administrative Practices and Procedures
2. Financial Planning, Accounting and Reporting
3. School Purchasing Programs
4. School Food Service
5. Student Body Activities
6. Application for State School Aid (N/A to charter schools)
7. Charter School Enrollment System/Charter School Aid
8. Pupil Transportation (N/A to charter schools)
9. Facilities and Capital Assets
10. Miscellaneous
11. Follow-up on prior year findings

Recommendations must be included for all negative comments and areas of noncompliance cited, and at a minimum they are to be grouped in the above headings. The auditor may use sub-groupings within these headings.

Auditor recommendations which are not the result of either a required comment or generated by a negative finding but rather represent suggestions to management should be grouped together and included at the end of the Auditor's Management Report in a section titled "Suggestions to Management." Management suggestions are not required to be included in the district's/charter school's Corrective Action Plan.

Where 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.

Required comments must include discussions for the following areas and detailed examples are included in the sample provided:

- Fire Insurance Coverage
- Surety Bonds as to Adequacy (see Note and table below)
  - *N.J.A.C.*6A:23A-16.4(c) "The independent school auditor shall verify the adequacy of the treasurer's surety bond which is required by N.J.S.A. 18A:17-32, and shall include appropriate comment, and a recommendation, if needed, in the annual school audit report."
  - *N.J.S.A.* 18A:13-13 provides that in a district/charter school which does not have a treasurer of school moneys, the secretary shall give bond in such amount and with such surety as the board shall direct.
- Whether appropriate billing adjustments have been made for tentative and actual tuition charges. (N/A to charter schools)
- Examination of Claims

- Salary Accounts
- That encumbrances, contracts, salaries and expenditures for state and federally funded projects were in accordance with laws and regulations and in conformity with procurement requirements.
- A certification that district/charter school funds were provided and expended in the proper GAAP account/code based upon audit testing of transactions. The comment must include a summary of the sample selection process, conclusions reached and additional procedures performed, if any.
- Whether the district/charter school has accurately completed its requests for social security reimbursement for TPAF members.
- Advertisement for bids in accordance with statutory requirements. Any items of noncompliance should be listed and Title 18A:18A Public School Contracts Law should be quoted.
- Limitation of Principal Amount of Bonds 18A:24-19. (N/A to charter schools)
- The condition of the records, with both positive and negative findings for:
  1) Athletic Association
  2) Food Services
  3) Student Activity Funds
  4) Secretary (status of secretary's accounting records must be noted)
  5) Secretary and Treasurer's records/reports. Where the district/charter school does not maintain the treasurer's position, the review should encompass the condition of the records/reports formerly kept by the treasurer that are now the responsibility of other district/charter school personnel
  6) Capital Asset Records

Note: The minimum requirements for the surety bond shall be such percentage of the current year's school budget as is required in the schedule set forth in *N.J.A.C.* 6A:23A-16.4. In fixing the minimum bond, the nearest even $1,000 shall be used.

Up to $100,000	20% of Budget (Minimum $10,000)
$100,000.01 to $250,000	$20,000 + 15% of all over $100,000
$250,000.01 to $500,000	$42,500 + 13% of all over $250,000
$500,000.01 to $750,000	$75,000 + 8% of all over $500,000
$750,000.01 to $1,000,000	$95,000 + 4% of all over $750,000
$1,000,000.01 to $2,000,000	$105,000 + 2% of all over $1,000,000
$2,000,000.01 to $5,000,000	$125,000 + 1% of all over $2,000,000
$5,000,000.01 to $10,000,000	$155,000 + 1/2% of all over $5,000,000
$10,000,000.01 and upwards	$180,000 + 1/4% of all over $10,000,000

D. The separate federal and state Schedules of Meal Count Activity provides a summary of the results of the audit testing of the number of meals claimed for reimbursement under federal and state subsidy programs. The schedules calculate a total net over claim or under claim based on the difference between the meal count tested by the auditor and meal count claimed by the district/charter school. Eligibility application exceptions/reclassifications must be quantified and included in the schedules. A finding and recommendation should be included for any differences noted. **Each of these schedules are included only if the Child Nutrition Program is a major program audited in the current audit period in accordance with federal OMB Circular A-133.**

E. For school districts, the Schedule of Audited Enrollments provides a summary of the results of the audit testing of the Application for State School Aid (ASSA) and the District Report of Transported Resident Students (DRTRS). It documents the information reported on the ASSA in comparison to the district workpapers and compares the information in the district workpapers to the underlying supporting data, quantifying any errors noted. It also documents the information reported on the DRTRS and the amount verified. A finding and a recommendation should be included for any differences noted.

F. For charter schools, the Schedule of Audited Enrollments provides a summary of the results of the audit testing of the Charter School Enrollment System (CHE), NJ School Register and submission of enrollment counts to the Department. It documents the information reported on the submission to the department in comparison to the charter school workpapers and compares the information in the charter school's workpapers to the underlying supporting data, quantifying any errors noted. A finding and a recommendation should be included for any differences noted.

G. For school districts, the Excess Surplus Calculation documents the calculation of excess surplus for the district as required by *N.J.S.A.* 18A:7F-7, providing the maximum unassigned fund balance which regular districts may have at year end as 2 percent of adjusted audit year general fund expenditures. County vocational school districts are subject to the 6 percent surplus limitation.

   Charter schools are not subject to the excess surplus limitations. Charter school auditors are required to document the calculation of excess surplus pursuant to N.J.S.A. 18A:7F-7 solely for the purpose of adherence to N.J.A.C. 6A:23A-22.4(e), which provides that a district board of education may petition the Commissioner to pay a lower per-pupil rate if the charter school spends "significantly less than budgeted and has accumulated a sizable surplus."

> *Auditor's Note* – Auditors should review Section II-10.23 of this *Audit Program* for guidance on the Excess Surplus Calculation for districts required to use school-based budgeting.

Government Auditing Standards require that the schedule of findings and questioned costs included in the single audit section of the CAFR present each finding in a format that addresses the Criteria or specific requirement (what should be); Condition (what is); Context (describe the work performed that resulted in the finding); Effect (the difference between what is and what should be); Cause (why it happened); Recommendation; and, Views of responsible officials and planned corrective actions. Auditors should reference USOMB Circular A-133 (Section .510) for specific requirements on the reporting of audit findings in the Schedule of Findings and Questioned Costs when a federal single audit of the district/charter school is required. The AICPA's Example 13-6 *Illustrative Schedule of Findings and Questioned Costs* is available in the AICPA Audit Guide *Government Auditing Standards and Circular A-133 Audits.* A revision to the Guide is anticipated July 2014.

Effective for fiscal year end June 2013 school district audits, The Governmental Accounting Quality Control (GAQC) has posted to the AICPA website illustrative reports 13-1 through 13-3 *Reports on Compliance for Each Major Federal Program; Reports on Internal Control Over Compliance; and Reports on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133* updated for the clarity auditing standards and the 2011 edition of *Government Auditing Standards.* These illustrative audit reports are excerpts from Appendix A of chapter 13 of the 2013 AICPA Audit Guide, *Government Auditing Standards and Circular A-133 Audits (GAS- A133)*. These report illustrations, as well as 13-4 through 13-6 (13-6 the aforementioned *Illustrative Schedule of Findings and Questioned Costs*) are incorporated into the 2014 edition of the *GAS-A133 Guide* available for purchase from the AICPA website July 2014. Auditors are encouraged to monitor the AICPA website for the posting of illustrative report 13-6, Schedule of Findings and Questioned Costs.

When repeating the findings in the Auditor's Management Report, auditors may follow that same format or revise the comment to be consistent with the other items presented in the Auditor's Management Report.

(SAMPLE AMR)

AUDITOR'S MANAGEMENT REPORT ON ADMINISTRATIVE FINDINGS FINANCIAL, COMPLIANCE AND PERFORMANCE

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[* Alternatively, where the district/charter school does not maintain the treasurer's position, records and reports prepared and maintained by other district/charter school personnel should be reviewed (e.g. bank reconciliations prepared by the chief school administrator or board designee other than the secretary as required by *N.J.S.A.* 18A:17-9)]

(SAMPLE AMR)

Report of Independent Auditors

Honorable President and
Members of the Board of Education/
Members of the Board of Trustees
_____ School District/Charter School
County of _____, New Jersey

We have audited, in accordance with generally accepted audit standards and Government Auditing Standards issued by the Comptroller General of the United States, the basic financial statements of the Board of Education/Board of Trustees of the _____ School District/Charter School in the County of _____ for the year ended June 30, 20__, and have issued our report thereon dated _____ _____, 20 __.

As part of our audit, we performed procedures required by the New Jersey Department of Education, and the findings and results thereof are disclosed on the following pages, as listed in the accompanying table of contents.

This report is intended for the information of the _____ Board of Education's/Board of Trustee's management and the New Jersey Department of Education. However, this report is a matter of public record and its distribution is not limited.

Licensed Public School Accountant
No. _____
Firm Name

Date _____

(SAMPLE AMR)

Administrative Findings - Financial, Compliance and Performance

Scope of Audit

The audit covered the financial transactions of the Board Secretary/School Business Administrator and the Treasurer of School Moneys [or name the position(s) of other appropriate personnel responsible for those records where the district /charter school does not maintain the treasurer's position], the activities of the Board of Education/Board of Trustees, and the records of the various funds under the auspices of the Board of Education/Board of Trustees.

Administrative Practices and Procedures

Insurance

Fire insurance coverage was carried in the amounts as detailed on Exhibit J-13, Insurance Schedule contained in the district's/charter school's CAFR.

Official Bonds (*N.J.S.A.* 18A:17-26, 18A:17-32,18A:13-13)

Name	Position	Amount
Anne Edwards	Board Secretary/School Business Administrator	$10,000.00
Michael E. Leonard	Treasurer (or where no treasurer of school moneys, the board secretary)	$145,000.00

There is a Public Employees' Faithful Performance Blanket Position Bond with the Western Surety Company covering all other employees with multiple coverage of $10,000.00.

Tuition Charges (N/A to charter schools)

A comparison of tentative tuition charges and actual certified tuition charges was made. The actual costs were less than estimated costs. The board made a proper adjustment to the billings to sending districts for the decrease in per pupil costs in accordance with *N.J.A.C.* 6A:23A-17.1(f)3.

Financial Planning, Accounting and Reporting

Examination of Claims

An examination of claims paid during the period under review did not indicate any discrepancies with respect to signatures, certification or supporting documentation.

Payroll Account

The net salaries of all employees of the board were deposited in the Payroll Account. Employees' payroll deductions and employer's share of fringe benefits were deposited in the Payroll Agency Account.

All payrolls were approved by the Superintendent and were certified by the President of the Board, the Board Secretary/Business Administrator, and the Chief School Administrator.

Payroll Account (continued)

Salary withholdings were promptly remitted to the proper agencies, including health benefits premium Amounts withheld due to the general fund.

[Where the district /charter school employs a treasurer of school moneys] Payrolls were delivered to the treasurer of school moneys with a warrant made to his order for the full amount of each payroll.

[Where the district/charter school does not employ a treasurer of school moneys] Payrolls were delivered to the secretary of the board who then deposited with warrants in separate bank accounts for net payroll and withholdings.

Finding:
The required certification (E-CERT1) [not applicable to charter schools] of compliance with requirements for income tax on compensation of administrators (superintendent, assistant superintendents, and business administrator) to the NJ Department of Treasury was not was not filed by the March 15 due date [or was not filed].

Recommendation:
The Board of Education should designate someone to prepare and submit the certification as required by *N.J.S.A.* 18A:14.4 and submit the E-CERT1 if not yet submitted.

Finding*:*
Reporting of employee compensation for income tax related purposes did not comply with federal (or state) regulations regarding the compensation which is required to be reported. [State what noncompliance issue was, e.g., lease value of vehicle not included in W-2, compensation at separation was deferred over five years by employee choice and should be included in W-2, fringe benefits were erroneously included in base salary for pension calculation purposes].

Recommendation:
The district/charter school should establish internal controls to ensure that compensation is properly recorded and reported, including taxable fringe benefits and other additional forms of compensation as applicable. District/charter school should also send corrected reporting to the applicable tax authority.

Finding*:*
The certifying officer did not maintain documentation of his/her analysis of the district's decision to classify a professional service provider (defined at *N.J.S.A.* 18A:18A-2(h)) as an employee of the school district in violation of Local Finance Notice 2007-28.

Recommendation:
The district should establish internal controls to ensure that employee versus contractor decisions for professional service providers are documented within the employee's personnel file.

Reserve for Encumbrances and Accounts Payable

A review of outstanding issued purchase orders was made as of June 30 for proper classification of orders as reserve for encumbrances and accounts payable.

Finding:
District/charter school personnel did not perform an analysis of outstanding purchase orders at June 30 and prepare the separate listings of purchase orders comprising the balance sheet account balances for

Reserve for Encumbrances and Accounts Payable (continued)

accounts payable and reserve for encumbrances. Numerous audit adjustments were needed to adjust the accounting records to properly reflect the true balances as of June 30, taking into consideration both the status of the orders at June 30 as well as their subsequent liquidation.

Recommendation:
Purchase orders should be reviewed for proper classification at June 30 as accounts payable or reserve for encumbrances based upon whether the goods have been received or the services rendered. All orders that will not be liquidated within the suggested time frame of 60 to 90 days of year-end should be cancelled. Reconciliations of the adjusted June 30 balances for accounts payable and reserve for encumbrances should be performed and the required schedules be prepared for the year-end audit.

Finding:
Payments were made without proper authorization for amounts which exceeded the original approved purchase order amounts.

Recommendation:
The School Business Administrator should review the payments and purchase orders to ensure that all payments are properly authorized and consistent with *N.J.A.C.* 6A:23A-6.10(a).

Travel

Finding:
The district /charter school did not obtain prior written approval of the Executive County Superintendent for a travel event that exceeded $5,000 as required by *N.J.A.C.* 6A:23A-5.9.

Recommendation:
The district/charter school should implement a process for submitting request for approval to the Executive County Superintendent at least 10 working days in advance of a travel event with a total cost exceeding $5,000.

Finding:
The district/charter school did not have an approved board travel policy as required by *N.J.A.C.* 6A:23A-6.13 and N.J.S.A. 18A:11-12.

Recommendation:
The district board of education/board of trustees should adopt a travel policy that complies with N.J.S.A. 18A:11-12.

Finding:
Payment for travel by an employee was approved after completion of the travel event.

Recommendation:
The district board of education/board of trustees should revise its travel policy to ensure that payments will not be ratified after completion of the travel event unless the policy excludes regular business travel from the pre-approval requirement. *N.J.A.C.* 6A:23A-7.2(d)

Classification of Expenditures

The coding of expenditures was tested for proper classification in accordance with *N.J.A.C.* 6A:23A-16.2(f) as part of our test of transactions of randomly selected expenditure items. We also reviewed the

coding of all expenditures included in our compliance and single audit testing procedures. In addition to randomly selecting a test sample, our sample selection specifically targeted administrative coding classifications to determine overall reliability and compliance with *N.J.A.C.* 6A:23A-8.3. As a result of the procedures performed, a transaction error rate of 1.90 percent overall was noted and no additional procedures were deemed necessary to test the propriety of expenditure classification.

A. General Classification Findings

Finding:
During our test of transactions it was noted that the district/charter school misclassified and misbudgeted professional development costs for noninstructional staff as Improvement of Instruction Services/Other Support Services-Instructional Staff - Other Purchased Professional and Technical Services. The expenditure and related appropriation was reclassified to Business and Other Support Services - Purchased Professional Services for financial statement presentation purposes.

Recommendation:
Districts/charter schools should reference *The Uniform Minimum Chart of Accounts for New Jersey Public Schools, 2008 Edition* and other available reference materials, such as the Budget Guidelines for the proper classifications required to be in compliance with *N.J.A.C.* 6A:23A-16.2(f).

B. Administrative Classification Findings

Finding:
During our test of transactions it was noted that the salary of the chief school administrator was allocated to Instructional Staff Training Services. The expenditure and related appropriation were reclassified to Support Services – General Administration for financial statement presentation purposes.

Recommendation:
See recommendation below.

Finding:
During our test of transactions it was noted that the salary of the principal was allocated to the plant maintenance and transportation functions. The expenditure and related appropriation were reclassified to Support Services – School Administration for financial statement presentation purposes.

Recommendation:
See recommendation below.

Finding:
During our test of transaction it was noted that legal fees for the placement of a special education student was charged to Other Support Services – Student Extraordinary Services. The expenditure and related appropriation was reclassified to Support Services - General Administration for financial statement presentation purposes.

Recommendation:
See recommendation below.

Finding:
During our test of transactions it was noted that there were no salary expenditures of clerical staff recorded in Central Services as had been in prior years. Clerical positions that were recorded in the prior year in central services were not eliminated but instead reclassified to Attendance without proper documentation to support this change.

Recommendation:
Districts/charter schools should reference *The Uniform Minimum Chart of Accounts for New Jersey Public Schools, 2008 Edition* and other available reference materials, such as the Budget Guidelines for the proper classifications required to be in compliance with *N.J.A.C.* 6A:23A-16.2(f).

Finding:
During our test of transactions it was noted that the salary of the business administrator was allocated to instruction without documentation that supports the business administrator provided direct classroom instruction as part of the district's/charter school's regular curriculum.

Recommendation:
See recommendation below.

Finding:
During our test of transactions it was noted that the salary of the chief school administrator was allocated to instruction without documentation that supports the chief school administrator provided direct classroom instruction as part of the district's/charter school's regular curriculum.

Recommendation:
The allocation of administrative salaries to instruction or support functions should be supported by documentation providing a reasonable allocation method, such as time sheets or teaching roster to support direct classroom instruction as part of the regular curriculum.

Finding:
During our test of transactions it was noted that many of the district's/charter school's responses to the required completion of the school district/charter school questionnaire were incomplete.

Recommendation:
The district/charter school should compare the completed school district/charter school questionnaire and the payroll registers and an administrative certificated staff roster, or similar document, to assure accuracy and completeness of the school district/charter school questionnaire.

Board Secretary's Records

Our review of the financial and accounting records maintained by the board secretary disclosed the following items.

Finding:
Bids received were not summarized in the minutes (*N.J.S.A.* 18A:18A-21).

Recommendation:
Bids received should be summarized in the minutes of the Board Secretary.

Finding:
Acknowledgment of the board's receipt (non-receipt) of the Board Secretary's and Treasurer's [where the district/charter school maintains the position] monthly financial reports was not included in the minutes.

Recommendation:
The board should acknowledge in the minutes receipt (non-receipt) of the Board Secretary's and Treasurer's [where the district/charter school maintains the position] monthly reports.

Board Secretary's Records (cont'd.)

Finding:
Several budgetary line accounts were over-expended during the fiscal year and at June 30 despite the Board Secretary's monthly certification to the contrary (*N.J.A.C.* 6A:23A-16.10).

Recommendations:
Approved budgetary line accounts should not be over-expended. The Board Secretary should not approve the issuance of purchase orders that would cause over-expenditure in the line account to be charged, prior to the board approving the requested transfer of additional appropriations to cover such orders.

The Board Secretary should file monthly certifications of the budgetary line item status which are consistent with the actual budgetary records.

Finding:
Payments to vendors were made prior to the receipt of goods.

Recommendation:
Payment should not be made until the receipt of goods.

Finding:
The capital asset records were not updated for the additions and disposals of capital assets made during the year.

Recommendation:
The district/charter school should have adequate internal control procedures over its capital assets, including periodic update of the general ledger for additions and disposals.

Finding:
The district/charter school is not maximizing its efforts under the Special Education Medicaid Initiative (SEMI) Program for obtaining federal funding for special education services.

Recommendation:
The district/charter school should establish procedures to ensure that it maximizes its efforts under SEMI for obtaining federal reimbursement for special education services.

Finding: (N/A to charter schools)
The district transferred from special programs (fund 13), an amount that on a cumulative basis exceeded 10 percent of the total amount of special programs included in the original budget, without proper department approval.

Recommendation: (N/A to charter schools)
Executive County Superintendent approval should be requested for any transfer from an advertised appropriation account as defined under *N.J.A.C.* 6A:23A-13.3(f), which is cumulatively more than 10 percent of that amount. The district should maintain documentation that substantiates the request was received by the Executive County Superintendent when written approval is not received.

Board Secretary's Records (cont'd)

Finding: (N/A to charter schools)
The district transferred from special programs (fund 13), an amount that on a cumulative basis exceeded 10 percent of the total amount of special programs included in the original budget, without proper board approval.

Recommendation (N/A to charter schools)The district should obtain board approval by a two-thirds affirmative vote of the authorized membership of the school board for any transfer from an advertised appropriation account as defined under *N.J.A.C.* 6A:23A-13.3(f), which is cumulatively more than 10 percent of that amount.

Finding: (N/A to charter schools)
The district made board approved line-item transfers during the year but did not maintain a monthly transfer report and year-to-date transfers in a format prescribed by the Commissioner or approved by the Executive County Superintendent.

Recommendation: (N/A to charter schools)
The district should maintain a monthly and year-to-date report of all line item transfers in a format prescribed by the Commissioner or approved by the Executive County Superintendent.

Finding: (N/A to charter schools)
The district transferred funds to School Administration that on a cumulative basis exceeded 10 percent of the total amount of the original budget for School Administration without proper department approval.

Recommendation: (N/A to charter schools)
Executive County Superintendent approval should be requested for any transfer to an advertised administrative account [general administration (230), school administration (240), central services (251), or administrative information technology (252)] that is cumulatively more than 10 percent of that amount. The district should maintain documentation that substantiates the request was received by the Executive County Superintendent when written approval is not received.

Finding: (N/A to charter schools)
The district recorded unbudgeted revenue from the sale of equipment and subsequently appropriated additional funds without department approval. Proceeds from the sale of equipment are not one of the revenue sources pursuant to *N.J.A.C.* 6A:23A-13.3(d) for which department approval is not required.

Recommendation: (N/A to charter schools)
The district must obtain Executive County Superintendent approval for the additional appropriation of funds resulting from unbudgeted revenue that is not exempt under the code.

Finding: (N/A to charter schools)
The district received Executive County Superintendent approval to appropriate surplus not included in the original budget to repair a gymnasium floor. A review of completed purchase orders/vouchers at year end indicated that the gymnasium floor had not yet been repaired.

Recommendation: (N/A to charter schools)
Any special request to appropriate unbudgeted surplus during the year should be completed for the original intended purpose by the end of the school year.

Board Secretary's Records (cont'd)

Finding: (N/A to charter schools)
The district transferred surplus not included in the original budget certified for taxes to capital reserve during the year by board resolution without voter approval. [Note to auditor: A district that has moved to a November election and included a deposit to capital reserve in the original budget certified for taxes certified by the board of education and approved by the executive county superintendent , is within their budget cap and is deemed to have met the "voter approval" requirement of N.J.A.C. 6A:23A-14.1 (c)(1).]

Recommendation: (N/A to charter schools)
Deposits into capital reserve should only be made when voter approval has been obtained. Districts should obtain voter approval through either the original budget certified for taxes or a special question or referendum.

Finding:
The district was the recipient of Community Development Block Grant CDBG) funds and did not record the receipts and expenditures of CDBG funds separately in the general ledger or report the receipts and expenditures of CDBG funds separately (fund 19) of the monthly Board Secretary's Reports.

Recommendation:
Receipts and expenditures must be accounted for and reported in accordance with guidance issued by the oversight agency.

Treasurer's Records (optional position)

The following items were noted during our review of the records of the Treasurer [or board secretary or chief school administrator if there is no Treasurer].

Finding:
The treasurer's records were maintained by an employee of the board appointed to the position of Treasurer of School Moneys.

Recommendation:
The board must appoint a suitable person except a member or employee of the board as Treasurer of School Moneys.

Finding:
The Treasurer [or chief school administrator or board designee other than the board secretary if there is no treasurer] did not perform cash reconciliations for the general operating account, payroll account, or payroll agency account (*N.J.S.A.* 18A:17-9).

Recommendation:
Each month, the Treasurer [or chief school administrator or board designee other than the board secretary if there is no treasurer] should determine cash balances by performing cash reconciliations for the general operating account, payroll account, and the payroll agency account.

Finding:
Not all cash receipts were promptly deposited. (*N.J.S.A.* 18A:17-34, 18A:17-9.1)

Recommendation:
The Treasurer [the board secretary if there is no treasurer] should promptly deposit all cash receipts.

Treasurer's Records (optional position) (cont'd)

Finding:
The Treasurer's records were not in agreement with the records of the Board Secretary. Also, the Treasurer's cash balance for the general operating account was not in agreement with the reconciled cash balance as determined during the audit.

Recommendation:
The Treasurer should reconcile his cash records with the reconciled bank statements and the cash records of the Board Secretary.

Pupil Transportation (N/A to charter schools)

Our audit procedures included a test of on roll status reported in the 2012-13 District Report of Transported Resident Students (DRTRS). The information that was included on the DRTRS was verified to the DRTRS Eligibility Summary Report without exception. The results of our procedures are presented in the Schedule of Audited Enrollments.

Our procedures also included a review of transportation related contracts and purchases. Based on our review, the district complied with proper bidding procedures and award of contracts. The bid specifications for the purchase of buses were in compliance with applicable statutes. No exceptions were noted in our review of transportation related purchases of goods and services.

Elementary and Secondary Education Act (E.S.E.A.)/Improving America's Schools Act (IASA) as reauthorized by the No Child Left Behind Act of 2001.

The E.S.E.A./NCLB financial exhibits are contained within the Special Revenue Section of the CAFR. This section of the CAFR documents the financial position pertaining to the projects under Titles I and VI of the Elementary and Secondary Education Act as amended and reauthorized. Note to auditor: Refer to Section II-SA of this Audit Program for E.S.E.A. flexibility waiver information that may affect requirements that school districts would otherwise implement during the 2012-13 and 2013-14 school years.

The study of compliance for E.S.E.A. indicated the following areas of noncompliance and/or questionable costs.

Finding:
Salary charges were not documented each pay period. Allocated salary charges for teaching staff members were not supported by employee time sheets.

Recommendation:
The allocation of salaries among federal/state grants should be supported by employee time sheets.

Findings:
Three A.B.C. computers and software costing $3,300 were charged to Title I-Part A. These items were not labeled Title I nor were they located in the designated Title I classrooms. The computer equipment and software were located in an area utilized by the general school population. (Serial Nos. XXXXX, XXXXX and XXXXX)

Printing costs of $1,200 for a brochure unrelated to E.S.E.A. were charged to the Title I-Part A grant.

E.S.E.A./NCLB (cont'd)

Recommendation:
Only those costs associated with the federal/state grants should be charged to the grant.

Findings:
Due to grantor balances were not returned/disposed of in accordance with the grant agreement.

Recommendation:
Due to grantor balances must be returned immediately with the submission of the final grant expenditure report.

Other Special Federal and/or State Projects

The district's/charter school's Special Projects were approved as listed on Schedule A and Schedule B located in the CAFR.

Our audit of the federal and state funds on a test basis, indicated that obligations and expenditures were incurred during the fiscal year or project period for which the project was approved.

The financial exhibits are contained within the Special Revenue Section of the CAFR. This section of the CAFR documents the financial position pertaining to the aforementioned special projects.

The study of compliance for the special projects indicated the following areas of noncompliance:

I.D.E.A. Part B

Finding:
Separate accounting was not maintained for each approved project.

Recommendation:
The Board Secretary should maintain separate accounting with the account coding structure of the minimum outline for each state approved project within a federal/state grant program.

Finding:
Grant application approvals and acceptance of grant funds were not made by board resolution or recorded in the minutes.

Recommendation:
All filings of federal and state grant applications and subsequent acceptance of grant funds should be approved by board resolution and recorded in the minutes.

T.P.A.F. Reimbursement

Our audit procedures included a test of the biweekly reimbursements (electronic, but districts/charter schools can print out the DOENET screen for an auditor) filed with the Department of Education for district/charter school employees who are members of the Teachers Pension and Annuity Fund. No exceptions were noted.

Nonpublic State Aid (N/A to charter schools)

Finding:
Project Completion Reports were not finalized and transmitted to the department by the due date.

Recommendation:
The district must file nonpublic state aid project completion reports, in accordance with departmental instructions, by the due date.

School Purchasing Programs

Contracts and Agreements Requiring Advertisement for Bids

N.J.S.A. 18A:18A-1 et seq. (Public School Contracts Law), the associated rules and related information on the statute, and school contracts in general is available on the website:

http://www.state.nj.us/dca/divisions/dlgs/programs/lpcl.html.

Current statute is posted on the New Jersey Legislature website at:
http://lis.njleg.state.nj.us/cgi-bin/om_isapi.dll?clientID=1319801&depth=2&expandheadings=off&headingswithhits=on&infobase=statutes.nfo&softpage=TOC_Frame_Pg42

Auditors should refer to Section I, Chapter 5, Bids & Contracts/Purchasing for highlights of *N.J.S.A.* 18A:18A-3 and 4.

The bid thresholds in accordance with *N.J.S.A.* 18A:18A-2 and 18A:18A-3(a) are $36,000 (with a Qualified Purchasing Agent) and $26,000 (without a Qualified Purchasing Agent), respectively. The law regulating bidding for public school student transportation contracts under *N.J.S.A.* 18A:39-3 is $18,300 for 2013-14.

The district board of education/board of trustees has the responsibility of determining whether the expenditures in any category will exceed the statutory thresholds within the contract year. Where question arises as to whether any contract or agreement might result in violation of the statute, the solicitor's opinion should be sought before a commitment is made.

Based on the results of my examination, I did not note any individual payments, contracts, or agreements made for the performance of any work or goods or services, in excess of the statutory thresholds where there had been no advertising for bids in accordance with the provision of *N.J.S.A.* 18A:18A-4, amended.

Resolutions were adopted authorizing the awarding of contracts or agreements for "Professional Services" per *N.J.S.A.* 18A:18A-5.

Finding:
Notice of revisions to bid specifications for purchase of telephone equipment (non-construction contracts) was not provided to a vendor who had received a bid package. (*N.J.S.A.*18A:18A-21c, amended)

Recommendation:
The district /charter school should notify any person who has submitted a bid or received a bid package of revisions to bid specifications. One of three permissible means of notification should be used: a) in writing by certified mail, b) by certified facsimile transmission, i.e., the sender's facsimile machine produces a receipt showing date and time of transmission and that the transmission was successful, or c)

by a delivery service that provides certification of delivery to the sender.

Finding:
The purchase of a Fun video center costing $19,500.00 and designated as made pursuant to a state contract was awarded to a vendor who did not have the state contract for the specific equipment purchased, according to the state contract award bulletin on file in the district's/charter school's office.

Recommendation:
Contracts awarded to vendors pursuant to a state contract should be made for only those items specifically included in the state contract award bulletin for such vendor.

Finding:
The school district/charter school entered into a contract for building maintenance services that exceeded 2 million (less than 10 million) and did not notify the Office of the State Comptroller within 20 days of award as required by N.J.S.A. 52:15C-10.

Recommendation:
The school district/charter school should adopt internal control procedures over procurement and purchasing to ensure documentation of compliance with the notification requirements imposed by N.J.S.A. 52:15C-10.

Finding:
Bids received, resulting in a capital improvement costing $23,000.00, performed by MLA Construction Co., were not publicly unsealed and announced in the presence of the parties bidding or their agents (*N.J.S.A.* 18A:18A-21, amended).

Recommendation:
All bids should be unsealed and announced publicly in the presence of the parties bidding or their agents.

Charter Schools Only
Finding:
The charter school constructed a facility utilizing state and local school funds in violation of *N.J.S.A.*18A:36A-10

Recommendation:
The charter school should only utilize eligible federal or private funds for construction of a facility.

School Food Service

[The School Food Service section of the Auditor's Management Report must contain statements such as those noted below (with the respective related findings, if applicable, cross-referenced to the CAFR). Also, please indicate "No Exceptions Noted" when there are no findings].
The financial transactions and statistical records of the school food service fund were reviewed. The financial accounts, meal count records and eligibility applications were reviewed on a test-check basis.

Cash receipts and bank records were reviewed for timely deposit.

(If applicable) The district/charter school utilizes a food service management company (FSMC) and is depositing and expending program monies in accordance with *N.J.S.A.* 18A:17-34, and 19-1 through 19-4.1. Provisions of the FSMC contract/addendum were reviewed and audited. The FSMC contract includes an operating results provision which guarantees that the food service program will [break even] [return a profit of at least $____] [incur a loss of not more than $_____]. The operating results provision has (has not) been met.

School Food Service (cont'd)

Expenditures should be separately recorded as food, labor and other costs. Vendor invoices were reviewed and costs verified. Inventory records on food and supply items were currently maintained and properly applied in determining the cost of food and supplies used.

The cash disbursements records reflected expenditures for program related goods and services. The appropriate revenue and expenditure records were maintained in order to substantiate the non-profit status of the school food service.

Net cash resources did not exceed three months average expenditures.

Time sheets were reviewed and labor costs verified. Payroll records were maintained on all School Food Services employees authorized by the board of education/board of trustees. No exceptions were noted.

The number of meals claimed for reimbursement was compared to sales and meal count records. As part of the claims review process the Edit Check Worksheet was completed. Reimbursement claims were submitted/certified in a timely manner.

Applications for free and reduced price meals were reviewed for completeness and accuracy. The number of free and reduced price meals claimed as served was compared to the number of valid applications /or to the list of directly certified students on file, times the number of operating days, on a school-by-school basis. The free and reduced price meal and free milk policy was reviewed for uniform administration throughout the school system. Sites approved to participate in Provisions I and II were examined for compliance with all counting and claiming requirements. The required verification procedures for free and reduced price applications were completed and available for review.

USDA Food Distribution Program (food and/or commodities) were received and a single inventory was maintained on a first-in, first-out basis. No exceptions were noted.

Exhibits reflecting Child Nutrition Program operations are included in the section entitled Enterprise Funds, Section G of the CAFR.

> Auditor's Note: The AICPA Audit Guide *Government Auditing Standards and CircularA-133 Audits*, section 7.13 defines food commodities distributed as non-cash federal financial assistance. The total value of the commodities received as well as the value distributed by school districts/charter schools must be reflected as revenue and expenditures, respectively.
>
> In the event that single inventories are not maintained sufficiently to allow the auditor to include this activity in the financial statements and schedules, a finding and recommendation must be included in the Auditor's Management Report.

Finding:
Food service accounting records maintained by the district's/charter school's central administration office did not agree with the records maintained by the food service director.

Recommendation:
The district /charter school should establish procedures that will reconcile the food service director's records and the food service records maintained by the central administration office.

School Food Service (cont'd)

Finding:
The district's/charter school's food service receipts were not deposited promptly and supporting documentation did not reconcile with the amounts deposited.

Recommendation:
The district's/charter school's food service receipts should be deposited promptly and intact. Amounts deposited should reconcile to the supporting documentation.

Finding:
Meals claimed did not agree with meal count records resulting in an over/under claim, as detailed on the Schedule of Meal Count Activity (See section II-60).

Recommendation:
Prior to submitting reimbursement claims to the NJ Department of Agriculture, the meals claimed should be verified to the meal count activity records and Edit Check Worksheets.

Findings:
A number of exceptions were noted regarding free and reduced price meal applications. Applications were not properly completed or were missing. The resulting over claim/under claim has been identified by the auditor on the federal and/or state Schedules of Meal Count Activity.

Recommendation:
The free and reduced price meal applications/documentation should be properly completed as required and available for audit. Incomplete or missing applications should be included in the paid (denied) category.

Finding:
Applications were placed in the incorrect category. The resulting over claim/under claim has been identified by the auditor on the federal and/or state Schedules of Meal County Activity.

Recommendation:
The free and reduced price meal applications should be reviewed by district/charter school personnel and properly classified as free, reduced price, or paid.

Student Body Activities

During our review of the student activity funds, the following items were noted.

Finding:
The board had no policy that clearly established the regulation of student activity funds.

Recommendation:
The board should approve a policy establishing the regulation of student activity funds.

Finding:
Not all cash receipts were promptly deposited. (*N.J.A.C.* 6A:23A-16.12)

Recommendation:
All cash receipts should be promptly deposited.

Student Body Activities (cont'd)

Finding:
Not all cash disbursements had proper supporting documentation. (*N.J.A.C.* 6A:23A-16.12)

Recommendation:
Proper supporting documentation should be maintained for all cash disbursements.

Application for State School Aid (ASSA) (N/A to charter schools)

Our audit procedures included a test of information reported in the October 15, 201X Application for State School Aid (ASSA) for on-roll, private schools for the handicapped, low-income, and bilingual. We also performed a review of the district procedures related to its completion. The information on the ASSA was compared to the district workpapers without exception. The information that was included on the workpapers was verified without exception. The results of our procedures are presented in the Schedule of Audited Enrollments.

The district maintained workpapers on the prescribed state forms or their equivalent.

The district written procedures appear to be adequate for the recording of student enrollment data.

FOR CHARTER SCHOOLS ONLY
Enrollment counts and submissions to the Department

Our audit procedures included a test of enrollment information on October 15, 2013 and the last day of school for on-roll, special education, bilingual and low-income.

Finding:
The charter school had not written procedures for the proper maintenance and recording of student enrollment data.

Recommendation:
We recommend that the charter school prepare written procedures detailing the 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 charter school maintained written procedures appear to be adequate for the recording of student enrollment data.

Finding:
The charter school had documentation on file for Free and Reduced Lunch but never forwarded copies to the resident district.

Recommendation:
All documentation, for which state aid is based, must be forwarded to the resident district.

Finding:
There were two instances where a student enrolled in the charter school was not in attendance for 10 days and was not dropped from the charter school's register until 20 days after the last known day of

attendance. According to the Department's school register instructions, the charter school's responsibility is to ensure the attendance of those students enrolled in their school. A student who has been absent 10 days for an unknown reason must be reported as a dropout. If the student is reported as a dropout, the charter school must immediately notify the district of residence in writing of this condition on the 10th day.

Recommendation:
The charter school must make a concerted effort to notify the resident district of school dropouts in a timely manner in accordance with school register instructions.

Finding:
The charter school reported a student on the Charter School Enrollment System and subsequently received charter school aid for a special education student who is attending a private school for the disabled. The educational costs for the outside placement at the private school are paid by the resident school district and not the charter school.

Recommendation:
The charter school must establish and implement procedures to ensure that any student attending a private school for the disabled is "dropped" from the charter school reporting to ensure that the district of residence is not double-billed for the student.

Finding:
The charter school reported full Average Daily Enrollment for a student on the Charter School Enrolment System (CHE) and subsequently received 100% of eligible charter school aid for student who is attending a county vocational program. County vocational schools are funded directly by the state for all enrolled students.

Recommendation:
The charter school must establish and implement procedures to ensure that the enrolled days of any student attending a county vocational program are reduced in the CHE to reflect that the student is only enrolled at the charter school part-time so as to ensure that the charter school is not receiving overpayment from the district of residence.

Finding:
The charter school reported special education classification on the Charter School Enrollment System for a student who was identified and began receiving related services subsequent to October 15th. Students identified after October 15th must be reported in the subsequent year.

Recommendation:
The charter school must establish and implement procedures to ensure reporting of Special Education Categorical Aid only for students who are identified and receiving related services prior to the October 15th ASSA reporting deadline.

<u>Follow-up on Prior Year Findings</u>

In accordance with government auditing standards, our procedures included a review of all prior year recommendations including findings. Corrective action had been taken on all prior year findings with the exception of the following, which is repeated in this year's recommendations noted as current year finding "2014-X:"

Approved budgetary line accounts should not be over expended. (2013-X)

We have also reviewed any findings contained in the audit reports issued by the Office of Fiscal Accountability and Compliance (OFAC). Corrective action had been taken on all findings in the report dated XX/YY/ZZ with the exception of the finding listed below. This finding is also included in the Schedule of Findings and Questioned Costs.

> During and after the preparation and completion of the Application for Extraordinary Aid (EXAID) and supporting work papers in the area of in-district or charter school costs, the district/charter school did not ensure that costs were submitted in accordance with EXAID directions published by the Division of Finance. (2013-X)

[If there were no prior year findings and no OFAC audit report findings, indicate "Not Applicable" in this section. Do no omit the section.]

Acknowledgment

We received the complete cooperation of all the officials of the school district/charter school and I greatly appreciate the courtesies extended to the members of the audit team.

School Food Service

SCHEDULE OF MEAL COUNT ACTIVITY

ANYTOWN SCHOOL DISTRICT/CHARTER SCHOOL
FOOD SERVICE FUND
NUMBER OF MEALS SERVED AND (OVER) UNDERCLAIM
ENTERPRISE FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

Click on the link below to access page III-4.23 containing the sample federal (III-4.23a) and state (III-4.23b) Schedule(s) of Meal Count Activity:

ScheduleofMealCountActivity.xlsx

Anytown School District/Charter School
Application for State School Aid Summary
Enrollment as of October 15, 2013

School Districts Only

To link to the 3 page sample Schedule of Audited Enrollments, click on the link below:

63013ASSA.xlsx

Select tab ASSA 1 of 3 to print page III-4.26 of the Audit Program.

Select tab ASSA 2 of 3 to print page III-4.26a of the Audit Program.

Select tab ASSA 3 of 3 to print page III-4.26b of the Audit Program.

Charters Schools Only

To link to the sample Schedule of Audited Enrollments as of October 15th, click on the following link:

CharterSchSchedOfAuditEnroll.xls

Select the tab entitled "October 15"

To link to the sample Schedule of Audited Enrollments as of the last day of school, click on the following link:

CharterSchSchedOfAuditEnroll.xls

Select the tab entitled "Last Day of School"

EXCESS SURPLUS CALCULATION

On the following pages are the sample calculation worksheets for regular school districts, charter schools, and for county vocational districts. See Section II, Chapter 10 for the related discussion on EXCESS SURPLUS calculation. Districts required to use school-based budgeting should follow the sample calculation on page III-4.32 and refer to section II-10 of this Audit Program.

N.J.S.A. 18A:7F-7 requires that excess surplus for regular school districts and charter schools is calculated using 2 percent for June 30, 2005 and thereafter. Pursuant to P.L.2007, c.62, the minimum is 250,000, effective with the year ending June 30, 2007. County vocational school districts are subject to 6 percent surplus as included in either Part A or Part B of the 6 percent calculation. The illustrations that follow show the regular district calculation separately from the county vocational district sample.

Charter schools are not subject to the excess surplus limitations. Charter school auditors are required to document the calculation of excess surplus pursuant to N.J.S.A. 18A:7F-7 solely for the purpose of adherence to N.J.A.C. 6A:23A-22.4(e), which provides that a district board of education may petition the Commissioner to pay a lower per-pupil rate if the charter school spends "significantly less than budgeted and has accumulated a sizable surplus."

CALCULATION:

Complete Sections 1 and 2. If the total of Section 2 is **greater** than the applicable portion of Section 1, enter the difference in Section 3. If the difference results in a negative, enter a zero in Section 3. **The applicable sections are to be submitted as part of the Auditor's Management Report.**

Note that beginning with the excess surplus calculation for the year ending June 30, 2012 the transfer to food services is no longer an adjustment (increase) to total general fund expenditures. This was first introduced in supporting documentation item 9 on page 123 of the 2012-13 Budget Guidelines and remains applicable to audited excess surplus at June 30, 2014.

School Bus Advertising Revenue:
Districts were provided guidance to budget and recognize current year school bus advertising revenue on line 315, 10-1992. Under N.J.S.A. 18A:7F-7.1 and N.J.S.A. 18A:39-31, an adjustment to the audited excess surplus calculation is permitted in the year revenue earned under a school bus advertising contract is recognized by the district. Statute doesn't state that the district is limited to the amount not used to reduce fuel costs; accordingly, the full amount may be used as an adjustment to excess surplus in the year of recognition/receipt only. Refer to illustration on page III-4.29 – Line (J3).

N.J.S.A. 18A:39-31 requires that 50 percent (50%) of recognized school bus advertising revenue be used to offset the fuel costs of providing pupil transportation services. Of the total revenue recognized, any portion of the 50% required by statute to be used as an offset to fuel costs in the year of revenue recognition, but not used for that purpose must be established as a restricted fund balance at year end. Report the restricted year end balances on lines 90028 (Bus Advertising Revenue Reserved for Fuel Costs – Current Year Adjustment), and 90029 (Bus Advertising Revenue Reserved for Fuel Costs – Prior Year Adjustment). Include the amount(s) as adjustments in the "Detail of Other Restricted Fund Balance" calculation (refer to illustration on page III-4.30 of this Audit Program). Note that the school district budget software will preload these amounts from Audsum onto the Recapitulation of Balances Line 15 in the columns for the respective years. The prior year balance in this reserve (90029) was budgeted in the subsequent year's budget (2014-15) and the current year balance in this reserve (90028) must be budgeted in the 2nd subsequent year's budget (2015-16). An edit will verify that the amounts on lines 90028 and

90029 are budgeted as a revenue source. Line 90028 will preload onto Line D-2 of the budgetary calculation of Additional Excess Surplus report in the 2015-16 budget software.

In the recapitulation of fund balance reported at the end of the Budgetary Comparison Schedule (Exhibit C-1), the reserve for each of two possible years should be reported separately. Separate lines are provided in the Audsum data collection (line 90028 for current year and line 90029 for subsequent year) for each applicable year's reserve. GASBS No. 54 requires the further categorization of the bus advertising reserve for fuel costs account balance on the Governmental Funds Balance Sheet (Exhibit B-1). Based upon the withdrawal requirements, the bus advertising reserve for fuel costs has significant externally imposed restrictions on its use and should be categorized as "Restricted" fund balance. The same categorization is applicable to the General Fund Budgetary Comparison Schedule (Exhibit C-1).

EXCESS SURPLUS CALCULATION

REGULAR DISTRICT/CHARTER SCHOOL

SECTION 1

A. 2% Calculation of Excess Surplus

2013-14 Total General Fund Expenditures per the CAFR, Ex. C-1 $_____ (B)
Increased by:
Transfer from Capital Outlay to Capital Projects Fund $_____ (B1a)
Transfer from Capital Reserve to Capital Projects Fund $_____ (B1b)
Transfer from General Fund to SRF for PreK-Regular $_____ (B1c)
Transfer from General Fund to SRF for PreK-Inclusion $_____ (B1d)

Decreased by:
On-Behalf TPAF Pension & Social Security $_____ (B2a)
Assets Acquired Under Capital Leases $_____ (B2b)

Adjusted 2013-14 General Fund Expenditures [(B)+(B1s)-(B2s)] $_____(B3)

2% of Adjusted 2013-14 General Fund Expenditures
[(B3) times .02] $_____ (B4)
Enter Greater of (B4) or $250,000 $_____ (B5)
Increased by: Allowable Adjustment * $_____ (K)

Maximum Unassigned/Undesignated-Unreserved Fund Balance [(B5)+(K)] $_____(M)

SECTION 2

Total General Fund - Fund Balances @ 6/30/2014
(Per CAFR Budgetary Comparison Schedule C-1) $_____ (C)
Decreased by:
Year-end Encumbrances $_____ (C1)
Legally Restricted – Designated for Subsequent Year's Expenditures $_____ (C2)
Legally Restricted - Excess Surplus – Designated for Subsequent Year's Expenditures ** $_____ (C3)
Other Restricted Fund Balances **** $_____ (C4)
Assigned Fund Balance – Unreserved- Designated for Subsequent Year's Expenditures $_____ (C5)

Total Unassigned Fund Balance
[(C)-(C1)-(C2)-(C3)-(C4)-(C5)] $_____ (U1)

SECTION 3

Restricted Fund Balance – Excess Surplus***[(U1)-(M)] IF NEGATIVE ENTER -0-$_____(E)

Recapitulation of Excess Surplus as of June 30, 2014

Reserved Excess Surplus – Designated for Subsequent Year's Expenditures **	$_____ (C3)
Reserved Excess Surplus ***[(E)]	$_____ (E)
Total Excess Surplus [(C3) + (E)]	$_____(D)

Footnotes:

* This adjustment line (as detailed below) is to be utilized when applicable for: Impact Aid; Sale and Lease-back (Refer to the Audit Program Section II, Chapter 10); Extraordinary Aid; Additional and Nonpublic School Transportation Aid; and recognized current year School Bus Advertising Revenue. Refer to the Audit Program Section II, Chapter 10 for restrictions on the inclusion of Extraordinary Aid and Additional Nonpublic School Transportation Aid.

Detail of Allowable Adjustments

Impact Aid	$_____ (H)
Sale & Lease-back	$_____ (I)
Extraordinary Aid	$_____ (J1)
Additional Nonpublic School Transportation Aid	$_____ (J2)
Current Year School Bus Advertising Revenue Recognized	$_____ (J3)
Total Adjustments [(H)+(I)+(J1)+(J2)+(J3)]	$_____ (K)

** This amount represents the June 30, 2014 Excess Surplus (C3 above) and must be included in the Audit Summary Line 90031.

*** Amounts must agree to the June 30, 2014 CAFR and must agree to Audit Summary Line 90030.

**** Amount for Other Restricted Fund Balances must be detailed for each source. Use in the excess surplus calculation of any legal reserve that is not state mandated or that is not legally imposed by another type of government, such as the judicial branch of government, must have departmental approval. District requests should be submitted to the Division of Administration and Finance prior to September 30.

Detail of Other Restricted Fund Balance

Statutory restrictions:	
Approved unspent separate proposal	$_____
Sale/lease-back reserve	$_____
Capital reserve	$_____
Maintenance reserve	$_____
Emergency reserve	$_____
Tuition reserve	
School Bus Advertising 50% Fuel Offset Reserve – current year	$_____
School Bus Advertising 50% Fuel Offset Reserve –prior year	$_____
Other state/government mandated reserve	$_____
[Other Restricted Fund Balance not noted above]****	$_____
Total Other Restricted Fund Balance	$_____ (C4)

The following example illustrates the proper calculation of the 2 percent excess surplus for districts not required to use school-based budgeting (SBB). Note that the references *(a), (b),* etc. are for purposes of this illustration only.

Example: The school district had total general fund expenditures (from exhibit C-1 of CAFR) of $7,500,000. Included in the general fund expenditures were "On-Behalf State Aid Payments" (TPAF Pension & Social Security) of $405,000 and Assets Acquired Under Capital Lease of $182,000. General fund transfers to other funds not included in the general fund expenditures of the CAFR, but added to the calculation, Transfer from Capital Outlay to Capital Projects of $60,000; Transfer from Capital Reserve to Capital Projects (augment SCC/SDA grant) of $12,000; Trans. from General Fund to SRF for Preschool - Regular of $10,000; and Trans. from General Fund to SRF for Preschool - Inclusion of $5,000. The district received $2,000 in federal impact aid revenue during 2013-14 and recognized $1,000 of School Bus Advertising Revenue during 2013-14. In the June 30, 2014 general ledger reflects that the district had the following: $4,900 of year-end "other purposes" encumbrances reported in the "Committed" fund balance category (GASBS 54); $9,000 legally restricted reported in the "Restricted" fund balance category (GASBS 54) from an unexpended 2012-13 additional spending proposal required to be designated/appropriated in the 2014-15 budget; $55,000 reserved June 30, 2013 excess surplus required to be designated/appropriated in the 2014-15 budget reported in the "Restricted" fund balance category (GASBS 54); $100,000 unreserved and designated in the 2014-15 budget reported in the "Assigned" fund balance category (GASBS 54); and $395,000 unreserved/undesignated reported in the "Unassigned" fund balance category (GASBS 54) prior to calculating June 30, 2014 excess surplus.

2013-14 Total General Fund Expenditures		$7,500,000 *(a)*	
Increased by Applicable Operating transfers:			
Transfer from Capital Outlay to Capital Projects		60,000 *(b)*	
Transfer from Capital Reserve to Capital Projects	12,000 *(b)*		
Trans. from General Fund to SRF for Preschool (- Regular)		10,000 *(b)*	
Trans. from General Fund to SRF for Preschool (-Inclusion)		5,000 *(b)*	
Decreased by:			
On-Behalf State Aid Payments		(405,000)	
Assets Acquired Under Capital Leases		(182,000)	
Adjusted General Fund Expenditures		7,000,000	
Applicable Excess Surplus Percentage		x .02	
2% of Adjusted 2013-14 General Fund Expenditures		140,000 (A)	
Greater of (A) or $250,000		250,000	
Increased by:			
Allowable Adjustment		3,000 *(c)*	
Maximum Unreserved/Undesignated Fund Balance			$ 253,000
Total General Fund fund balance (June 30, 2014)	$ 563,900		
Decreased by:			
Year-End Encumbrances		(4,900)	
Legally Restricted – Designated for Subsequent Year's Expenditures		(9,000) *(d)*	
Legally Restricted - Excess Surplus – Designated for Subsequent Year's Expenditures		(55,000) *(d)*	
Assigned fund balance - Unreserved -- Designated			

for Subsequent Year's Expenditures	(100,000) *(d)*	
Total Unassigned Fund Balance		395,000
Reserved – Excess Surplus (June 30, 2014)		$ 142,000*(e)*

Recapitulation of Excess Surplus as of June 30, 2014

Reserved Excess Surplus – Designated for Subsequent Year's Expenditures (Audsum line 90031)	$ 55,000 (*f*)
Reserved Excess Surplus – (Audsum line 90030)	142,000 (*g*)
Total Excess Surplus	$ 197,000

(a) Total General Fund Expenditures obtained from June 2014 CAFR Exhibit C-1 Budgetary Comparison Schedule – General Fund.
(b) Include operating transfer expenditures that relate to the general fund but were required to be maintained in another fund. Do not include general fund transfers to Capital Reserve or Debt Service Fund, or Facilities Grant transfer to Special Revenue.
(c) This adjustment line is to be utilized for Impact Aid, Sale and Lease-back, Extraordinary Aid, Additional Nonpublic School Transportation Aid, and School Bus Advertising Revenue Recognized during the current year, if applicable.
(d) The aggregate of $164,000 represents the total amount of General Fund fund balance appropriated in the 2013-14 General Fund budget.
(e) If this amount is negative enter zero (-0-).
(f) Represents surplus generated in 6/30/13, and budgeted in 2014-15.
(g) Represents surplus generated in 6/30/14 (required to be budgeted in 2015-16).

Illustrative Excess Surplus Calculation And Instructions For Districts Required To Use School-Based Budgeting

This section is included to provide detailed instructions on preparing the excess surplus calculations in districts required to use school-based budgeting. Excess surplus is a budget related calculation using the General Fund expenditures and fund balance of the budgetary comparisons statements/schedules. The amounts used in the calculation must be taken from the Budgetary Comparison Schedule – General Fund (Exhibit C-1). The calculation for SBB districts must be adjusted to reduce the total general fund budgetary expenditures by the amount allocated to restricted federal resources in fund 15. The calculation must also separate the assets acquired under capital leases with state and local funds from those acquired with the allocated federal resources.

Sample Excess Surplus Calculation for Anytown School District (a School Based Budget District)

SECTION 1

Calculation A: 2 Percent Excess Surplus:

All districts required to use school-based budgeting are required to complete this calculation using 2 percent on line A10.

2013-14 Total General Fund Expenditures Reported on Exhibit C-1 $_____ (A)

Increased by Applicable Operating Transfers				
Transfer from Capital Outlay to Capital Projects	$_____	(A1a)		
Transfer from Capital Reserve to Capital Projects	$_____	(A1a)		
Transfer from G/F to SRF for Preschool - Regular	$_____	(A1a)		
Transfer from G/F to SRF for Preschool - Inclusion	$_____	(A1a)		
Less: Expenditures Allocated to Restricted Federal Resources as Reported on Exhibit D-2	$_____	(A1b)		
2013-14 Adjusted General Fund & Other State Expenditures [(A)+(A1a)-(A1b)]			$_____	(A2)
Decreased by:				
On-Behalf TPAF Pension & Social Security			$_____	(A3)
Assets Acquired Under Capital Leases:				
General Fund 10 Assets Acquired Under Capital Leases reported on Exhibit C-1a	$_____	(A4)		
Add: General Fund & State Resources Portion of Fund 15 Assets Acquired under Capital Leases:				
Assets Acquired Under Capital Leases in Fund 15 reported on Exhibit C-1a	$_____	(A5)		
Combined General Fund Contribution & State Resources Percent of Fund 15 Resources Reported on Exhibit D-2	_____%	(A6)		
General Fund & State Resources Portion of Fund 15 Assets Acquired Under Capital Leases [(A5)*(A6)]	$_____	(A7)		
Total Assets Acquired Under Capital Leases [(A4)+(A7)]			$_____	(A8)
2013-14 General Fund Expenditures [(A2)-(A3)-(A8)]			$_____	(A9)
2 percent of Adjusted 2013-14 General Fund Expenditures [(A9) times .02]			$_____	(A10)
Enter Greater of (A10) or $250,000			$_____	(A11)
Increased by: Allowable Adjustment *			$_____	(K)
Maximum Unassigned Fund Balance [(A11)+(K)]			$_____	(M)

Line

Instructions for Section 1 Calculation

(A) The total combined general fund expenditures (Funds 11-13 plus Fund 15) reported in the actual column of the *Budgetary Comparison Schedule – General Fund* (Exhibit C-1). Note this is a balance based on budgetary amounts.

(A1a) Include selected operating transfer expenditures that relate to the general fund but were required to be maintained in another fund. Do not include general fund transfers to food services, Capital Reserve or Debt Service Fund, or Facilities Grant transfer to Special Revenue Fund.

(A1b) The total Fund 15 expenditures allocated to restricted federal resources reported on the districtwide Schedule of Expenditures Allocated by Resource Type – Actual for the Fiscal Year Ended June 30, 2014 (Exhibit D-2).

(A2) Add line(s) (A1a) and subtract line (A1b) from line (A). This results in the total amount of general fund expenditures being used to calculate the maximum "Unassigned" fund balance for district required to use school-based budgeting.

(A3) The sum of the non-budgeted TPAF pension on-behalf payment plus the non-budged TPAF social security reimbursement reported in the State Sources section of the *Budgetary Comparison Schedule – General Fund* (Exhibit C-1).

(A4) The total Fund 10 assets acquired under capital leases amount is obtained from the Actual Operating Fund column of the *Combining Budgetary Comparison Schedule – General Fund* (Exhibit C-1a).

(A5) The Fund 15 assets acquired under capital leases amount is obtained from the Actual Blended Resource Fund column of the *Combining Budgetary Comparison Schedule – General Fund* (Exhibit C-1a).

(A6) The percentage of the overall districtwide Fund 15 expenditures, which were funded with general fund contribution or state resources. This percentage is obtained from the line entitled "Combined General Fund Contribution & State Resources" on the district-wide *Blended Resource Fund 15 - Schedule of Expenditures Allocated by Resource Type – Actual* (Exhibit D-2).

(A7) The general fund and state resources portion of Fund 15 assets acquired under capital leases and is determined by multiplying the total Fund 15 assets acquired under capital leases reported on line (A5), by the combined general fund contribution and state resources percentage reported on line (A6).

(A8) The total assets acquired under capital leases with general fund contribution and state resources. Line (A8) is the sum of lines (A4) and (A7).

(A9) The total adjusted expenditures upon which the maximum unreserved/undesignated fund balance is calculated; the result of line (A2) minus line (A3) minus line (A8).

(A10) This line represents 2 percent of general fund expenditures and is calculated by multiplying line (A9) by 2 percent.

(A11) The maximum allowable amount of unreserved/undesignated fund balance, prior to allowable adjustments.

(K) This line is calculated in Section 3 of the excess surplus calculations.

(M) The total maximum allowable "Unassigned" fund balance. This amount is calculated here as line (A11) plus line (K).

* This adjustment line (line (K) as detailed below) is to be utilized for Impact Aid, Sale, Lease-back, Extraordinary Aid, Additional Nonpublic School Transportation Aid, and recognized current year School Bus Advertising Revenue, if applicable. Extraordinary Aid and Additional Nonpublic School Transportation Aid for 2013-14 received after June 30 is limited to the amount of revenue recognized in the audit year that was not appropriated.

Detail of Allowable Adjustments

Impact Aid	$_____	(H)
Sale & Lease-back	$_____	(I)
Extraordinary Aid	$_____	(J1)
Additional Nonpublic School Transportation Aid	$_____	(J2)
Current Year School Bus Advertising Revenue Recognized	$_____	(J3)
Total Adjustments [(H)+(I)+(J1)+(J2)+(J3)]	$ ==========	(K)

Detail of Allowable Adjustments

Line

(H) Line H represents the amount of Impact Aid received by the district during 2013-14. This amount is obtained from the line entitled "Federal Sources: Impact Aid" on the *Comparative Schedules of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual* (Exhibit C-1a).

(I) Line I represents the proceeds realized from the sale-lease back of textbooks and non-consumable instructional materials during the current year, and is excluded from the calculation of excess undesignated general fund balance. See the Audit Program Section II-10.13 for a more detailed discussion of this adjustment.

(J1) Line J1 represents the extraordinary aid received after June 30 for 2013-14. This amount can only be excluded from the excess surplus calculation if the district can clearly document that they did not budget this additional aid during the 2013-14 fiscal year for which they filed an application. See Section II-10.4 for a more detailed discussion of this adjustment.

(J2) This line is used for Additional Nonpublic Transportation Aid received after June 30, but recorded in 2013-14. This amount is only excluded from the excess surplus calculation if the district can document that they did not budget the additional aid during 2013-14.

(J3) This line is used for School Bus Advertising Revenue recognized during 2013-14. This amount is excluded from the current year excess surplus calculation as required by *N.J.S.A.* 18a:7F-7.1

(K) Line (K) is the sum of lines (H), (I), (J1), (J2), and (J3) and represents the total allowable adjustment to increase the maximum unreserved/undesignated fund balance.

SECTION 2:

Total General Fund – Fund Balances at June 30, 2014	$_____	(C)
Decreased by:		
Year-end Encumbrances	$_____	(C1)
Legally Restricted – Designated for Subsequent Year's Expenditures	$_____	(C2)
Excess Surplus – Designated for Subsequent Year's Expenditures **	$_____	(C3)
Other Restricted/Reserved Fund Balances****	$_____	(C4)

Assigned – Designated for Subsequent Year's Expenditures	$_____	(C5)
Total Unassigned Fund Balance [(C)-(C1)-(C2)-(C3)-(C4)-(C5)]	$_____	(U)

SECTION 2 – Instructions:

Refer to Chapter II-10.XX for additional explanation of the types of reserved fund balance permitted as a decrease in this calculation.

Line

(C) The total general fund balance at June 30, 2014 (combined Fund 10 and Fund 15) per the *Budgetary Comparison Schedule* (Exhibit C-1).

(C1) The total general fund balance reserved for encumbrances at June 30, 2014 (combined Fund 10 plus Fund 15).

(C2) The amount of general fund balance (combined Fund 10 and Fund 15) legally restricted for subsequent year's expenditures. This amount is to be appropriated in the 2014-15 general fund budget.

(C3) The June 30, 2013 excess surplus amount. This amount must be included in the Audit Summary Worksheet Line 90031, and appropriated in the 2014-15 general fund budget.

(C4) Other reserved fund balances. (Such as Adult Ed. Programs, maintenance reserve, etc.) See required detailed statement below.

(C5) The Assigned fund balance designated for subsequent year's expenditures. This amount is to be appropriated in the 2014-15 general fund budget.

(U) The total Unassigned fund balance at June 30, 2014. This amount is determined by subtracting lines (C1), (C2), (C3), (C4), (C5) from line (C). This is the amount that will be compared to the maximum Unassigned fund balance reported on line (M) to determine whether an excess surplus situation exists at June 30, 2014.

** This amount represents the **June 30, 2013** Excess Surplus (C3 above) and must be included in the Audit Summary Worksheet Line **90031**.

**** Amount for Other Restricted/Reserved Fund Balance must be detailed for each source and request for approval to use amounts other than state imposed legal restrictions in the excess surplus calculation must be submitted to the Assistant to the Commissioner for Finance prior to September 30.

(**N-1**) Capital reserve at June 30, 2014.
(**N-2**) Maintenance reserve minimum required under EFCFA.
(**N-3**) Tuition reserve at June 30, 2014.
(**N-4**) Emergency reserve at June 30, 2014.
(N-5) School bus fuel offset reserve – current year – June 30, 2014
(N-6) School bus fuel offset reserve – prior year – June 30, 2014

Detail of Other Restricted/Reserved Fund Balance

Statutory restrictions:

Approved unspent separate proposal	$_____
Sale/lease-back reserve	$_____
Capital reserve (**N-1**)	$_____

Maintenance reserve (**N-2**)	$_____
Tuition reserve (**N-3**)	$_____
Emergency reserve (**N-4**)	$_____
School Bus Advertising 50% Fuel Offset Reserve – current year (N-5)	$_____
School Bus Advertising 50% Fuel Offset Reserve –prior year(N-6)	$_____
Other Restricted/Reserved Fund Balance not noted above****	$_____
Total Other Restricted/Reserved Fund Balance	**$_____(C4)**

SECTION 3:

Restricted Fund balance – Excess Surplus *******[(U)-(M)] IF NEGATIVE ENTER–0

$======= (E)

Summary:

Restricted Excess Surplus – Designated for Subsequent Year's Expenditures **	$_____	(C3)
Restricted Excess Surplus *******	$_____	(E)
Total [(C3) + (E)]	$ ==========	(D)

SECTION 3 – Instructions:

Recapitulation of Excess Surplus as of June 30, 2014

Line

(C3) Line (C3) represents excess surplus generated at June 30, 2013 and should be included on the 2013-14 Audit Summary Worksheet Line 90031. This amount was to be appropriated in the 2014-15 general fund budget.

(E) This line represents the excess surplus generated at June 30, 2014 and must agree with the June 30, 2014 CAFR and be reported in the 2013-14 Audit Summary Worksheet Line 90030.

(D) Line (D) represents the sum of the June 30, 2013 and June 30, 2014 excess surplus (lines (C3) + (E).

*******See (E) above. The amount entered must agree with the **June 30, 2014** CAFR and Audit Summary Worksheet Line **90030**.

6 Percent Calculation – Vocational Districts

County vocational districts must perform the 6 percent calculation.

Amounts calculated in excess of 6 percent that have not been appropriated in the 2014-15 original budget certified for taxes must be reported in the "Restricted Fund Balance" category (GASBS 54) as general fund "Reserved Fund Balance - Excess Surplus" in the June 30, 2014 CAFR and appropriated in the 2015-16 budget. The amount which has been included in the 2014-15 budget should be reported in the "Restricted Fund Balance" category (GASBS 54) as general fund "Reserved Fund Balance - Excess Surplus, Designated for Subsequent Year's Expenditures." Note disclosures should describe the nature of the excess surplus and the amount budgeted in the 2014-15 original budget certified for taxes and the amount reserved for the subsequent year budget.

For districts with expenditures equal to or less than $100 million, any unreserved/undesignated general fund surplus amounts in excess of the greater of 6 percent of general fund expenditures or $250,000 (after allowable adjustments) is excess surplus. For districts with expenditures greater than $100 million any

unreserved/undesignated general fund surplus amounts greater than the sum of 3 percent of general fund expenditures in excess of $100 million plus $6,000,000 and allowable adjustments is excess surplus. Any excess surplus amount must be reserved for appropriation in the 2014-15 original certified budget.

EXCESS SURPLUS CALCULATION-
COUNTY VOCATIONAL DISTRICTS

SECTION 1

A. 6% Calculation of Excess Surplus (2013-14 expenditures of $100 million or less)

2013-14 Total General Fund Expenditures per the CAFR, Ex. C-1 $_____ (B)
Increased by:
Transfer from Capital Outlay to Capital Projects Fund $_____ (B1a)
Transfer from Capital Reserve to Capital Projects Fund $_____ (B1b)

Decreased by:
On-Behalf TPAF Pension & Social Security $_____ (B2a)
Assets Acquired Under Capital Leases $_____ (B2b)

Adjusted 2013-14 General Fund Expenditures [(B)+(B1s)-(B2s)] $_____(B3)

6% of Adjusted 2013-14 General Fund Expenditures
[(B3) times .06] $_____ (B4)
Enter Greater of (B4) or $250,000 $_____ (B5)
Increased by: Allowable Adjustment * $_____ (K)

Maximum Unassigned/Unreserved-Undesignated Fund Balance [(B5)+(K)] $_____(M)

* This adjustment line (as detailed below) is to be utilized when applicable for: Impact Aid, Sale and Lease-back (Refer to the Audit Program Section II, Chapter 10), Extraordinary Aid, Additional Nonpublic School Aid and Transportation Aid. Refer to the Audit Program Section II, Chapter 10 for restrictions on the inclusion of Extraordinary Aid and Additional Nonpublic School Transportation Aid.

B. 6% Calculation of Excess Surplus (2013-14 expenditures greater than $100 million)

2013-14 Total General Fund Expenditures $_____ (B)
Increased by:
Transfer from Capital Outlay to Capital Projects Fund $_____ (B1a)
Transfer from Capital Reserve to Capital Projects Fund $_____ (B1b)

Decreased by:
On-Behalf TPAF Pension & Social Security $_____ (B2a)
Assets Acquired Under Capital Leases $_____ (B2b)

Adjusted 2013-14 General Fund Expenditures [(B)+(B1s)-(B2s)] $_____(B3)

2013-14 General Fund Expenditures in excess of $100 million
[(B3) minus $100,000,000] $_____ (B4)

3% of General Fund Expenditures in excess of $100 million

[(B4) times .03] $_____ (B5)

(B5) Plus $6,000,000 $_____ (B6)
Increased by: Allowable Adjustment * $_____ (K)

Maximum Unassigned/Unreserved-Undesignated Fund Balance [(B6)+(K)] $_____(M)

* This adjustment line (as detailed below) is to be utilized when applicable for: Impact Aid; Sale and Lease-back (Refer to the Audit Program Section II, Chapter 10); Extraordinary Aid; Additional Nonpublic School Aid and Transportation Aid; and School Bus Advertising Revenue Recognized during the current year,. Refer to the Audit Program Section II, Chapter 10 for restrictions on the inclusion of Extraordinary Aid and Additional Nonpublic School Transportation Aid.

SECTION 2

Total General Fund - Fund Balances @ 6/30/2014
(Per CAFR Budgetary Comparison Schedule C-1) $_____ (C)
Decreased by:
Year-end Encumbrances _____ (C1)
Legally Restricted – Designated for Subsequent Year's Expenditures $_____ (C2)
Legally Restricted - Excess Surplus – Designated for Subsequent Year's Expenditures ** $_____ (C3)
Other Restricted Fund Balances **** $_____ (C4)
Assigned Fund Balance – Unreserved- Designated for Subsequent Year's Expenditures $_____ (C5)

Total Unassigned Fund Balance
[(C)-(C1)-(C2)-(C3)-(C4)-(C5)] $_____ (U1)

SECTION 3

Restricted Fund Balance –Excess Surplus***[(U)-(M)] IF NEGATIVE ENTER -0-$_____(E)

Recapitulation of Excess Surplus as of June 30, 2014

Reserved Excess Surplus – Designated for Subsequent Year's Expenditures ** $_____ (C3)
Reserved Excess Surplus ***[(E)] $_____ (E)

Total Excess Surplus[(C3) + (E)] $_____(D)

Detail of Allowable Adjustments

Impact Aid $_____ (H)
Sale & Lease-back $_____ (I)
Extraordinary Aid $_____ (J1)
Additional Nonpublic School Transportation Aid $_____ (J2)
Current Year School Bus Advertising Revenue Recognized $_____ (J3)

Total Adjustments [(H)+(I)+(J1)+(J2)+(J3)] $_____ (K)

** This amount represents the June 30, 2013 Excess Surplus (C3 above) and must be included in the Audit Summary Worksheet Line 90031.

******* Amount must agree to the June 30, 2014 CAFR and Audit Summary Worksheet Line 90030.

Detail of Other Restricted Fund Balance

Statutory restrictions:	
Approved unspent separate proposal	$_____
Sale/lease-back reserve	$_____
Capital reserve	$_____
Maintenance reserve	$_____
Emergency reserve	$_____
Tuition reserve	$_____
School Bus Advertising 50% Fuel Offset Reserve – current year	$_____
School Bus Advertising 50% Fuel Offset Reserve –prior year	$_____
Other state/government mandated reserves	$_____
Other Restricted Fund Balance not noted above****	$_____
Total Other Restricted Fund Balance	$_____ (C4)

****Amount for Other Reserved Fund Balances must be detailed for each source. Use in the excess surplus calculation of any legal reserve that is not state mandated or that is not legally imposed by another type of government, such as the judicial branch of government, must have departmental approval. District requests should be submitted to the Division of Finance prior to September 30.

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SECTION III – ELECTRONIC REPORTING
CHAPTER 5 –AUDIT SUMMARY

All school districts/charter schools are required to have their auditor complete the Audit Summary (Audsum) and the CAFR and the district/charter schools must transmit the auditor completed Audsum data to the NJ Department of Education via the web application. The department uses this information for various reporting and analytical purposes. The information from the Audsum will be downloaded into the actual column of the DOE budget software used by the district/charter school. Districts/charter schools cannot access and revise this data via the budget program if the data is incorrect. Only the auditor can make corrections through the submission of a revised Audsum. For revisions, both the auditor and the district/charter school board secretary/business administrator must provide electronic signatures (within the web application) and revised CAFR pages must also be submitted, if applicable. **The board secretary/business administrator is responsible for performing a careful review of the reports generated by the web application and for the provision of his/her electronic signature as to the accuracy of the information. Both the auditor and district/charter school personnel are advised to pay particular attention to the accuracy of the data submitted to avoid having to resubmit the data!**

> *Auditor's Note* – The department **highly recommends** that the Audsum be completed prior to filing the CAFR. The Audsum has numerous edits that can flag common reporting errors such as the reporting of excess surplus, special education program expenditures, food service operations, and fund balances.

For districts which operate a regional day school or other approved separate entity in addition to a regular day school, the school auditor must submit separate audit summary for each entity.

An audit report **will be considered incomplete** until the required Audsum is received by the statutory deadline. Auditors are able to view the current certification status (CPA certified and district/charter school certified with dates for each) for each of their client districts on the CPA User Links to District(s)/Charter School's page.

Fund Balance (General Fund)

Separate lines for the breakout of the June 30 fund balance (general fund) are provided in the Audsum web application. Corresponding lines for the July 1 beginning fund balance classifications are also provided to enable reporting the appropriate balances. Governmental Accounting Standards Board Statement No. 54 (GASBS No. 54) is applicable for June 30, 2012 and subsequent years. Reserve for encumbrances will continue to be separately reported in Audsum as Year End Encumbrances – Committed and Assigned on line 90010 and memo accounts 90015 and 90016 (fund 15).

There is no fund balance reported for Education Jobs Fund (Ed Jobs) – fund 18.

Lines for tuition reserve enable tracking of the reserve for each of two permitted years, both the beginning and the ending balances. These balances are to be entered separately in the Audsum, and not as aggregated balances. (See Section II-10 of this Audit Program and *N.J.A.C.* 6A:23A-17.1(f).8 for further reference on tuition reserve). Tuition reserve beginning balance lines are as follows with corresponding ending balances noted in the next paragraph:

- Current Yr Beginning Balance (line 50) represents the 2012-13 tuition year. The balance in this account must be budgeted for payment in 2014-15.
- Prior Year Beginning Balance (line 51) represents the 2011-12 tuition year. The balance in this account was budgeted for payment in 2013-14.

The following list is to be followed for the classification of ending fund balance – general fund: Unspendable/Restricted/Committed/Assigned Fund Balance. Line number changes beginning with the June 30, 2012 Audsum were necessary to align the budget and Audsum line numbers. Selected lines are highlighted in the table below:

Title		**Audsum line # (Beginning 6/30/12)**	**Old Audsum line # (Prior to 6/30/12)**
Legal Reserves		90025	10010
Tuition Reserve – Current Adjustment (2012-2013 Balance)		90050	10015
Tuition Reserve – Prior Year Adjustment		90051	10016
Year End Encumbrances (Reserved for Encumbrances) – Committed & Assigned *Year End/Reserved for Encumbrances – State & Local Deferred Revenue Fund 15 *Year End/Reserved for Encumbrances – Federal Deferred Revenue Fund 15		90010 90015 90016	10020 10021 10022
Current year excess surplus		90030	10024
Prior year excess surplus designated for subsequent year's expenditure		90031	10025
Waiver Offset Reserve – Designed for Subsequent Yr		90027 (not available 6/30/14)	10027
Year End Encumbrances (Reserved for encumbrances) – Capital Projects Funds		90020	10030
Fifty Percent of School Bus Advertising Revenue Recognized – Current Year; 50% Fuel Offset		90028	N/A
Fifty Percent of School Bus Advertising Revenue Recognized – Prior Year; 50% Fuel Offset		90029	N/A
Reserved for adult education		90040	10040
Capital reserve account		90035	10045
Maintenance reserve account		90045	10050
Emergency Reserve		90055	10055
Debt Service Reserve		90060	10056
Total – Reserves and Encumbrances		90065	10060
Unassigned General Fund Balance		90075	10070
Assigned Fund Balance - Designated for Subsequent Year's Expenditure		90080	10075

*The Year End/Reserved for Encumbrances – State & Local Fund 15 and Year End/Reserved for Encumbrances – Federal Fund 15 lines are a subset of the amount reported in line 90010, formerly line 10020. The total of these two lines should match the amount reported on the Fund 15 Balance Sheet as Year End Encumbrances at the end of the audit year.

Include in Assigned Fund Balance – Designated for Subsequent Year's Expenditures (line 90080) only those amounts which were included in the 2013-14 certified budget as budgeted fund balance that have

not been included in the legal reserve line or the prior year excess surplus designated for subsequent year's expenditure. Include in the unassigned/unreserved - undesignated line all other unassigned-unreserved fund balance.

Restricted Fund Balance – Debt Service Fund (N/A to charter schools)
The Debt Service Reserve line 60 is used for the beginning balance and line 90060 is used for the ending balance of this reserve. These lines are only used to report proceeds from the sale of district property (see II-40.2).

Transfer of Surplus to the Capital Projects Fund

When specifically approved by the voters or board of school estimate or the Commissioner, districts/charter schools may transfer surplus from the general fund to the capital projects fund. Such transfers should be shown in the CAFR as an operating transfer with the appropriate disclosure made in the notes to the financial statements. When reporting on the Audsum, the restated balances after the transfer should be reported as the July 1 balances.

Health Cost (Premium) Withholding
There is a memo collection for health cost withholding in the 6/30/14 Audsum. See page II-90.1 for information on the withholding.

Appropriations and Carryover
There is a memo collection of Preschool Carryover. This amount must agree with what is reported on the Schedule of Preschool Expenditures as carryover. Preschool appropriations reported on the E-2 must agree with preschool appropriations reported in Audsum.

Districts required to use school-based budgeting – Fund 15 Audit Summary (Audsum) (Applies only to former Abbott Districts)

All districts are required to report school-based expenditures in the 2013-14 Audit Summary (Audsum). Please note that **Fund 15 expenditures should not be entered in the fund 11 tab. A separate Fund 15 statement must be completed for each whole school reform school implementing school-based budgeting. Fund 15 expenditures are reported under the "School-based Expenditures" data entry screen. Failure to enter the Fund 15 data separately will result in the reporting of inaccurate data to federal and state agencies. This will also cause inaccurate data to be preloaded into upcoming budgets.**

When reporting expenditures under the "Expenditures" data entry screen, only include expenditures related to districtwide costs and non-whole school reform schools. Fund 15 expenditures are not to be reported in the "Expenditures" data input screen.

Audsum Questions Related to Conditions for Appointment of State Monitor or Forensic Audit (N/A to charter schools)
Questions regarding the auditor opinions, material weaknesses, repeat audit findings, capital projects fund deficits, and return of federal funds are included in Audsum to enable the department to determine whether a district meets conditions for either appointment of a state monitor or a forensic audit. *N.J.S.A.* 18A:7A-55 as amended by P.L. 2007, c.53, authorizes the Commissioner to appoint a state monitor for districts which meet criteria specified in the law, and pursuant to *N.J.S.A.* 18A:7A-57, the state auditor will perform a forensic audit if a district has a general fund deficit and meets one of the criteria for state monitor.

SECTION III-REPORTING
CHAPTER 6 – AUDIT CHECKLISTS & QUESTIONNAIRE

TO BE COMPLETED BY BOARD SECRETARY/BUSINESS ADMINISTRATOR

Questionnaire
The Questionnaire is to be completed annually by the school district/charter school board secretary/ business administrator for use by public school accountants when reviewing compliance with account coding of administrative expenditures. The school district's /charter school's auditors will review this questionnaire in conjunction with their test of transactions and include a finding and recommendation for questionnaires substantially incomplete or inaccurate. In addition, school districts/charter schools are required to have ready for audit a listing of all staff positions requiring either a school administrative, principal or school business administrator certificate as detailed on item number 21 in Section III-6.

Checklists
Three checklists, (Current Operating Funds, Student Activity Fund, and Food Service Fund) of actions to be performed or documents to have available in advance of the audit are provided following the Questionnaire to assist board secretaries/business administrators in preparing for the year-end audit. These checklists may be modified by the audit firm to incorporate additional documents as needed.

ADMINISTRATIVE QUESTIONNAIRE

(To Be Completed by the Board Secretary/ Business Administrator)

Auditors should retain this questionnaire in their workpapers. The department may at a future time request this document for use in assessing potential need for further guidance and training.

1. a. Were all salaries of administrative staff requiring a school administrative, principal or school business administrative certificate recorded in administrative functions 230, 240, and 25X?
   Yes _____ No _____

   b. If no to 1a, is the coding consistent with prior years? Yes _____ No _____

   c. If no to 1a, please list the position, the account coding and the rationale for account classification other than administration (attach additional sheet if necessary):
   _____
   _____
   _____

2. Is there a decline in administrative expenditures relative to total general fund expenditures from the previous year? Yes _____ No _____

   If yes, is the decline the result of reclassification or allocation of salaries?
   Yes _____ No _____
   Please provide an explanation for any fluctuation (attach additional sheet if necessary):
   _____
   _____
   _____

3. Were there any salaries recorded in functions 230, 240, and 25X in the prior year and not in the current year?
   Yes _____ No _____

If yes, please list the position, the account coding and the rationale for the change (attach additional sheet if necessary):

_____
_____
_____

4. Were there any non-certificated administrative staff allocated to a support function (exclude clerical positions)?
Yes _____ No _____

If yes, please list the position, account classification, and allocation method used
(attach additional sheet if necessary):

_____
_____
_____

5. Were any supervisor positions, with the exception of "supervisors of instruction," requiring a principal or supervisory certification allocated to a support function?
Yes _____ No _____

If yes, please list the position, account classification, and allocation method used
(attach additional sheet if necessary):

_____
_____
_____

6. Did any of the administrative functions (functions 230, 240, and 25X) have salary expenditures for administrators and no related clerical support salaries? For example, salaries are recorded in function 240-103, salaries of principals/vice principal but nothing was reported in function 240-105, salaries of secretarial and clerical assistants. Yes _____ No _____

If yes, please list the function(s) and rationale (attach additional sheet if necessary):

_____
_____
_____

7. Were there any other line-item transfers or additional appropriations of surplus or unbudgeted revenue to an administrative function? Yes _____ No _____

<u>ADMINISTRATIVE QUESTION No. 8 IS ONLY APPLICABLE TO SCHOOL DISTRICTS:</u>

8. Did the school district (regular and county vocational) receive a "Warning" edit (#308) produced with the 2013-14 final budget certified for taxes stating that the 2012-13 budgeted per pupil legal costs, revised as of February 1, 2013 is greater than 130% of the state average per pupil legal costs ($48 per pupil for the 12-13 original budget)? Yes_____ No_____

8a. Enter the June 30, 2013 (2012-13 actual costs - per pupil amount) <u>for your district</u> from indicator 8A of the *2014 Taxpayer Guide For Education Spending* – Legal Svc. (Actual cost per pupil):
$_____ (8a.)
http://www.state.nj.us/education/guide/2014/ind.shtml

8b. 130% of the audited statewide average for year ending 6/30/13 per the *2014 Taxpayer's Guide to Education Spending* (released spring 2014): ($40*1.30%) $ 52 (8b.)

8c. *N.J.A.C.* 6A:23A-5.2(a)(3) requires that where the district's audited (pre-audit year, 6/30/13) per pupil legal costs (8a) exceeds the audited statewide average for that year (8b), the district is required to implement the cost containment procedures no later than the earliest board of education meeting subsequent to the next year end detailed at *N.J.A.C.* 6A:23A-5.2 (a)(3)(i) through ((iv), or provide evidence that the implementation of those procedures would not result in a reduction of costs. If 8a above exceeds 8b above, has the district implemented the cost reduction procedures required by resolution adopted at the earliest board of education meeting subsequent to the release of the 2014 Taxpayer Guide to Education Spending?

Yes_____No_____

If "Yes" please provide evidence of the implementation of the required procedures by board resolution. If "No" to 8c, please provide the auditor with evidence to support the assertion that such procedures would not result in a reduction of costs.

CHECKLIST FOR ANNUAL AUDIT
CURRENT OPERATING FUNDS
SCHOOL YEAR 2013-14

( ) 1. Copy of complete budget approved by the executive county superintendent, including supporting documents and statements and any attachments. For charter schools, the budget only requires county superintendent review; not approval.

( ) 2. The entries in the financial records of the Board Secretary and the Treasurer (if applicable) of school moneys must be up-to-date and balances reconciled.
   a. Complete all posting and closing entries for all financial records, including the net payroll account and payroll agency accounts, and bond and interest account as of June 30, 2014.
   b. All adjusting entries must be made as of June 30 to reflect the accounting records on a modified accrual basis.
   c. Annual report submitted to the board pursuant to N.J.S.A. 18A:17-10.
   d. All entries in the Athletic Association records must be up-to-date and records must be balanced.

( ) 3. Complete Comprehensive Annual Financial Report (CAFR) as of June 30, 2014.

( ) 4. Trial balance reflecting adjusting and closing entries as of June 30, 2014, as support for the CAFR.

( ) 5. All books and records of the board secretary/business administrator including but not limited to:
   a. General Journal for FY 2013-14
   b. Special Purpose Journals for FY 2013-14
   c. General Ledgers for FY 2013-14
   d. Revenue Subsidiary Ledgers for FY 2013-14
   e. Expenditure Subsidiary Ledgers for FY 2013-14
   f. Chart of Accounts for FY 2013-14

( ) 6. All purchase orders for the year.
   a. Analyses of open purchase orders at June 30, 2014.
   b. Separate lists must be prepared for those orders representing accounts payable at June 30th and those orders that will be liquidated and paid in the subsequent fiscal years.
   c. The total of these lists should agree with the June 30th general ledger balances for accounts payable and reserve for encumbrances, respectively.

( ) 7. Monthly reconciliations of all checking accounts must be prepared and available.
   a. Bank statements for 13 months, including related canceled checks, debit and credit memos, returned by the bank and duplicate deposit tickets for the period July 1, 2013 through July 31, 2014.

( ) 8. Monthly reconciliations of Bond and Interest accounts must be prepared and available
   a. Bond and interest accounts must be currently maintained.
   b. Paid bonds and coupons, together with reconciled bank statements on which they are listed chronologically.
   c. The bond register, posted to date.

( ) 9. All cash on hand including the petty cash fund, must be deposited in the bank depository by June 30, 2014.

( ) 10. List of investments, if any, outstanding as of June 30, 2014.

( ) 11. Copies of all applications, third party contracts (when applicable), revenue verification notices, all approved budgets and budget modifications in connection with State and Federal Aid, including information on all approved special programs or projects.

( ) 12. Copies of required financial Special Project Completion Reports filed in connection with State, Federal or special projects, such as SEMI, NCLB, Vocational reports, etc. Copies of prior year Special Project Completion Reports and copies of warrants remitting unexpended balances that were not approved for carryover to the grantor agency.

( ) 12a. Evidence that the district/charter school had designated an employee who is responsible for the coordination of the district's/charter school's SEMI program, and evidence that the identified staff and other identified responsible district/charter school staff have:

a. Submitted the quarterly updates and certification of the Staff Pool List (SPL)
b. Completed the Random Moment Time Study (RMTS)
c. Submitted the quarterly and annual financial information of the staff listed on the SPL

( ) 13. Request for Local Property Taxes (Forms T-1 and T-2) (N/A to charter schools)

( ) 14. Monthly statutory financial statements of the Secretary (Form A-148) and Treasurer (if applicable) (A-149) per *N.J.S.A.* 18A:17-9 and 36.

( ) 14a Annual report submitted to the board pursuant to *N.J.S.A.* 18A:17-10.

( ) 15. Minutes of board meetings, which should be reviewed prior to the audit to determine whether the proceedings are complete and properly signed. In connection with Board action, were the following subject matters recorded in the minutes?

Full spread of the adopted detailed budget
N.J.S.A. 18A:22-8
Board resolutions and full detail of Budget Transfers of line
items with the budget or from surplus.
N.J.S.A. 18A:22-8.1 as amended by P.L. 2004, c.73.
Board resolutions with two-thirds affirmative vote for transfers (if applicable)
N.J.S.A. 18A:22-8.1, as amended by P.L. 2004, c.73.
Organization Meeting
N.J.S.A. 18A:10-5
Establishment of Petty Cash Fund
N.J.S.A. 18A:19-13, *N.J.A.C.* 6A:23A-16.8
Official Depositories
N.J.S.A. 18A:17-34
Official Newspaper Designated
N.J.S.A. 18A:18A-21
Bill or Voucher List
N.J.S.A. 18A:19-4
Request for Local Property Taxes (N/A to charter schools)
R.S. 54:4-75 (Forms T-1 & T-2) (N/A to charter schools)
Change Orders on Awarded Contracts
*N.J.A.C.*6A:23A-21.1
Summary of Bids Received
N.J.S.A. 18A:18A-21
Award of Contracts Bid
N.J.S.A. 18A:18A-36, 37 and *N.J.S.A.*18A:18A-3, 4.
Designation of EUS

N.J.S.A. 18A:18A-5 and *N.J.S.A.*18A:18A-37
Designation of Qualified Purchasing Agent
*N.J.S.A.*18A:18A-3
Authorization of Competitive Contracting Process
N.J.S.A. 18A:18A-4.1, 4.3, 4.4, 4.5
Payment of Emergency Contracts
N.J.S.A. 18A:18A-7
Capital Improvement Authorizations, Proposals and/or Adoptions (N/A to charter schools)
N.J.S.A. 18A:22-18 and *N.J.S.A.* 18A:22-39
Monthly Financial Report of the Treasurer of School Moneys (if applicable) (Form A-149)
N.J.S.A. 18A:17-36
Monthly Financial Report of the Secretary
(Form A-148)
N.J.S.A. 18A:17-9
Investments-Authorization, Purchase and Recording
N.J.S.A. 18A:20-37 and *N.J.S.A.* 18A:20-38
Reading and discussion of recommendations of the Annual Report of Audit
N.J.S.A. 18A:23-5
Applicable Resolutions of Cancellations
Establishment of Capital Reserve Fund
N.J.S.A. 18A:7G-31(N/A to charter schools)
Establishment of Emergency Reserve Fund
N.J.S.A. 18A:7F-41(c)1
Resolution to request Commissioner approval to transfer funds from the Emergency Reserve
*N.J.S.A.*18A:7F-41(c)(1) (if applicable)

Required Board of Education/Board of Trustees Policies

Travel and Expense Reimbursement Policy
N.J.A.C. 6A:23A-7.2
Public Relations and Professional Services Policy
N.J.A.C. 6A:23A-5.2, 22.6
Policy on SEMI reimbursement
N.J.A.C. 6A:23A-5.3(e)1
Nepotism Policy
N.J.A.C. 6A:23A-6.2; 22.10
Contributions and Contracts Awards Policy
N.J.A.C. 6A:23A-6.3; 22.11
Policy on Exceeding Purchase Order Amounts
N.J.A.C. 6A:23A-6.10; 22.15
Vehicle Tracking and Use Policy (N/A to charter schools)
N.J.A.C. 6A:23A-6.11
Prohibition of Harassment, Intimidation, Bullying
N.J.S.A. 18A:37-15
Type I District Minutes (N/A to charter schools)
Certificates of the amount of money necessary to be appropriated for the ensuing school year as fixed and determined by official action of the board of school estimate (*N.J.S.A.* 18A:22-14).

( ) 16. All vouchers, properly documented, and purchase orders should be available for inspection and review. The secretary should be certain that all paid claims have been properly approved for payment, recorded in the minutes, and that affidavits or declarations have been completed on those exceeding one hundred and fifty dollars *(N.J.S.A.* 18A:19-3).

( ) 17. A separate file including copies of all legal advertisements adopted budget, requests for bids, and resolutions awarding contracts or agreements for professional services.

( ) 18. All contracts, agreements, leases, and bids received in connection with the advertising referred to above. Contracts which the school board/board of trustees has entered into with the State Division of Purchase and Property in the purchase of materials, supplies or equipment for the school district /charter school must be available for review by the school district/charter school auditor. Charter schools must provide copies of contracts with an Educational Management Organization (EMO).

( ) 19. A schedule of all insurance coverage and fidelity bond coverage in effect during the year, and the related policies or continuation certificates, and fidelity bonds.

( ) 20. All employee contracts and a schedule of board approved salaries; a schedule of fringe benefits and post retirement payments by employee, type of benefit, and dollar amount/value; authorization for non-contractual fringe benefits.

( ) 21. A schedule detailing all staff whose position requires a school administrative, principal or school business administrator certificate pursuant to *N.J.A.C.* 6A:9-12.3. Such positions should include superintendent, assistant superintendent, school business administrator, director, principal, assistant/vice principal, etc. The format should include the title, salary, general ledger account code(s), and if all or part of each salary is not coded to a general ledger administrative function (230, 240, or 25X), provide an explanation for the deviation from administration, including any allocation methodology used.

( ) 22. An analysis of any balance in the net payroll or payroll agency account.

( ) 23. Monthly and quarterly remittance returns for all payroll agencies. Payroll tax reports, quarterly and calendar year end, including W-2s, for federal and state.

( ) 23a. Forms 1099 and transmittal form.

( ) 23b. NJ Form E-CERT1, Certification of Compliance with Federal and State Law Respecting the Reporting of Compensation of Certain Employees.

( ) 23c. 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. 2011, c.78, s. 51.

( ) 24. All paid and voided warrants and payroll checks, together with the bank statements on which they are listed, arranged in order by month. Certified and approved payroll registers in chronological order.

( ) 25. All tuition contracts for sending/receiving between public schools, private schools for the disabled, and/or regional day schools and billings rendered on these contracts. (N/A to charter schools)

( ) 26. The Treasurer of School Moneys (if the district/charter school has a treasurer) should have his or her records in order and available during the course of audit.

( ) 27. Board resolution to establish a capital reserve during the audit year, if applicable, per *N.J.S.A.* 18A:7G-31.

( ) 27a Board resolution at year end (June 1 – June 30) to supplement the capital reserve with unanticipated revenue or unexpended line-item appropriation amounts, or both if applicable.

( ) 28. Capital Project file (*N.J.A.C.* 6A:26-3.10). (N/A to charter schools)

( ) 29. Long Range Facilities Plan (*N.J.S.A.*18A:7G-4, *N.J.A.C.* 6A:26-2.1). (N/A to charter schools)

( ) 30. School Development Authority (SDA) grant agreement (signed). (N/A to charter schools)

( ) 31. All contracts, including transportation agreement, leases and conveyances. Include all salary, transportation and other written contracts.

( ) 32. Records, bills, orders and other supporting documentation of Athletic Association.

( ) 33. The October 15, 2013 ASSA or Charter School Enrollment System (CHE) with supporting workpapers, documentation of internal procedures, school registers, applications for free and reduced meals, private school tuition contracts and student's individualized education program (IEP).

( ) 34. Approved Preschool Program Operational Plan, the 2013-14 Budget Statement Supporting Documentation Items 15 (Preschool Program Aid) which represent the approved plan, approved Carryover Funds forms and approved Transfer Notification Forms.

( ) 35a. Schedule of the amounts reimbursed by the state for the current year FICA employer contribution for its TPAF members on an accrual basis.

( ) 35b. Schedule of the amounts to be reimbursed to the state for the employer's share of the Teachers' Pension and Annuity Fund (TPAF) pension contributions (if any), FICA, and other benefits for TPAF members paid from federally funded programs. Include a copy of the reimbursement form and evidence that the reimbursement was made by October 1 following the fiscal year end.

( ) 36. Analysis for each balance sheet account balance as of June 30, 2014 (see Section I, Chapter 8, page I-8.2) including a schedule of June 30 encumbrances that supports the Reserve for Encumbrance account balance.

( ) 37. Analysis of the miscellaneous income account including a schedule of receivables for miscellaneous income.

( ) 38. Latest SFRA- state aid printout (NET) and payment schedule reflecting the state aid for 2013-14. (N/A to charter schools)

( ) 38a. For charter schools only: Projected 2013-14, 10/15/13 and Final 2013-14 Charter School Aid Notices.

( ) 39. E-rate – funding requests and claims for reimbursement for each of the following eligible service categories: telecommunications services, internet access and internet connections. Universal Service Fund Form 470 (E-rate), Description of Services Requested and Certification and Form 471, Services Ordered and Certification. If received, Form 486, Receipt of Service Notification, and funding commitment letter, if applicable.

( ) 40. The 2012-13 District Report of Transported Resident Students (DRTRS) Eligibility Summary Report produced by the department and the 2013-14 DRTRS Eligibility Summary Report produced by the DRTRS data collection software. (N/A to charter schools)

( ) 41. Summary Schedule of Prior Audit Findings prepared in accordance with USOMB Circular A-133 section .315, if applicable;
   a. Corrective Action Plan which was submitted to the executive county superintendent;
   b. Copy of district/charter school certification to the executive county superintendent that all corrective action of prior year has been taken.

( ) 42. Copies of any audit or compliance report received from oversight or regulatory agencies during the current year and copies of any dispute resolutions related to prior year issues.

43. Special Education Medicaid Initiative (SEMI) – refer to SEMI Provider Handbook and other correspondence from the NJ Department of the Treasury:
( ) a. Parental consent forms.
( ) b. Documentation to verify that a service was provided on a specific date.
( ) c. Records to indicate that a pupil either has a current IEP that specifies the services or was referred for evaluation.
( ) d. Records identifying the practitioner providing the related service. The record should be adequate to verify that the service was provided to the pupil by a specific practitioner on a specific date.
( ) e. Records of licensure and certification providing documentation in support of the claim that the service providing practitioner(s) are SEMI qualified and that services provided by that practitioner(s) are eligible for reimbursement.

( ) 44. Monthly transfer worksheets to support transfers pursuant to *N.J.A.C.* 6A:23A-13.3(i). (N/A to charter schools)

( ) 45. Documentation of the executive county superintendent approval or receipt of the Board of Education's transfer requests pursuant to *N.J.A.C.* 6A:23A-13.3 (f).1.ii. (N/A to charter schools)

( ) 46. Documentation of approval by the Commissioner for any transfer prior to April 1 of surplus or unbudgeted or underbudgeted revenue *(N.J.A.C.* 6A:23A-13.3(c)) or for any such transfer between April 1 and June 30, approval by the executive county superintendent as the Commissioner's designee *(N.J.A.C.* 6A:23A-13.3(b)). (N/A to charter schools)

( ) 47. Analysis of all debt outstanding during the year and supporting documentation to demonstrate the district's compliance with *N.J.S.A.*18A:55-3. (N/A to charter schools)

( ) 47a. Copies of all notices and communications regarding garnishment of State Aid received from oversight or regulatory agencies during the current year with related repayment terms. (e.g. Department of Labor notification of Delinquency in Unemployment Tax Liabilities).

( ) 47b. Copies of all notices and communications of the existence of an unauthorized early retirement incentive program (Unauthorized ERIP) received from the New Jersey Department of Treasury.

( ) 47c. Copies of all notices and communications regarding outstanding loans from the Department of Education pursuant to N.J.S.A. 18A:7A-56 for those school districts to which a State monitor has been appointed.

( ) 48. Documentation to support all out of state travel expenditures should be available.

( ) 49. The 4 former ECPA districts that were approved to expand preschool programs, should have available their "Preschool Education Aid 2013-14 District Budget Planning Worksheet" and supporting documentation items 15a and 15b from their approved 2013-14 district budget. Other former ECPA

districts and all ELLI districts should have available including supporting documentation items 15a and 15b from the approved 2012-13 district budget.

Districts required to use school-based budgeting are also required to have the following documents available for the audit:

50. Districts required to use school-based budgeting: (N/A to charter schools)

( ) a. School-based budgets
( ) b. Fiscal year 2014 NCLB Consolidated Application.
( ) c. June 30, 2013 (prior year) Comprehensive Annual Financial Report (CAFR)
( ) d. Documentation supporting transactions involving the sale of district surplus property. Surplus property means that property, which is not being replaced by other property under a grant agreement with the New Jersey Schools Development Authority.
( ) e. The "Preschool Education Aid 2013-14 DISTRICT BUDGET PLANNING WORKSHEET and supporting documentation items 15a and 15b from the approved 2013-14 district budget.

<u>Items required for District/Charter School Wide financial statement</u>

( ) 1. Capital asset schedules, including the following detail:

a. Date placed in service.
b. Cost/basis.
c. Beginning of the year balance - accumulated depreciation.
d. Current year depreciation.
e. Ending balance - accumulated depreciation.
f. Classification of the asset. (e.g., land, building, equipment)
g. Method of depreciation. (e.g., straight line)
h. Useful life of each asset used in computing the depreciation. LEAs/charter schools may refer to the standard useful life table on page III-6.12 for guidance on useful life of each asset. LEAs/charter schools are not required to utilize the standard useful lives suggested but should develop a policy appropriate for the district/charter school use.

"This chart originally appeared in the book <u>GASB Statement No. 34 Implementation Recommendations for School Districts</u> and is reprinted with permission of the Association of School Business Officials International: www.asbointl.org".

i. Identification by program.
If the asset is specifically identifiable to a program (see the lines used in the Statement of activities), then that program should be noted and depreciation should be charged to that program. If not, there should be an indication that it is not specifically identifiable. The assets should be in one of two categories based on how the each asset is used - 1) governmental fund or 2) business like activity (enterprise fund).

( ) 2. Schedule of long-term liabilities for each of the debt categories; bonds; capital leases; mortgages, compensated absences; other – (specify) and include:

a. Beginning of year balance
b. Additions
c. Reductions

d. End of year balance
e. Amount due within one year

( ) 3. Schedule identifying debt balances (e.g. bonds, mortgages, capital leases) related to capital leases to support the calculation of net assets, net of related debt as of June 30. Schedule should indicate the amount of unspent proceeds.

( ) 4. Schedule of interest accrued on long-term debt (bond or mortgage documents to support the calculation of interest accrued to June 30.)

( ) 5. Trust documents (trust instruments or letter specifying restrictions) which support classification as either a permanent trust or private purpose trusts (e.g. scholarships.)

( ) 6. Worksheet calculation for converting from governmental fund balances to net asset balances.

The following table relates to item 1(h) under "Items required for GASB 34 financial reporting."

Figure 4.1

Asset Class	Examples	Est. Useful Life in Years
Land		N/A
Site Improvements	Paving flagpoles, retaining walls, sidewalk, fencing, outdoor lighting	20
School Buildings		50
Portable Classrooms		25
HVAC Systems	Heating, ventilation, and air-conditioning system	20
Roofing		20
Interior Construction		25
Carpet Replacement		7
Electrical/Plumbing		30
Sprinkler/Fire System	Fire suppression systems	25
Outdoor Equipment	Playground, radio towers, fuel tanks, pumps	20
Machinery & Tools	Shop & maintenance equipments, tools	15
Kitchen Equipment	Appliances	15
Custodial Equipment	Floor scrubbers, vacuums, etc	15
Science & Engineering	Lab equipment, scientific apparatus	10
Furniture & Accessories	Classroom and office furniture	20
Business Machines	Fax, duplicating & printing equipment	10
Copiers		5
Communications Equipments	Mobile, portable radios, non-computerized	10
Computer Hardware	PCs, printers, network hardware	5
Computer Software	Instructional, other short-term	5 to 10
Computer Software	Administrative or long term	10 to 20
Audio Visual Equipment	Projectors, cameras (still & digital)	10
Athletics Equipment	Gymnastics, football, weight machines, wrestling mats	10
Musical Instruments	Pianos, string, Bass, percussion	10
Library Books	Collections	5 to 7
Licensed Vehicles	Buses, other on-road vehicles	8
Contractors Equipment	Major off-road vehicles, front-end loaders, large tractors, mobile air compressor	10
Grounds Equipment	Mowers, tractors, attachments	15

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CHECKLIST FOR ANNUAL AUDIT
STUDENT ACTIVITY FUND

_____
(NAME OF SCHOOL)

SCHOOL YEAR 2013-14

( ) 1. Monthly bank reconciliations of all checking accounts:

a. Bank statements for 13 months, including related canceled checks returned by the bank and duplicate deposit slips for the period July 1, 2013 through July 31, 2014.

( ) 2. Cash Receipts and Cash Disbursements Journal.

( ) 3. General Ledger of School Accounts.

( ) 4. Paid and unpaid Invoices and Payment Forms covering School Year.

( ) 5. Savings Account Pass Books or Certificates, including interest credited to June 30.

( ) 6. Petty Cash Fund (including unreimbursed invoices) and School Change Fund, if applicable.

( ) 7. Prenumbered receipts for the period July 1, 2013 through July 31, 2014.

( ) 8. Copy of Annual Cumulative Report of Cash Receipts, Cash Disbursements and Balances at June 30, including completion of bank reconciliation at June 30, 2014.

( ) 9. Records, bills, orders and other supporting documentation of the Student Activity Accounts.

( ) 10. All entries in the Student Activity Account records must be up-to-date and records must be balanced.

( ) 11. Copies of board resolutions approving each fund.

( ) 12. Schedule of accounts receivable and accounts payable.

CHECKLIST FOR ANNUAL AUDIT
FOOD SERVICE FUND

_____
(NAME OF SCHOOL)

SCHOOL YEAR 2013-14

( ) 1. Monthly bank reconciliations of all checking accounts.

a. Bank statements for 13 months, including related canceled checks, returned by the bank and duplicate deposit slips for the period July 1, 2013 through July 31, 2014.

( ) 2. Cash Receipts and Cash Disbursements Journal.

( ) 3. General Ledger.

( ) 4. Paid invoices and unpaid invoices applicable to the school year.

( ) 5. Savings Account Pass Books or Certificates, including interest credited to June 30.

( ) 6. Petty cash fund (including unreimbursed invoices) and School Change Fund, if applicable.

( ) 7. Prenumbered receipts or billings for the period July 1, 2013 through July 31, 2014 for special affairs.

( ) 8. Daily cash register tapes, properly identified, and daily cashier reports, indicating reconciliation to deposit.

( ) 9. Reimbursement claims filed and schedule of claims receivable as of June 30.

( ) 10. Copies of advertisements for bids, and copies of such bids awarded.

( ) 11. Schedule of any receivables or payables as of June 30.

( ) 12. Schedule of closing inventory of food and supplies.

( ) 13. Copy of annual food service manager's report of operations for the school year.

( ) 14. Agreement for School Nutrition Programs dated, signed by authorized representative and approved by New Jersey State Department of Education/Agriculture Officials. (all done by certification on a web-based system – SNEARS)

( ) 15. Eligibility documents for free and reduced price meals.

( ) 16. Meal count records, Edit Check Worksheets and daily summary sheets of number and type of meals served.

( ) 17. Monthly Report (Summary of Meals Claimed) and Payment Log for period of audit. (in SNEARS)

( ) 18. Verification summary (in SNEARS).

( ) 19. Food Service Management Company contract (if applicable).

( ) 20. Paid invoices to Food Service Management Company with fully itemized and verified bills (if applicable).

( ) 21. Records, bills, orders and supporting documentation of the Food Service Fund.

( ) 22. All entries in the Food Service Fund records must be up-to-date and records must be balanced.

( ) 23. Food Service Management Company (FMSC) SSAE No. 16 Type 2 Report (formerly known as SAS #70 report) (if applicable).

( ) 24. FSMC records identifying amounts of discounts, rebates and other applicable credits.

( ) 25. FSMC accounting of donated commodities used during the year.

( ) 26. Child Nutrition Program Agreement Addendum to participate in the Fresh Fruit and Vegetable Program, if applicable

( ) 27. Provide documentation supporting current status of all prior year CNP findings (if applicable)

A U D I T Q U E S T I O N N A I R E 2013-14
(To Be Completed by the Public School/Charter School Auditor)

SCHOOL DISTRICT/CHARTER SCHOOL _____ COUNTY _____

The Audit Questionnaire is a checklist of items specific to New Jersey school districts/charter schools which auditors should include as part of the audit workpapers to support the auditor's opinion on the district's/charter school's compliance with laws and regulations. This checklist should be signed by the auditor and kept with the auditor's workpapers and available to the department upon request.

Irregularities shown by answers given to questions must be covered by a comment and recommendation in the Auditor's Management Report.

1. Was the school district/charter school able to demonstrate an accounting system that was maintained in accordance with Governmental GAAP and the State prescribed publication entitled GAAP for New Jersey School Districts, A Technical Systems Manual? Yes _____ No _____

2. Were copies of the following reports completed and available for examination?

	Yes	No	Not Applicable
Treasurer's (if applicable) Monthly Financial Statements. (N.J.S.A. 18A:17-36) (Form A-149)	_____	_____	_____
Secretary's Monthly Financial Report filed on a monthly basis. (N.J.S.A. 18A:17-9a) (Form A-148)	_____	_____	_____
Was the year-end report (June 30, 2013 A-148) prepared by the secretary, passed by board resolution and reflected in the minutes of the Board of Education/Board of Trustees at the July meeting?	_____	_____	_____
T.P.A.F. Reimbursement for June 30 – **should be submitted to NJDOE by September 30. (*N.J.S.A.*18A:66-90)**	_____	_____	_____
Vocational Education.	_____	_____	_____

3. Were the following Cash Reconciliations prepared monthly? If no, explain.

	Monthly		
	Yes	No	N/A
General Operating Fund	_____	_____	_____
Capital Projects Fund (N/A to charter schools)	_____	_____	_____

	Yes	No	N/A
Food Service Fund	_____	_____	_____
Net Salary Account	_____	_____	_____
Payroll Agency Account	_____	_____	_____
Permanent Fund	_____	_____	_____
Trust Fund	_____	_____	_____
Athletic Fund	_____	_____	_____
Student Activity Accounts	_____	_____	_____
Bond and Coupon Account (N/A to charter schools)	_____	_____	_____

4. (A) Was the following information verified utilizing the bookkeeping records, maintained in accordance with Governmental GAAP?

	Yes	No	N/A
Tuition Billings (N/A to charter schools)	_____	_____	_____
Tuition Accounts Receivable (N/A to charter schools)	_____	_____	_____
Rental Billings	_____	_____	_____
Rental Revenue Accounts Receivable	_____	_____	_____
Miscellaneous Revenue	_____	_____	_____
Miscellaneous Revenue Accounts Receivable	_____	_____	_____
Accounts Payable (including liabilities due to grantor agencies)	_____	_____	_____
Outstanding Purchase Orders	_____	_____	_____
Analysis of Net Payroll Account Balances	_____	_____	_____
Analysis of Payroll Agency Account Balances	_____	_____	_____

(B) Were the Board Secretary/Business Administrator Administrative Classifications Questionnaire and audit checklists (Operating Fund, Student Activity Fund and Food Service Fund)

completed by the Board Secretary/Business Administrator and were the records ready for audit?

Yes_____ No _____

5. Were the following revenue verification notices on hand for examination?

	Yes	No	N/A
Restricted State Aid (NET) (N/A to charter schools)	_____	_____	_____
Debt Service Aid (DS9, DS10) (N/A to charter schools)	_____	_____	_____
Nonpublic School State Aid (N/A to charter schools)	_____	_____	_____
Vocational Education	_____	_____	_____
E.S.E.A./NCLB Funds (List by Funds)			
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
Other: _____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____

6. Were certifications obtained by the auditor from the Municipal Treasurer(s) for the date and amount of payments of installments of the Local Tax Levy? (N/A to charter schools)

Yes _____ No _____ N/A _____

7. (A) Were the minutes properly signed?

Yes _____ No _____

(B) Are pre-numbered pages and/or marginal notes used in the maintenance of the minutes? Yes_____ No_____

(C) In connection with Board action, were the following subject matters recorded in the minutes?

	Yes	No	N/A
Full spread of the adopted detailed budget *N.J.S.A.* 18A:22-8	_____	_____	_____
Full detail of Budget Transfers *N.J.S.A.* 18A:22-8.1	_____	_____	_____
Organization Meeting *N.J.S.A.* 18A:10-5	_____	_____	_____
Establishment of Petty Cash Fund *N.J.S.A.* 18A:19-13, *N.J.A.C.* 6A:23-2.9	_____	_____	_____

	Yes	No	N/A
Official Depositories *N.J.S.A.* 18A:17-34	_____	_____	_____
Official Newspaper Designated *N.J.S.A.* 18A:18A-21	_____	_____	_____
Bill or Voucher List *N.J.S.A.* 18A:19-4	_____	_____	_____
Request for Local Property Taxes (N/A to charter schools) R.S. 54:4-75	_____	_____	_____
Change Orders on Awarded Contracts *N.J.A.C.* 6A:23-7.1	_____	_____	_____
Authorizations for Advertisement of Bids *N.J.S.A.* 18A:18A-21	_____	_____	_____
Summary of Bids Received *N.J.S.A.* 18A:18A-21	_____	_____	_____
Award of Contracts Bid *N.J.S.A.* 18A:18A-36, 37 and *N.J.S.A.*18A:18A-3, 4,	_____	_____	_____
Designation of EUS *N.J.S.A.* 18A:18A-5 and *N.J.S.A.*18A:18A-37	_____	_____	_____
Designation of Qualified Purchasing Agent *N.J.S.A.*18A:18A-3	_____	_____	_____
Authorization of Competitive Contracting Process *N.J.S.A.* 18A:18A-4.1, 4.3, 4.4, 4.5	_____	_____	_____
Payment of Emergency Contracts *N.J.S.A.* 18A:18A-7	_____	_____	_____
Capital Improvement Authorizations, Proposals and/or Adoptions (N/A to charter schools) *N.J.S.A.* 18A:22-18 and *N.J.S.A.* 18A:22-39	_____	_____	_____
Monthly Financial Report of the Treasurer of School Moneys (if applicable) (Form A-149) *N.J.S.A.* 18A:17-36	_____	_____	_____
Monthly Financial Report of the Secretary (Form A-148) *N.J.S.A.* 18A:17-9	_____	_____	_____
Investments-Authorization, Purchase and Recording *N.J.S.A.* 18A:20-37 and *N.J.S.A.* 18A:20-38	_____	_____	_____
Reading and discussion of recommendations of the Annual Report of Audit *N.J.S.A.* 18A:23-5	_____	_____	_____
Applicable Resolutions of Cancellations	_____	_____	_____
Establishment of Capital Reserve Fund *N.J.S.A.*18A:7G-31	_____	_____	_____
Establishment of Emergency Reserve Fund *N.J.S.A.* 18A:7F-41(c)1 (if applicable)	_____	_____	_____

Board acknowledgment of audit firm peer review report *N.J.A.C.* 6A:23A-16.2(i)2	_____	_____	_____

Required Board of Education/Board of Trustees Policies

	Yes	No	N/A
Travel and Expense Reimbursement Policy *N.J.S.A.* 18A:11-12, *N.J.A.C.*6A:23A-6.13, 7.2	_____	_____	_____
Public Relations and Professional Services Policy *N.J.A.C.* 6A:23A-5.2; 22.6	_____	_____	_____
Policy on SEMI Reimbursement *N.J.A.C.* 6A:23A-5.3(e)1	_____	_____	_____
Nepotism Policy *N.J.A.C.* 6A:23A-6.2; 22.10	_____	_____	_____
Contributions & Contract Awards Policy *N.J.A.C.* 6A:23A-6.3; 22.11	_____	_____	_____
Policy on Exceeding Purchase Order Amounts *N.J.A.C.* 6A:23A-6.10; 22.15	_____	_____	_____
Vehicle Tracking and Use Policy *N.J.A.C.* 6A:23A-6.11	_____	_____	_____
Harassment, Intimidation or Bullying Policy *N.J.S.A.* 18A:37-15	_____	_____	_____

8. Type I District Minutes. (N/A to charter schools)

   (A) Did the board of school estimate fix and determine by official action the amount of money necessary to be appropriated for the ensuing school year? Yes ____ No _____

   (B) Were certificates of such amounts delivered to the board and to the governing body of the district per *N.J.S.A.* 18A:22-14? Yes_____ No _____

9. (A) Are records maintained in conformance with requirements prescribed by the state board of education/board of trustees per *N.J.A.C.* 6A:23A-16.1; 22.1? Yes_____ No _____

   (B) If an electronic data processing bookkeeping service company is used, is an audit of the internal controls of the service company on file per *N.J.A.C.* 6A:23A-16.6? Yes_____ No _____

10. (A) Condition of Records: Comment on needed improvements in the Auditor's Management Report.

	Satisfactory	Unsatisfactory
Treasurer (if applicable)-General	_____	_____
Secretary-General	_____	_____
Capital Projects (N/A to charter schools)	_____	_____
Food Service	_____	_____
Payroll	_____	_____

Permanent Fund	_____	_____
Trust Fund	_____	_____
Athletic Funds	_____	_____
Student Activity Funds	_____	_____
Bond and Coupon (N/A to charter schools)	_____	_____
Other:		
_____	_____	_____
_____	_____	_____
_____	_____	_____

(B) Are the Treasurer's (if applicable) records maintained independently of the Board Secretary's?
Yes_____ No _____

(C) Were records of the Treasurer (if applicable) and Board Secretary reconciled on a monthly basis?
Yes_____ No _____

(D) In your opinion, are the books and records of any official in such unsatisfactory condition that comment and recommendation is made in the Auditor's Management Report?
Yes _____ No _____ N/A _____
If answer is "yes", specify the officials referred to _____

_____

11. (A) Were all payrolls approved by the Superintendent/Chief School Administrator and certified by the Secretary and President of the Board prior to issuance of salary checks? Yes___ No____

(B) Were bank deposits to Payroll Salary and Agency accounts detailed as to sources of Appropriations, Special Funds, Refund or Other Sources? Yes_____ No _____

(C) Where outside services (computer services, etc.) are utilized, are the records adequate and do they leave an "audit trail?" Yes_____ No _____

(D) Were payroll tax filings properly prepared, including fringe benefits where applicable?
Yes_____ No _____

12. (A) Is there a requisition system operative in the district/charter school? Yes_____ No _____

(B) Is there a sequential purchase order system operative in the district/charter school?
Yes _____ No_____

(C) Are purchase orders numerically recorded in a central register? Yes_____ No _____

(D) Is an encumbrance system utilized in accordance with Governmental GAAP?
Yes____ No___

13. Are there credit cards utilized by board members and employees? Yes_____ No _____
If answer is "yes", a comment and recommendation is required.

14. (A) Are tuition contracts available for sending/receiving between public schools, private schools for the disabled and/or regional day schools using the state prescribed contract form? (N/A to charter schools)

Yes_____ No _____

(B) Are billings being rendered according to the terms of the state prescribed contract forms?

Yes_____ No _____

15. Were the monthly certifications of line-item appropriations and fund status filed in accordance with *N.J.A.C.* 6A:23A-16.10(c) and Division of Finance Policy Bulletin 200-11?

Yes_____ No _____

(If no, appropriate comments and recommendations must be included in the annual audit report)

16. Has the Board's Records Custodian adopted and made available to the public a Records Request Form (*N.J.S.A.* 47:1A-5(f)) (OPRA)? Yes_____ No _____

17. Has the statement of rights of appeal been posted pursuant to N.J.S.A. 47:1A-5(j) (OPRA)?

Yes ____No _____

18. Expenditure Classification Test Results Summary

Dollar Value of Items Tested	$ _____
Dollar Value of Errors Noted	$ _____
Dollar Value Error Rate	_____%
Total Expenditures*	$ _____

*General Fund and Special Revenue Fund excluding on-behalf payments for TPAF (pension and FICA).

19. Is the district/charter school appropriately assisting the State in maximizing federal participation pursuant to section 7 of P.L. 1968, c.413 (C.30:4D-7) (SEMI Program)? Consider the following:

(A) Has the district/charter school appointed a SEMI Coordinator or contact person?
Yes _____No _____

(B) Has the district/charter school applied for participation in the SEMI Program with the Department of Education, Medicaid and the third party billing administrator?
Yes _____No _____

(C) Has the district/charter school completed a Memorandum of Understanding with the New Jersey Department of the Treasury? Yes_____No_____

(D) Do the IEPs identify services which are eligible for reimbursement under the SEMI Program?
Yes _____No _____

(D1) Has the district/charter school documented delivery of the services identified for reimbursement in item D above to eligible students by Medicaid qualified practitioners in the third party administrator's proprietary software system?
Yes_____No_____

(E) Does the district/charter school have a process for identifying new students eligible for the SEMI Program? Yes _____No_____

(F)Does the district/charter school have a process for acquiring parental consent for students eligible for the SEMI Program? Yes _____No _____

(G)Are parental consent forms available in the student file? Yes _____No_____

(H)Does the district/charter school have a process for documenting expenditures reimbursement under the SEMI Program (refer to the SEMI Provider Handbook)? Yes_____No_____

(I)Has the district/charter school been updating service data in a timely manner? Yes _____No ___

(J) Are annual reviews held for the students in the SEMI Program? Yes _____No _____

(K)Are IEPs available for claims made under the SEMI Program? Yes_____ No_____

(L)Has the district identified a staff member responsible for the staff pool list (SPL)? Yes_____ No_____

(L1) Are the identified responsible district staff members updating and certifying the required quarterly staff pool list (SPL) submissions in the third party administrator's proprietary software system in a timely manner? Yes_____No_____

(M) Are the selected district staff members who are listed on the district's staff pool list responding in a timely manner to the Random Moment Time Study (RMTS)? Yes_____No_____

(N) Has the district designated staff responsible for submitting the quarterly and annual financial information of the staff listed on the SPL in the third party administrator's proprietary software system? Yes _____No _____

(N1) Has the designated district staff responsible for submitting the required quarterly and annual financial information been updating and certifying the required quarterly and annual financial information of the staff listed on the SPL in a timely manner? Yes_____No_____

20. Were administrative staff whose position requires a school administrative, principal or school business administrator certificate recorded in the administrative functions, and if not was the account coding in compliance with department guidance (NJ Chart of Accounts) and was proper supporting documentation maintained for any allocations? Yes _____No _____

21. Were proper approvals obtained for cumulative line-item transfers greater than 10% and/or appropriation of surplus or under budgeted or unbudgeted revenue pursuant *N.J.A.C.* 6A:23A-13.3 Yes _____No _____

22. Did the district/charter school file its annual report required by *N.J.S.A.* 18A:17-10 by August 1, 2014? Yes_____ No ____

23. Is the school district/charter school current in submitting all claims for reimbursable costs under the Federal E-rate program (the Schools and Libraries Universal Support Mechanism) for encouraging the use of the internet?
    Yes_____No_____

24. Has the school district/charter school applied for the maximum amount of Federal E-rate program funds in each of the following areas:

    (A) Telecommunications Services Yes_____No_____
    (B) Internet Access Yes_____No_____
    (C) Internet Connections Yes_____No_____

25. Did the school district/charter school participate in the following cost savings programs during 2013-14? (N.J.S.A. 18A:55-3 and *N.J.A.C.* 6A:23A-6.1(b))

    (A) Alliance for Competitive Energy Services (ACES) Yes_____No_____
    If no, why didn't the district/charter school participate?
    _____
    _____

    (B) Alliance for Competitive Telecommunications (ACT) Yes_____No_____

    If no, why didn't the district/charter school participate?
    _____
    _____

    (C) New Jersey School Boards Association Insurance Group or a joint insurance fund
    Yes_____No_____
    If no, why didn't the district/charter school participate?
    _____
    _____

    (D) New Jersey State Health Benefits Plan Yes_____No_____
    If no, why didn't the district/charter school participate?
    _____
    _____

26. Did the district refinance all outstanding debt where a three percent net present value savings threshold was achievable pursuant to *N.J.S.A.* 18A:55-3?
    Yes____No_____

27. Does the school district have a current Position Control Roster (PCR) as required by N.J.A.C. 6A:23A-6.8? (N/A to charter schools)
    Yes____No____

28. Are all the following required components included in the Position Control Roster as required by N.J.A.C. 6A:23A-6.8? (N/A to charter schools)

i. A permanent position tracking number Yes_____No_____
ii. A substitute control number for each location and amount for that location, which shall agree to the detail provided pursuant to N.J.A.C. 6A:23A-6.8(a)3(iv) Yes_____No_____
iii. An overtime control number for each location and amount for that location, which shall agree to the detail provided pursuant to N.J.A.C. 6A:23A-6.8(a)3(v) Yes_____No_____

iv. An extra pay control number for each location and amount for that location, which shall agree to the detail provided in pursuant to N.J.A.C. 6A:23A-6.8(a)3(vi) Yes_____No_____

v. The status of the position (filled, vacant, abolished, etc.) N.J.A.C. 6A:23A-6.8(a)3(vii) Yes_____No_____

vi. An indication of whether the employee is retiring in the budget year including costs associated with the retirement such as contractual buyouts Yes_____No_____

vii. The certified position title Yes_____No_____

viii. The assignment position title Yes_____No_____

ix. Separately identified base salary, step, lane, longevity, guide, stipends by type, overtime and other extra compensation for the most recent audit year (actual), the pre-budget year (revised budget) and the budget year (projected) Yes_____No_____

x. The benefits paid by the school district, net of employee reimbursement, by type of benefit and FICA Yes_____No_____

xi. The expenditure account codes including the special revenue fund and the enterprise funds Yes_____No_____

xii. The position's full-time equivalent value Yes_____No_____

xiii. The date the position was filled Yes_____No_____

xiv. The date the position was originally created by the board. If the date the position was originally created by the board is not available, this item shall represent the date the person currently filling that position was approved by the board Yes_____No_____

xv. The building the position is assigned to Yes_____No_____

xvi. The employee name Yes_____No_____

xvii. The date of hire Yes_____No_____

29. Is the Position Control Roster accurate, timely and complete? Yes_____No_____
(#29 is N/A to charter schools)

30. Does the district's/charter school's actual audited per pupil legal cost for the year ended June 30, 2013 exceed 130% of the 2012-13 audit statewide average legal cost per pupil published in the 2014 *Taxpayers Guide to Education Spending*? (Note to auditor: Refer to question 8 of the Administrative Questionnaire) Yes_____No_____

(A) If yes, has the district provided evidence that the procedures required by *N.J.A.C.* 6A:23A-5.2(a)(3); 22.6(a)(3) have been adopted by resolution or memo at the earliest board meeting subsequent to the release of the 2014 *Taxpayers Guide to Education Spending*? Yes_____No_____

(B) If no, has evidence been provided that such procedures would not result in a reduction of costs? Yes_____No_____

QUESTIONS 31 THROUGH 33 ARE APPLICABLE ONLY TO DISTRICTS REQUIRED TO USE SCHOOL-BASED BUDGETING (N/A to charter schools)

31. Were the school-based budgets available for all schools within the district which have implemented school-based budgeting? Yes _____ No _____

32. Did the district obtain approval to operate a Title I Schoolwide Program in each of its schools where federal dollars are blended in the school-based budgets? Yes ____ No _____

33. Did the school district apply for and implement Federal programs in a timely and appropriate manner? Yes____No ____

QUESTIONS 34 THROUGH 39 ARE APPLICABLE ONLY TO CHARTER SCHOOLS

34. Does the charter school have a contract for educational or business services with an Educational Management Organization (EMO)? If no, skip to question #35. Yes____ No____

34a. Did the charter school adhere to public school contract guidelines pursuant to N.J.S.A. 18A:18A in the selection of an EMO and in all school-related purchasing?
Yes____ No ____

34b. Did the charter school relinquish any of its powers as delineated in N.J.S.A. 18A: 36A-3(a), 6, 14(a), and (b) to a contractor or vendor such as an EMO? Yes____ No ____

34c. If any members of the EMO board are also voting members of the charter school board of trustees did the EMO-related member recuse him/her on all related-party transactions?
Yes____ No ____

35. Does the charter school have a fully composed and functioning board of trustees?
Yes____ No ____

36. Is the school utilizing the services of a Certified School Business Administrator who is performing all duties and responsibilities of this title? Yes ____ No ___

37. Does the board on a monthly basis approve all expenditures before payment of invoices?
Yes _____No _____

38. Do the President and Board Secretary /School Business Administrator sign all checks/warrants?
Yes _____No _____

39. If a violation in any of the above areas was noted, does the auditor's management report include findings and corresponding recommendations? Yes _____No _____

SECTION III – REPORTING
CHAPTER 7 – SYNOPSIS AND CORRECTIVE ACTION PLAN

Synopsis and Hearing of Audit

***N.J.S.A.* 18A:23-3 states in part that "The Commissioner annually shall publish a summary of such recommendations as made for each school district and the steps which have been taken in each district for their implementation."**

***N.J.S.A.* 18A:23-4 states "The secretary of the board shall prepare or have prepared a synopsis or summary of the annual audit and recommendations, prior to the holding of the meeting of the board of education to take action thereon; A copy of which synopsis or summary shall be available for distribution to interested parties at the meeting."**

In order to comply with the above requirements, it is requested that the Secretary of the Board prepare the audit synopsis under the following format:

a. Governmental Funds Balance Sheet (Exhibit B-1).
b. Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balance (Exhibit B-2).
c. Reflect each audit recommendation under the applicable heading listed below. Include the sub headings listed on page III-4.5:
    1. Administrative Practices & Procedures
    2. Financial Planning, Accounting & Reporting
    3. School Purchasing Programs
    4. School Food Service
    5. Student Body Activities
    6. Application for State School Aid
    7. Pupil Transportation
    8. Facilities and capital assets
    9. Miscellaneous
    10. Follow-up on prior year findings

d. A copy of the minutes of the board meeting at which the audit recommendations were read and discussed must be filed with the executive county superintendent of schools together with the synopsis within 30 days following the meeting at which the audit was discussed. **Specific board action and disposition of each audit recommendation must be duly noted in the minutes of the board. A general statement of the Board's acceptance of the audit and recommendations is NOT in compliance. In addition, the minutes must address the corrective actions voted by the board and a completed Corrective Action Plan signed by both the chief school administrator and the board secretary/school business administrator must be included with the synopsis.**

The copy of the minutes, synopsis and corrective action plan for the fiscal year under audit (see "d." above) are submitted to the executive county superintendent and will be filed with the State Department of Education by the executive county superintendent after they have been reviewed for accuracy and completeness. A district/charter school that does not have current year CAFR or AMR findings is not required to file a "NONE" corrective action plan with the executive county superintendent. **Please see the following page for a sample Audit Year Corrective Action Plan (CAP).**

The school business administrator must submit a certification when all corrective actions for the fiscal year under audit have been fully implemented (see sample format on page III-7.3, or alternatively, a statement on district/charter school letterhead may be accepted), but no later than June 30th of the subsequent fiscal year. The certification of implementation letter is to be submitted no later than June 30th

of the subsequent fiscal year to the Single/Grants Audit Unit, Office of Fiscal Accountability and Compliance , P.O. Box 500, Trenton, NJ 08625-0500 or scanned (PDF) and submitted via email to eCAFR@doe.state.nj.us .

CORRECTIVE ACTION PLAN -2013-14

NAME OF SCHOOL _____ COUNTY _____

TYPE OF AUDIT _____

DATE OF BOARD MEETING _____

CONTACT PERSON _____

TELEPHONE NUMBER _____

RECOMMENDATION NUMBER	CORRECTION ACTION APPROVED BY THE BOARD	METHOD OF IMPLEMENTATION	PERSON RESPONSIBLE FOR IMPLEMENTATION	PLANNED COMPLETION DATE OF IMPLEMENTATION

_____ CHIEF SCHOOL ADMINISTRATOR

_____ DATE

_____ BOARD SECRETARY/SCHOOL BUSINESS ADMINISTRATOR

_____ DATE

[SAMPLE] CERTIFICATION OF IMPLEMENTATION OF CORRECTIVE ACTION PLAN

For the Fiscal Year ended June 30, 2014

Name of School District/Charter School_____
County_____

I hereby certify that all corrective actions listed on the district's /charter school's Corrective Action Plan (CAP) for the fiscal year indicated above have been fully implemented with the following exceptions:

CAP
Recommendation
Number

_____ _____[Comments]_____

_____ _____[Comments]_____

_____ _____
Board Secretary/Business Administrator Date

_____ _____
Chief School Administrator Date

For fiscal year ended June 30, 2014 submit no later than June 30, 2015 to:
Scan (PDF) to eCAFR@doe.state.nj.us or mail to:
NJ Department of Education
Single/Grants Audit Unit
Office of Fiscal Accountability and Compliance
P.O. Box 500
Trenton, NJ 08625-0500

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SECTION III – REPORTING
CHAPTER 8 –QUALITY ASSESSMENT REVIEW CHECKLIST

A Quality Assessment (Control) Review will be performed at the state level on each audit. The auditor should familiarize himself/herself with the following Quality Assessment (Control) Review form. The auditor's review of this form should ensure that the audit contains sufficient information to answer the questions contained in the review, as well as eliminate time consuming correspondence with the Single/ Grants Audit Unit personnel in assuring compliance with Federal and State audit requirements.

QUALITY ASSESSMENT REVIEW

Local Educational Agency/Charter School _____

County _____

Audit Period _____ Date of Report_____

Received By Deadline _____

Auditor Name _____ Audit Firm _____

Reviewed By _____ Date _____

Summary of Quality Assessment Review

In my opinion, the CAFR is:

[ ] Acceptable, and requires no or only minor corrections.
[ ] Substandard, and requires one or more major changes.

Comments: _____
_____
_____
_____

I. Qualifications and Independence of Auditor

1.	Is the audit performed by a certified public accountant?	Yes _____	No _____
2.	Is the audit report free of indications that the auditor is not independent? If not, follow up to determine if independence was impaired in appearance or in fact.	Yes _____	No _____
3.	Does the auditor have an external quality control review on file with the department?	Yes _____	No _____

II. Financial Statements

The format of the CAFR should conform to the publication, Financial Accounting for New Jersey School Districts/Charter Schools - The Audit Program , and should strictly adhere to the prescribed sectioning of the report and numbering of exhibits as shown on pages **xvi to xx** of The Audit Program . 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. Exhibit numbers for any additional statements required under the circumstances should be assigned using the next available exhibit number within that series of statements/schedules.

1. Is a complete table of contents as reflected on pages xvi through xviii of the 2013-14 Audit Program included? Yes___ No____

   If "No", describe deficiencies:
   _____
   _____
   _____

2. Are sections properly designated? Yes____ No____
   (If "No", make corrections in the CAFR and describe below.)
   _____
   _____
   _____

3. Are exhibits properly numbered? Yes____ No____
   (If "No", make corrections in the CAFR and describe below.)
   _____
   _____
   _____

4. Are all statements and schedules reflected in The Audit Program Outline to the CAFR (p xvi through xviii), either included in the CAFR or designated "N/A" in the table of contents? Yes____ No____

   Did districts required to use school-based budgeting, include the Combining Schedule of Revenues, Expenditures, and Fund Balance – Budget and Actual (Exhibit C-1a), and the School Based Budget Schedules (Exhibit D-x series), and the Preschool Aid schedules indicated in the CAFR Outline, pp. xvi to xviii? Yes____ No____ N/A____

   If answer is "No", list all omitted financial statements not designated as "N/A" in the table of contents. If additional space is needed, attach additional sheets.
   _____
   _____
   _____

5. Do the fund types used in the financial statements conform to those described in GASB §1300.103? Yes____ No____ N/A____

6a Does the information presented in the combining statements in Other Supplementary Information agree to the applicable funds statements or budget to GAAP reconciliation? Yes____ No____ N/A____

6b. Does the *Statement of Net Position* include a balance for Net investment in capital assets conforming to the requirements of GASB 63? Yes____ No____ N/A____

6c Does the *Statement of Net Position* include two lines for Noncurrent liabilities – Due within one year and Due in more than one year? Yes____ No____ N/A____

7. Have the basic financial statements, required supplementary information and other supplementary information been prepared in the format of the CAFR Outline? Yes____ No____ N/A____

8. Has GASB Statement No. 54 been implemented? Yes____ No____ N/A___
Did the district's/charter school's CAFR reflect fund balance as non-spendable, restricted, committed, assigned, and unassigned? Yes____ No____ N/A____

(a) Have unspent appropriations/balances from an additional spending proposal been classified as restricted fund balance – additional spending proposal? Yes____ No____ N/A____

(b) Have capital reserve funds been classified as restricted fund balance – capital reserve? Yes____ No____ N/A____

(c) Has unreserved fund balance included in the upcoming year's budget as budgeted fund balance been classified as assigned to – designated for subsequent year's expenditures? Yes____ No____ N/A____

(d) Have amounts calculated (generated in the current year) in accordance with N.J.S.A. 18A:7F-7 been classified and reported as restricted for – excess surplus)? Yes____ No____ N/A____

(e) Has excess surplus generated in the prior year been classified and reported as restricted for – excess surplus – prior year – designated for subsequent year's expenditures in the current year? Yes____ No____ N/A____

(f) Are the amounts utilized for the excess surplus calculation accurate? (Trace amounts to financial statements- and recalculate. Fund balance should be taken from the Budgetary Comparison Schedule, C-1. Determine that the correct percentage was used.) If not, a note to the auditor must be included in the QAR letter. Yes____ No____

(g) Is the amount for Impact Aid Adjustment no more than the amount received for the current year as reported in the schedule of expenditure of federal awards? Yes____ No____
(If no, a note to the auditor must be included in the QAR letter.)

(h) If this is a regular school district, was the excess surplus calculation performed using the 2% calculation? (County Vocational districts use 6%) Yes____ No____ N/A____

(i) Have Adult Ed fund balances been classified as restricted-Adult Ed? Yes____ No____ N/A____

(j) Are reserves related to insurance policies for other than incurred but not reported claims (IBNR) classified as unrestricted fund balance? Yes____ No____ N/A____

(k) Are all other reported "restrictions", "commitments" and "assignments" appropriate? Yes____ No____ N/A____

(l) Have the appropriate disclosures related to the components of fund balance been made in the notes to the financial statements? Yes____ No____

9. Are all interfund transfers reflected in the CAFR in accordance with statute and properly reported in accordance with GASB §1800.102-105? Yes____ No____ N/A____

10. Do the Budgetary Comparison Schedules reflect over-expenditures of line accounts in violation of *N.J.A.C.* 6A:23A-16.10? Yes____ No____

Is a comment and recommendation regarding over-expenditures included in the Auditor's Management Report? If not, a note to the auditor must be included in the QAR letter. Yes____ No____ N/A____

Did the district include the Schedule of Required Maintenance Expenditures by School Facility (exhibit J-19)? Yes____ No____

11. If the district/charter school is self-insured for workmen's compensation, have they properly accounted for the activity in accordance with GASB 10 and 30? (Self-insured workmen's compensation plans should be accounted for in either the general fund or an internal service fund when there is no transfer of risk). Yes____ No____ N/A____

11a If the district /charter school uses the reimbursement method (payment in lieu of contributions) for unemployment compensation, has the information been presented in the fiduciary fund statements? Yes____ No____ N/A____

12. Does the *Statement of Net Position* report Net Position in three components - Invested in capital assets, net of related debt; restricted (distinguishing between major categories of restrictions, including permanent endowment principal – nonexpendable); and unrestricted (GASB 34, ¶477)? If no, answer (a) below. Yes____ No____

(a) Does the independent auditor's report contain the associated qualification of opinion? Yes____ No____

13. Does the *Statement of Net Position* report the portion of compensated absences which matures within one year separately from the long-term portion? (GASB §2200.116) Yes____ No____ N/A___

14. Do the notes to the financial statements include: (GASB §2300)
    (a) A summary of significant accounting policies that includes:
        i. An identification of the component units combined to form the reporting entity and the key criteria considered? (GASB §2600.119) Yes____ No____
        ii. The basis of accounting including revenue recognition policies? Yes____ No____
    (b) Interfund receivables and payables? Yes____ No____ N/A____
    (c) Excess of expenditures over appropriations in individual funds? Yes____ No____ N/A____
    (d) Deficit fund balances or retained earnings of individual funds? Yes____ No____ N/A____
        i. Is the amount of the deficit due to the deferral of one or more June state aid payments stated? Yes____ No____ N/A____
    (e) Material violations of finance-related legal and contractual provisions? (GASB §1200.112) Yes____ No____ N/A____
    (f) Do the notes to the financial statements for capital assets and noncurrent liabilities agree to the *Statement of Net Position*? (GASB §2300.111) Yes____ No____ N/A____

III. Reporting

15. Does the Independent Auditor's Report contain the following items:
    (a) A title that includes the word independent? Yes____ No____
    (b) Under the heading "Report on the Financial Statements," a statement that the financial statements of the governmental activities, the business-type activities, and each major fund, and the related notes to the financial statements which collectively comprise the district's/charter school's basic financial statements as listed in the table of contents were audited? Yes____ No____
    (c) Under the heading, "Managements Responsibility for the Financial Statements", a statement that the financial statements are the responsibility of management and under the heading "Auditor's Responsibility," a statement that the auditor's responsibility is to express opinions on these financial statements based on his audit? Yes____ No____
    (d) Under the heading "Auditor's Responsibility," a statement that the audit was conducted in accordance with generally accepted auditing standards (GAGAS), *Government Auditing Standards* issued by the Comptroller General of the United States and audit requirements prescribed by the Division of Administration & Finance, Department of Education, State of New Jersey? Yes____ No____

(e) Under the heading "Auditor's Responsibility," a statement that generally accepted auditing standards require that the auditor plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement? Yes____ No____

(f) Under the heading "Auditor's Responsibility," a statement that the audit involves:

i. Performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements? Yes____ No____

ii The procedures selected depend on auditor judgment including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error? Yes____ No____

iii. Evaluating the appropriateness of accounting policies used and reasonableness of significant accounting estimates made by management? Yes____ No____

iv. Evaluating the overall financial statement presentations? Yes____ No____

(g) Under the heading "Auditor's Responsibility," a statement that the auditor believes that his audit provides a reasonable basis for his opinion(s)? Yes____ No____

(h) Under the heading "Opinions," a statement expressing an opinion as to whether the financial statements present fairly, in all material respects the respective financial position of the governmental activities, the business-type activities, and each major fund as of the balance sheet date and the respective changes in financial position and cash flows, where applicable, for the period then ended in conformity with accounting principles generally accepted in the United States of America? Yes____ No____

Briefly describe any modifications including whether or not there are modifications due to a departure from GAAP:

_____

_____

_____

(i) Under the heading "Other Legal and Regulatory Requirements (or otherwise as appropriate to the contents of the section)," a statement that in accordance with *Government Auditing Standards*, the auditor has also issued a report dated (include report date) on the consideration of the district's/charter school's internal control over financial reporting and on tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. A statement that that the purpose of that report is to describe the scope of the testing of internal control over financial reporting and compliance, and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards. Yes____ No____

(j) Under the heading "Other Information," identification of the accompanying required supplementary information, such as management's discussion and analysis and budgetary comparison schedules accompanying the financial statements and that limited procedures were applied? Yes_____ No____

(k) Under the heading "Other Information," identification of additional information accompanying the financial statements [relevant combining schedules] that have been subjected to the auditing procedures applied in the audit of the basic financial statements? Yes____ No____ N/A____

(l) Under the heading "Other Information," identification of additional supplementary information [such as the introductory section and statistical section] that has not been subjected to the auditing procedures? Yes____ No____ N/A____

(m) Under the heading "Other Information," an opinion as to whether the schedule of expenditures of federal awards and/or schedule of expenditures of state financial assistance is (are) fairly stated in all material respects in relation to the basic financial statements taken as a whole or a disclaimer of opinion? Yes____ No____ N/A____

Briefly describe any qualifications:

_____

_____

_____

(n) Under the heading "Other Information," an opinion as to whether the combining statements and schedules are fairly stated in all material respects in relation to the basic financial statements taken as a whole or a disclaimer of opinion? Yes____ No____

Briefly describe any qualifications:

_____

_____

_____

(o) Under the heading "Other Information," identification that the introductory section and statistical section was not audited? Yes____ No____

(p) The signature of the public accountant who performed the audit? Yes____ No____

(The audit report must be signed by the individual making the audit or in charge of the audit and not by the firm or corporation, which employs the auditor.)

(q) The date of the audit report? Yes____ No____

16. (a) Have the schedules of expenditures of federal awards and expenditures of state financial assistance been prepared as prescribed by The Audit Program in Section II-SA? Yes____ No____ N/A____

If "No", describe deficiencies:

_____

_____

_____

(b) Do the funds received per the schedules agree with department/state disbursement records? Yes____ No____ N/A____

(c) Based on federal and state financial assistance expenditures, was the proper type of audit report prepared? Yes____ No____ N/A____

Total Federal Expenditures _____

Total State Expenditures _____

17. Do the Notes to the Schedules of Awards and Financial Assistance include the following:

(a) Basis of accounting of the data? Yes____ No____

(b) Disclosure of the nature of differences between amounts presented in the schedules and amounts reported in related reports? Yes____ No____ N/A____

(c) Relationship of the data presented to the financial statements? Yes____ No____

(d) Assumptions used to value noncash programs and means of calculations? Yes____ No____ N/A____

(e) Unique matters necessary to understand the amounts presented for any individual program? Yes____ No____ N/A____

(f) Other matters considered necessary to ensure the schedule is not misleading? Yes____ No____ N/A____

18. Are the following reports included?

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*? Yes____ No____ N/A____

Report on Compliance for Each Major Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal/State Awards Required by OMB Circular A-133? Yes____ No____ N/A____

19. Does the Report on Internal Control over Financial Reporting and Compliance and Other Matters contain the following elements?

(a) A statement that the auditor has audited the financial statements and a reference to the auditor's report on the basic financial statements? Yes____ No____

(b) A statement that the audit was conducted in accordance with generally accepted auditing standards, *Government Auditing Standards* issued by the Comptroller General of the United States and audit requirements prescribed by the Division of Administration & Finance, Department of Education, State of New Jersey? Yes____ No____

(c) A statement that, in planning and performing the audit, the auditor considered the internal control over financial reporting to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of internal controls. Accordingly, no opinion on the effectiveness of the district's/charter school's internal control over financial reporting is expressed? Yes____ No____

(d) If no material weaknesses, significant deficiencies or reportable instances of noncompliance or other matters have been identified, does the report include the definitions of:

(e)
i. a deficiency in internal control (SAS 115)? Yes____ No____
ii. a material weakness (SAS 115)? Yes____ No____

If no material weaknesses have been identified; however, significant deficiencies and reportable instances of noncompliance, and other matters have been identified: Does the report include definitions of:

i. a deficiency in internal control (SAS 115)? Yes____ No____
ii. a material weakness (revised by SAS 115)? Yes____ No____
iii. a significant deficiency (revised by SAS 115)? Yes____ No____

	If material weaknesses have been identified; Does the report include definitions of:			
(f)	i. a deficiency in internal control (SAS 115)?			
	ii. a material weakness (revised by SAS 115)?			
	iii. a significant deficiency (revised by SAS 115)?	Yes_____	No_____	
	A statement that the auditor's consideration of internal control over financial reporting would not necessarily	Yes_____	No_____	
(g)	identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses?	Yes_____	No_____	
	Was a deficiency considered to be a material weakness or a significant deficiency noted? (if "Yes" answer (i.)-(ii.),	Yes_____	No_____	
(h)	if "No" skip to 19.(i)			
	i. A statement that noted material weakness and/or significant deficiencies are described in the accompanying schedule of findings and questioned costs and the related finding reference number?	Yes_____	No_____	N/A____
	ii. A statement about whether the auditor believes any of the significant deficiencies described in the report are material weaknesses and, if so: Identifies which one(s)?	Yes_____	No_____	
	If no deficiencies in internal control were noted: A statement that given these limitations we did not identify any deficiencies that the auditor considered to be	Yes_____	No_____	
(i)	a material weakness?			
	Under the heading "Compliance and Other Matters," a statement that, as part of obtaining reasonable assurance	Yes_____	No_____	
(j)	about whether the basic financial statements are free of material misstatement, the auditor performed tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements?	Yes____	No____	
(k)	A statement that the auditor's objective was not to provide an opinion on compliance with those provisions?	Yes____	No____	
(l)	A statement that the results of tests performed disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards* and audit requirements prescribed by the Division of Administration and Finance, Department of Education, State of New Jersey?	Yes____	No____	N/A___
(m)	A statement that the results of tests performed disclosed instances of non-compliance that are required to be reported under *Government Auditing Standards* and audit requirements prescribed by the Division of Administration and Finance, Department of Education, State of New Jersey, and reference to the accompanying schedule of findings and questioned costs by finding reference number?	Yes____	No____	N/A____
(n)	If applicable, statements that certain matters were reported to management in a separate letter (the Auditor's Management Report)?	Yes____	No____	N/A____

(o) A statement that the report is intended for the information of the Board, the New Jersey Department of Education, and Federal awarding agencies? Yes____ No____

(p) The signature of the public accountant who performed the audit? Yes____ No____
(The audit report must be signed by the individual making the audit or in charge of the audit and not by the firm or corporation, which employs the auditor.)

(q) The date of the auditor's report? Yes____ No____

20. Does the **Report on Compliance for Each Major Federal/State Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal/State Awards Required by OMB Circular A-133 and the New Jersey OMB Circular 04-04** include the following:

(a) Under the heading "Report on Compliance for Each Major Federal/State Program," a statement that the entity's compliance with the requirements described in U.S. Office of Management and Budget Circular A-133 Compliance Supplement and the New Jersey *State Grant Compliance Supplement* that could have a direct and material effect on each of its major programs was audited, and identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs? Yes____ No____

(b) Under the heading "Management's Responsibility," a statement that compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal and state programs is the responsibility of the entity's management? Yes____ No____

(c) Under the heading "Auditor's Responsibility," a statement that it is the auditor's responsibility to express an opinion on compliance for each major federal and state program based on the audit of the types on compliance requirements referred to in the "Report on Compliance" paragraph. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*; and audit requirements prescribed by the Division of Administration and Finance, Department of Education, State of New Jersey, and New Jersey OMB Circular Letter 04-04, *Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid*? Yes____ No____

(d) Under the heading "Auditor's Responsibility, "a statement that those standards and *Government Auditing Standards* issued by the Comptroller General of the United States, OMB Circular A-133 and New Jersey OMB Circular Letter 04-04 require that the auditor plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to in item *a*, above, that could have a direct and material effect on a major program occurred? Yes____ No____

(e) Under the heading "Auditor's Responsibility," a statement that an audit includes examining, on a test basis, evidence about the entity's compliance with the requirements referred to in *a*, above, and performing such other procedures as considered necessary in the circumstances? Yes____ No____

(f) Under the heading "Auditor's Responsibility," a statement that the auditor believes that his or her audit provides a reasonable basis for an opinion? Yes____ No____

(g) Under the heading "Opinion on Each Major Federal/State Program," an opinion as to whether the entity complied in all material respects, with the requirements referred to in item *a*, above that could have a direct and material effect on each of its major federal and state programs? Yes____ No____

Briefly describe any qualifications:

_____

_____

_____

(h) Under the heading "Other Matters", reference to the accompanying schedule of findings and questioned costs for instances of noncompliance required to be reported in accordance with OMB Circular A-133 and New Jersey OMB Circular Letter 04-04 including related finding reference numbers? Yes____ No____

(i) Where applicable, identification of the type of compliance requirement and the major federal program for which noncompliance was reported [list the reference numbers of the related findings, for example, 20X1-3 and 20X1-6]? Yes____ No____ N/A____

(j) Under the heading "Report on Internal Control Over Compliance," a statement that management is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above? Yes____ No_____

A statement that in planning and performing the audit, of compliance the auditor considered the types of requirements that could have a direct and material effect on a major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133 and New Jersey OMB Circular Letter 04-04, but not for the purpose of expressing an opinion on the effectiveness of internal control compliance. Accordingly, we do not express an opinion on the effectiveness of internal control over compliance? Yes____ No____

(k) Under the heading "Report on Internal Control Over Compliance," does the report include the definitions of:

i. Deficiency in internal control over compliance? Yes____ No___ N/A____

ii. Material weakness in internal control over compliance? Yes____ No___ N/A____

iii. Significant deficiency in internal control over compliance? Yes____ No____ N/A____

(l) A statement that the auditor's consideration of internal control over compliance was for a limited purpose and was not designed to identify all deficiencies in internal control over compliance that might be, material weaknesses or significant deficiencies?? Yes____ No____

(m) A statement as to whether the auditor identified any deficiencies in internal control over compliance that are considered material weaknesses? Yes____ No____

(if "Yes" answer (i)

i. Is reference made to the schedule of findings and questioned costs and reference number(s) of related findings? Yes____ No____

(n) A statement as to whether the auditor identified any deficiency in internal control over compliance that the auditor considered to be a significant deficiency? Yes____ No____

(if "Yes" answer (i.)

i. A statement that deficiencies in internal control over compliance that are considered significant deficiencies are described in the accompanying schedule of findings and questioned costs and the related finding reference number? Yes____ No____

(o) If no deficiency in internal control over compliance was noted:

i. A statement that no deficiencies in internal control over compliance that the auditor considered to be a material weakness were noted? Yes____ No____ N/A____

(p) A statement that the report is intended for the information of the Board, the New Jersey Department of Education, and Federal awarding agencies? Yes____ No____

(q) The signature of the public accountant who performed the audit? Yes____ No____
(The audit report must be signed by the individual making the audit or in charge of the audit and not by the firm or corporation which employs the auditor.)

(r) The date of the auditor's report? Yes____ No____

21. Does the **Schedule of Findings and Questioned Costs** include the following four components:

(a) A Summary of the Auditor's Results which includes:

i. The type of report issued on the financial statements? Yes____ No____

ii. Internal control over financial reporting:
i. material weakness(es) identified? Yes____ No____
ii. Significant deficiency(ies) identified? Yes____ No____

iii. A statement as to whether noncompliance material to the financial statements were disclosed by the audit of the financial statements? Yes____ No____

iv. Internal Control Over Major Programs: Where applicable, a statement as to whether or not material weaknesses were identified. Yes____ No____
A statement as to whether significant deficiencies were identified (reported). Yes____ No____
For federal awards? Yes____ No____ N/A____
For state financial assistance? Yes____ No____ N/A____

v. The type (unmodified, modified, adverse, or disclaimer) of report the auditor issued on compliance for major programs:
For federal awards? Yes____ No____ N/A____
For state financial assistance? Yes____ No____ N/A____

vi. A statement as to whether the audit disclosed any audit findings which the auditor is required to report:
For federal awards? Yes____ No____ N/A____
For state financial assistance? Yes____ No____ N/A____

vii. An identification of major programs:
For federal awards (CFDA)? Yes____ No____ N/A____
For state financial assistance? Yes____ No____ N/A____

viii. The dollar threshold used to distinguish between Type A and Type B programs was computed correctly:
For federal awards?
CPA FIRM DOE Calculation Yes____ No____ N/A____

For state awards?
CPA FIRM DOE Calculation Yes____ No____ N/A____

ix. A statement as to whether the auditee qualified as a low-risk auditee:
For federal awards? Yes____ No____ N/A____
For state financial assistance? Yes____ No____ N/A____

x. Do programs identified by NJDOE review calculation as Type A or B major programs on the Schedules of Expenditures agree with those identified on the Schedules of Findings and Questioned Costs (Section I – Summary of Auditor's Results) and the Single Audit Summary Sheet section D items # 22 and #26
:For federal awards and the SF-SAC? Yes____ No____ N/A____
:For state financial assistance? Yes____ No____ N/A____
If No, has the program been audited in either of the two preceding years?
For federal awards? Yes____ No____ N/A____
For state financial assistance? Yes____ No____ N/A____

(b) Financial Statement Findings relating to the financial statements which are required to be reported in accordance with GAGAS? Yes____ No____ N/A____

(c) Findings and questioned costs for Federal awards as per A-133 (Sec.510 (a) and (b))? Yes____ No____ N/A____

(d) Findings and questioned costs for State financial assistance? Yes____ No____ N/A____

22. Does the Summary Schedule of Prior Audit Findings include the following :

(a) The reference numbers the auditor assigns to audit findings, including the fiscal year in which the finding initially occurred? Yes____ No____ N/A____

(b) For repeat audit findings, the cross-reference to the current year audit finding number? Yes____ No___ N/A____

(c) The status of all audit findings included in the prior audit's schedule of findings and questioned costs relative to Federal awards and State Financial Assistance? Yes____ No____ N/A____

(d) Audit findings reported in the prior audit's summary schedule of prior audit findings as follows:

i. When fully corrected the summary schedule need only list the findings and state that corrective action was taken. Yes____ No____ N/A____

ii When not corrected or only partially corrected, the summary schedule must describe the planned corrective action as well as any partial corrective action taken. Yes____ No____ N/A____

iii. When corrective action is significantly different from corrective action previously reported in a corrective action plan or in the Federal agencies or pass-through entity's management decision, the summary schedule shall provide an explanation. Yes____ No____ N/A____

iv. When the auditee believes the audit findings are no longer valid or does not warrant further action, the reasons for this position shall be described in the summary schedule. Yes____ No____ N/A____

23. Has an acceptable Corrective Action Plan been submitted to the department with the Audit Synopsis through the county office of education? Yes____ No____

24. Has a copy of the Federal Data Collection Form as per USOMB Circular A-133 been received by the department if auditee expended over $500,000 in federal financial assistance? Yes____ No____ N/A____

III. Comments and Recommendations

1. Does the Auditor's Management Report contain comments as outlined in The Audit Program as to the accuracy and completeness of financial reports and claims for advances or reimbursement to federal agencies or their representatives (i.e. Food Service Fund) and Child Nutrition Requirements? Yes____ No_____

2. Districts required to use school-based budgeting - Are all irregularities disclosed in the Audit Questionnaire included as comments and recommendations in the Auditor's Management Report? (All negative comments, exceptions, or noncompliance noted in the Audit Report should have a corresponding recommendation) Yes____ No_____ N/A____

   If answer to question 2 is "No", briefly describe omitted comments and recommendations:
   _____
   _____
   _____
   _____

3. Does the Auditor's Management Report contain all the findings reported in the Single Audit Section of the CAFR? Yes____ No_____ N/A____
4. Does the Auditor's Management Report provide comments both negative and positive on significant findings and recommendations from the previous audit to determine whether appropriate corrective actions had been taken? Yes____ No_____ N/A____

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