

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

**THE AUDIT PROGRAM**

**2015-2016**

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

**David C. Hesse, Commissioner  
State Board of Education**

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

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## **SIGNIFICANT CHANGES FOR 2015-16**

- ❖ Added reference to the Federal Office of Management and Budget *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Grant Guidance) applicable to federal awards received by nonfederal entities beginning on or after December 26, 2014. These administrative rules and cost principle requirements also apply to any sub-awards made by the State of New Jersey to sub-recipients from new federal awards or incremental funding received on or after December 26, 2014. The new administrative rules and cost principles revise other standards related to audit requirements and are first effective for the fiscal year ending June 30, 2016. Of note, effective for the fiscal year ending June 30, 2016 the single audit threshold will increase from the current \$500,000 to \$750,000 of expenditures of federal awards; the reporting threshold for questioned costs increases from \$10,000 to \$25,000; and the major program “Type A” program threshold has been increased from \$300,000 to \$750,000. Along with the increased threshold, the program type determination has been modified to focus on areas identified as having internal control deficiencies that are also identified as material weaknesses.
- ❖ Added that the New Jersey Department of the Treasury-Office of Management and Budget has revised the State’s Single Audit Policy in recognition of the administrative rules and cost principle requirements contained in the Federal Office of Management and Budget *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Circular Letter (CL) 15-08-OMB replaces CL 04-04-OMB and specifies that rules and requirements contained in the federal OMB are also applicable to any sub-awards made by the State of New Jersey to sub-recipients from new federal awards or incremental funding received on or after December 26, 2014.
- ❖ Clarified that the revised State’s Single Audit Policy effective December 26, 2014 established in the State of New Jersey Department of the Treasury Office of Management and Budget Circular Letter 15-08-OMB establishes the single audit threshold as \$750,000 of expenditures of federal or State financial assistance during any fiscal year period beginning after December 26, 2014.

## **OTHER CHANGES / UPDATES FOR 2015-16**

**The following is a summary of changes / updates:  
(changes for 2015-16 are highlighted in gray)**

General changes are found throughout the document and include:

Deletion of all references to OMB A-133 and NJ OMB 04-04 as the circulars have been replaced by the *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards 2 CFR 200 and NJ Treasury Circular OMB 15-08*.

Specific changes are found in the following sections/chapters:

Introduction

- No changes.

Section I-1

- Added guidance that the State’s Single Audit Policy effective December 26, 2014 established in the State of New Jersey Department of the Treasury Office of Management and Budget Circular Letter 15-08-OMB establishes the single audit threshold as \$750,000 of expenditures of federal or State financial assistance during any fiscal year period beginning after December 26, 2014. Treasury Circular Letter 15-08-OMB maintains that recipients that expend less than \$750,000 in federal or State financial assistance within the fiscal year, but expend \$100,000 or more in State and/or federal financial assistance within the fiscal year, must have either a financial statement audit performed in accordance with Government Auditing Standards (Yellow Book), or a program-specific audit in accordance with the Act, Amendments, Subpart F – Audit Requirements (of the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards) and State policy. The Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards section 200.61 defines internal control as a process, implemented by a non-Federal entity, designed to provide reasonable assurance regarding the achievement of objectives in the following categories: Effectiveness and efficiency of operations; Reliability of reporting for internal and external use; and compliance with applicable laws and regulations.
- Added guidance that Section 200.62 of the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards provides a specific definition for “Internal Control over Compliance Requirements for Federal Awards”.

Section I-2

- Added guidance to include required board policy on Electronic Communications Between School Employees and Students.

Section I-3

- Deleted reference to FY14 revised Choice Aid Notices.
- Replaced term “Educationally Disabled Student” with “Special Education Students”
- Clarified guidance to reflect that charter school students are reported to the Department through the resident school district’s ASSA submission as “resident students” for purposes of calculating a school district’s state aid. Data from the Charter School Enrollment system is prepopulated in the school district’s ASSA.
- Clarified that charter schools conduct an annual October 15 count to conform with the school district’s enrollment count date.

- Added detailed guidance on charter school requirement for utilization of the New Jersey School Register and the auditor’s responsibilities in testing the Register.
- Added detailed guidance on renaissance school project requirement for utilization of the New Jersey School Register and the auditor’s responsibilities in testing the Register.
- Clarified that renaissance school projects do not submit an ASSA, rather their data is included with their resident school district data.
- Added specific guidance related to Special Education grade level tables for renaissance school projects.
- Updated DRTRS guidance to reflect the new web-based DRTRS software and reporting system.
- Updated bid threshold for contracted transportation services from \$18,300 to \$18,800.

Section I-4

- No changes.

Section I-5

- Updated bid thresholds for school districts/charter schools with Qualified Purchasing Agents (QPAs) from \$36,000 to \$40,000 and school districts/charter schools without QPAs from \$26,000 to \$29,000 effective July 1, 2015.
- Added guidance on new legislation mandating that for all goods, professional services, general services and construction contracts, vendors, district/charter school contracts must include prescribed affirmative action language.

Section I-6

- Added guidance that effective for reporting periods beginning after June 15, 2015, *GASB Statement No. 76, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* establishes the hierarchy of GAAP for state and local governments.

Section I-7

- No changes.

Section I-8

- No changes.

Section II-10

- Added guidance related to GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, which establishes accounting and financial reporting standards for state and local governments that participate in qualifying external

investment pools that measure for financial reporting purposes all of its investments at amortized cost. The Department believes GASB Statement No. 79 will have limited impact on school districts, charter schools and renaissance school projects.

- Added guidance related to *GASB 72, Fair Value and Measurement Application*, which applies to donated capital assets, donated works of art, donated historical treasures, and also to similar assets and capital assets received in a service concession arrangement, such as the investment held in Solar Renewable Energy Certificates (SRECs). The Statement provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.
- Added statement that the CDL drawdown period ends with the 2015-16 year.
- Added that the Extraordinary Aid payments are expected to be made mid-late September, 2016.
- Deleted old reference to certification of the tuition rates occurring after two years, not three.
- Added guidance that New Jersey Travel *Regulation Circular No. 16-11-OMB* effective March 1, 2016 superseded New Jersey Travel Regulation Circular No. 12-04. The newer circular includes a relaxation of the rules regarding the use of Amtrak rail travel and updates the allowable reimbursement for meals when authorized.

#### Section II-20

- Clarified guidance that TPAF/FICA reimbursements are due to the state by October 1<sup>st</sup> in conformity with the final grant report due date of 90 days after the year end.
- Updated FICA and Medicare wage limits for 2015 and 2016.
- Reiterated guidance that the auditor signature is no longer required on the TPAF/FICA reimbursement form. The district's public school accountant will need to verify these calculations and prepare a comment in the AMR.
- Removed reference to the ProjectSERV grants awarded in 2013.

#### Section II-30

- Added guidance that P.L. 2015, c 257, effective January 19, 2016 amends N.J.S.A.18A:7G to eliminate the \$500,000 cap on the cost of capital projects that may be included in an SDA district's annual capital outlay budget.

#### Section II-40

- No changes.

#### Section II-50

- No changes.

## Section II-60

- Updated all memos and website links.
- Added guidance that FSMCs may charge interest on late payments, but the interest cannot come from the food service account.
- Updated guidance to reflect reference to *2 CFR Part 200 Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Grant Guidance, which supersedes OMB 04-04, The Single Audit Act, Amendments, OMB Circular No. A-133 Revised (OMB A-133) and related revisions. Deleted website link to outdated federal guidance.
- Deleted reference to the School Breakfast Expansion program from listing of child nutrition programs to examine.
- Added guidance to clarify that audit procedures of the child nutrition program are only applicable to SFA programs audited as Major Programs. Where the school food service program is not selected as a major federal and/or state program, but exceeds \$100,000 in federal and/or state support, auditors are required to inquire of school management or appropriate school food service personnel, as to whether the SFA has any overclaims or underclaims, and whether the SFA's expenditures of school food service revenues were limited to allowable direct and indirect costs. Each inquiry requires appropriate comment in the AMR.
- Updated guidance to clarify that for electronic applications, Free and Reduced Price Eligibility Software Systems contain a box which parents are required to check certifying that all information is true. This certification serves as the parent signature.
- Updated the FY 2105-16 timeline in which Direct Certification is to be performed.
- Added guidance to reflect that "sending" school districts must obtain the direct certification lists from the school where the children are consuming meals for the prevention of duplication of student matches SNEARS.
- Added guidance that the template for the Household Application for Free and Reduced Price School Meals changed for the 2015-16 School Year.
- Added guidance that Household Applications where the income entry is left blank are not considered incomplete, unless the application lacks other data.
- Added clarification that SFAs may elect (but are not required) to expand the verification sample beyond 3%, if conditions exist that indicate discrepancies are present in the selected sample, the SFA may elect to expand the verification sample beyond 3%.
- Added guidance that SFAs, must randomly select the required number of applications from all error prone applications, if the number of error prone applications exceeds the required 3% sample size.
- Added guidance that, when Child Nutrition Programs are audited as a major program, auditors must comment on whether USDA commodities were received and, if received, whether or not commodities were properly processed, warehoused, and inventoried on a FIFO basis.

- Added guidance that auditor review of meal count records is required only where the school food authority programs are audited as a major program.
- Deleted requirement for auditors to verify the initial approval date in order to validate the six cent reimbursement HHFKA Performance Based Program.
- Updated National School Program Reimbursement Rate Schedule.

Section II-70

- No Changes.

Section II-80

- Updated website to the Department of Labor Worker Unemployment Rates.

Section II-90

- No Changes.

Section II -CA

- Updated guidance to reflect that *GASB Statement No. 72, Fair Value and Measurement Application* is effective for reporting periods beginning after June 15, 2015. Donated capital assets should be measured at acquisition value for donated capital assets, donated works of art, historical treasures, and similar assets and capital assets received in a service concession arrangement. After June 15, 2015, donated capital assets are no longer reported at the estimated fair value at the time of acquisition.

Section II-LT

- No Changes.

Section II-SA

- Added guidance related to the *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Grant Guidance) applicable to federal awards received by nonfederal entities beginning on or after December 26, 2014. The Uniform Grant Guidance consolidates the former grants administrative circulars (Circular A-89, A-102 and A-110), the cost principle circulars (Circular A-21, A-87, A-122), and Circular A-133 into a single guidance. These administrative rules and cost principle requirements apply to direct federal funding and also apply to any sub-awards made by the State of New Jersey to sub-recipients from new federal awards or incremental funding received on or after December 26, 2014. Accordingly, beginning with the June 30, 2016 year end, and all subsequent year ends, the administrative requirements, cost principles, and single audit requirements contained in the *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* are applicable. Effective for

the fiscal year ending June 30, 2016 the single audit threshold increased from \$500,000 to \$750,000 of expenditures of federal awards; the major program threshold increased from \$300,000 to \$750,000; the major program determination is modified to focus on areas identified as having internal control deficiencies that are also identified as material weaknesses; and the reporting threshold for questioned costs increased from \$10,000 to \$25,000.

- Updated guidance related to the State of New Jersey Department of the Treasury Single Audit Policy for Recipients of Federal Grants, State Grants, and State Aid. All state agencies that disburse federal grant, state grant or state aid funds to recipients that expend \$750,000 or more in federal financial assistance or State financial assistance within their fiscal year must require those recipients to have an annual single audit, or a program specific audit, performed in accordance with the Act, Amendments, Subpart F - Audit Requirements and State policy. The federal government will not pay for any costs of auditing a recipient that is exempted from having an audit conducted under the Act and Subpart F for reasons that expenditures under federal awards are less than \$750,000 during the recipient's fiscal year.
- Added guidance that once it is determined that a federal and/or State single audit is required, auditors are to refer to section 200.518 of *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* which requires the auditor to use a risk-based approach to determine which Federal programs are major programs; section 200.519 for risk criteria; and section 200.520 for low-risk auditee criteria. New Jersey Treasury Circular 15-08-OMB, Part III, Policy, requires auditors to apply the same risk-based approach to programs supported by State Financial Assistance as required for federal programs.
- Added guidance that the deadline to purchase instructional equipment with 2016 Perkins Grant funds was extended to June 30, 2016. Grantees are expected to ensure that instructional equipment is purchased, received, installed and available for student instruction, allowing students to benefit from the equipment during the project period (July 1, 2015-June 30, 2016). Items purchased must be approved in the 2016 Perkins Grant application, and funds must be obligated no later than June 30, 2016 (end of the project period). Perkins Grants do not permit carryover funds; therefore, any funds not obligated by June 30, 2016, will not be available for obligation beyond this date.
- Added guidance to reflect that the 2015-2016 Individuals with Disabilities Education Act – Part B (IDEA-B) Application was amended to include 2014-2015 carryover/overpayments. Districts/charter schools/renaissance school projects were instructed to incorporate the 2014-2015 Carryover/Overpayments within the Electronic Web Enabled Grant system (EWEG) requirements with respect to obligating and liquidating funds as set forth, as well as applicable timeframes.
- Included a table for determination of major programs pursuant to 2 CFR 200.518.
- Summarized criteria for Low Risk Auditee as provided by the Uniform Grant Guidance.
- Added guidance regarding Departmental loans against future State aid payments and the impact on the Schedule of State Financial Assistance. Departmental loans made to the school district will be repaid to the Department through deductions from future

period State Aid payments. Refer to the audit guidance in Section II-10 of this Audit Program for additional information regarding the recording and reporting of loans against future State Aid.

- Updated the detailed instructions for the preparation of the Schedule of Expenditures of Federal Awards and Schedule of Expenditures of State Financial Assistance. Note: several columns were added to comply with the requirements of the Uniform Grant Guidance.
- Clarified the scenarios that can happen after the grantee submits the final expenditure report and it is approved in EWEG.
- Clarified that the liquidation period for federal grants is ninety (90) calendar days after the end date of the period of performance as specified in the terms and conditions of the federal award (section 200.343).
- Removed all references to the SAGE reporting system for IDEA grants. IDEA grants are included in the EWEG system for 2015-16 and beyond.
- Clarified that the policy for reporting questioned costs has been revised from \$10,000 to \$25,000 to coincide with the federal threshold provided in section 200.516.
- Updated the Federal Program Numbers for the Catalog of Federal Domestic Assistance and the Federal Award Identification Numbers.
- Added links to Department of Education Broadcast Notifications related to grant awards.

#### Section III-1

- Clarified reporting package due date as December 5, 2016.
- Clarified that it is the responsibility of district/charter school/renaissance school project personnel to access the OFAC CAFR Repository and upload the entire Audit Reporting Package prior to the corresponding statutory deadlines.
- Clarified the Audit Reporting Package submission instructions and updated certain contact information for DOE personnel.
- Updated the section to reference the regulatory authority for Single Audit Guidance as *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* 2 CFR 200 and NJOMB 15-08 throughout the section.
- Revised the Corrective Action Plan form to reflect the requirement that the corrective action plan must provide the name(s) of the contact person(s) responsible for corrective action, the corrective action planned, and the anticipated completion date.

#### Section III-2

- Noted that any grant funds which are considered a 2014-15 carry-forward must be audited under the new Uniform Grant Regulations.
- Included samples for the addition of the federal award identification number (FAIN) number in addition to the CFDA number in the listing of any grant award.

Section III-3

- Updated post-retirement benefit footnote for the State Health Benefits Program (SHBP) related to qualified local education active and retired participants, who retire from a board of education or county college, members of PERS and ABP who retire with 25 years of service or on a disability.

Section III-4

- Added a sample finding and recommendation where the district did not record the potential liability or disclose the loss contingency related to ongoing labor contract negotiations as required by GASBI 6 and GASBS 62.
- Added sample statement for where the school food service program was not selected as a major federal and/or state program, but exceeded \$100,000 in federal and/or state support. Auditors are required to inquire of school management or appropriate school food service personnel, as to whether the SFA had any overclaims or underclaims and comment whether exceptions were noted.
- Added a sample statement for where the school food service program is not selected as a major federal and/or state program, but exceeded \$100,000 in federal and/or state support. Auditors are required to inquire of school management or appropriate school food service personnel, as to whether the SFA's expenditures of school food service revenues were limited to allowable direct and indirect costs and comment whether exceptions were noted.
- Added a sample finding and recommendation (applicable where the school food authority is audited as a major program) to the AMR School Food Service section regarding instances where the school district/charter school/renaissance school project did not maintain the detailed revenue and expenditure information necessary in order to execute the USDA mandated Non-Program Food Revenue Tool at least annually.
- Added sample finding and recommendation (whether or not the school food authority is audited as a major program) to ensure that school district/charter school/renaissance school districts do not charge the salary of the designated determining and the confirming official in the Community Eligibility Provision school to the food service fund.
- Added sample finding and recommendation to ensure Community Eligibility Schools only use the DOE New Jersey Household Information Survey for the determination of student's low-income status for ASSA reporting.

Section III-5

- Added that school districts, charter schools and renaissance school projects will no longer have to complete the Indirect Cost Rate Tab prior to certifying Audsum to the Department of Education. The detail for the calculation of the Indirect Cost Rate is captured within the chart of account line items and reported in Audsum accordingly.
- Added emphasis that values entered in the Unspendable/Restricted/Committed/Assigned Fund Balance section of the Audsum will impact the Recap of Balance of the following year budget software screen.

Section III-6

- Added to the “Administrative Questionnaire”, a check point about the charter school and renaissance school project reporting of administrative expenditures in accordance with the NJ Chart of Accounts.
- Updated the budgeted State Per Pupil cost for legal fees from \$49 to \$51 and updated the actual State Per Pupil cost for legal fees from \$56 to \$60.
- Added to the “Checklist for Annual Audit” and the “Audit Questionnaire” the requirement that a report of contracts to be renewed, awarded or expired during the school year is included in the minutes of the board meeting.
- Added to the “Checklist for Annual Audit” and the “Audit Questionnaire” the requirement to include the policy for the Electronic Communications Between School Employees and Students as part of the required Board of Education/Board of Trustees Policies.
- Updated all references to the Uniform Administrative Requirements 2 CFR 200.

Section III-7

- Added links to the new template for the Audit Recommendations Summary.
- Updated links for the Certificate of Implementation of Corrective Action Plan and the Corrective Action Plan.
- Clarified that the board action and disposition of each audit recommendation must be noted in the minutes of the board.
- Clarified that the school district/charter school/renaissance school project shall submit the audit synopsis and Corrective Action Plan to the DOE via upload to the CAFR repository.

Section III-8

- Added to the “Quality Assessment Review”, a question relating to the reporting of deferred outflows of pensions pursuant to GASB Statement No. 68.
- Updated section to reflect the AICPA’s current illustrative audit reports for governmental entities.

## OVERVIEW

*Financial Accounting for New Jersey School Districts/Charter Schools/Renaissance School Projects (The Audit Program)* is updated annually and includes instructions for both district/charter school/renaissance school project 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/renaissance school projects 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 (CAFR) section at the end of this introduction provides additional information on the CAFR.

### Renaissance School Projects:

As amended by P.L. 2014, c.61, N.J.S.A. 18A:36C-7h provides that a nonprofit entity shall operate a renaissance school project “in accordance with the contract entered into pursuant to section 6 of this act, the provisions of this act, and the laws and regulations that govern charter schools which are not inconsistent with this act.” Accordingly, in this Audit Program, unless specifically noted, “charter schools” shall also refer to “renaissance school project”.

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-xxiv	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/renaissance school project, along with interim financial statements to facilitate management control of financial operations. *N.J.S.A. 18A:6-100 g.* requires the board of an Educational Information and Resource Center to have performed an annual audit of the center's accounts and financial transactions in the manner provided by *N.J.S.A. 18A:23-1 et.seq.* Financial statements are the responsibility of the board of education's/board of trustee's/board of directors management and are its representation of the financial position at a given point in time and the operations of the district/charter school/renaissance school project during a period of time.

The *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (may be referred to as the *Uniform Administrative Requirements* throughout this Audit Program) is available on the U.S. Government Publishing Office website at: [http://www.ecfr.gov/cgi-bin/text-idx?tpl=/ecfrbrowse/Title02/2cfr200\\_main\\_02.tpl](http://www.ecfr.gov/cgi-bin/text-idx?tpl=/ecfrbrowse/Title02/2cfr200_main_02.tpl).

#### Federal Requirements:

For the year ended June 30, 2016, the federal Single Audit Act requires organizations that expend \$750,000 or more in federal financial assistance have an audit (single audit or program specific audit) conducted in accordance with 2 CFR Part 200- *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Administrative Requirements)* Subpart F – Audit Requirements (200.501).

#### State Requirements:

NJ Circular Letter 15-08-OMB specifies the State single audit threshold for the expenditure of State of New Jersey financial assistance is \$750,000 for the fiscal year ended June 30, 2016. Section III (POLICY) of NJ Circular Letter 15-08-OMB provides that New Jersey school districts/charter schools/renaissance school projects/educational resource and information centers that expend \$750,000 or more in State or federal financial assistance in the fiscal year under audit

must have a single audit, or program specific audit, performed in accordance with the Act, Amendments, 2 CFR 200 – Subpart F – Audit Requirements, and State policy. New Jersey Circular Letter 15-08-OMB is available on the Treasury website at: [http://www.state.nj.us/infobank/circular/cir1508\\_omb.pdf](http://www.state.nj.us/infobank/circular/cir1508_omb.pdf)

NJ Circular Letter 15-08-OMB specifies that recipients of federal grant, State grant or State aid funds that expend less than \$750,000 in federal **or** State financial assistance but expend \$100,000 or more in State **and/or** federal financial assistance within the fiscal year, must have either a financial statement audit performed in accordance with *Government Auditing Standards August 2011 Revision*, (Yellow Book), or a program specific audit performed in accordance with 2 CFR 200 the *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* Subpart F – Audit Requirements, and State policy.

*Government Auditing Standards August 2011 Revision*, (Yellow Book) (GAGAS) 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, 2015 audits is **Monday, December 5, 2016**. The Commissioner has statutory authority (*N.J.S.A. 18A:23-6*) to appoint auditors for districts/charter schools/renaissance school projects/EIRC's failing to meet the statutory due date or invoke other administrative actions but the Commissioner does not have discretion to change a statutory requirement, such as the due date. *N.J.S.A. 18A:7A-55* includes late submission of the annual audit as one of the conditions for appointment of a state monitor.

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

The CAFR is the school district, charter school, or renaissance school project official annual report. It should include all funds of the district/charter school/renaissance school project. It is organized into three primary sections: 1) an introductory section, 2) a financial section, and 3) statistical section. If a school district, or charter school, renaissance school project, or EIRC falls under the reporting requirements of the Single Audit Act of 1984, as amended by the Single Audit Act Amendments of 1996 and the *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and/or the reporting requirements under NJOMB Treasury Circular Letter or 15-08, 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, renaissance school project, or EIRC as well as any additional statements, schedules, and disclosures required under the circumstances of the school district, charter school, renaissance school project, or EIRC. The report must also include all applicable single audit opinion letters prepared by the local school district, charter school, renaissance school project, or EIRC 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 2016) to auditors through the DOE website at: <http://www.state.nj.us/education/finance/audsum/> and to schools through NJDOE Homeroom at: <http://homeroom.state.nj.us/>. First-time-user auditors must create a user name and password in order to complete their registration with the Audsum web application. For control purposes, the department recommends that each auditor/user within the audit firm obtain a unique user name and password. If you need to be sent a reminder of your user name and/or password, or change your user name and/or password, please send a request to the Audsum email at: [audsum@doe.state.nj.us](mailto:audsum@doe.state.nj.us). User names and passwords will remain active until the auditor requests removal through an email request to [audsum@doe.state.nj.us](mailto:audsum@doe.state.nj.us). School auditors must annually request a PIN for each of their school audit clients by emailing a PIN request to: [audsum@doe.state.nj.us](mailto:audsum@doe.state.nj.us). The auditor/user must then link the DOE assigned district PIN for the audit year to their user name and password in order to access Audsum screens for a school client. 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 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’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, 2016). This information is used by the Department of Education for a variety of purposes, including downloading into the actual column of the school budget software maintained 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, 2016. 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/board of Trustees/Board of Directors of his/her findings and recommendations as a result of the audit. In accordance with the *Uniform Administrative Requirements* the CAFR will also be submitted to the Federal Audit Clearinghouse as part of the reporting package along with the Data Collection form (SF-SAC) whenever a federal single audit of the school district, charter school, renaissance school project, or EIRC 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/renaissance school project board of trustees, or EIRC board of directors. Accordingly, 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 uploaded to the OFAC CAFR Repository.

As of January 2, 2015, The OMB requires all PDF uploads of the reporting package submitted to the Federal Audit Clearinghouse to be text-searchable, unlocked and unencrypted. Information about the federal submission requirements can be found at <https://harvester.census.gov/facweb/default.aspx/>. Consistent with the submission requirements established by the Federal Audit Clearinghouse (FAC), New Jersey also requires all audit file submissions to the CAFR repository be unlocked, unencrypted, text-searchable PDF files with standard audit finding reference numbers in sequential format (e.g. 2015-001 through 2015-999).

The *Uniform Administrative Requirements* and NJOMB Circular Letter 15-08-OMB 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 *Uniform Administrative Requirements* (Subpart F 200.516). *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 Auditor's Management Report (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 a school district, charter school, renaissance school project, or EIRC 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 school's management (board of education, board of trustees, board of directors). AU-C Section 220 of the *Clarified Statements on Auditing Standards* issued by the Auditing Standards Board (ASB) of the American Institute of Certified Public Accountants (AICPA) addresses auditor independence as part of quality control for an engagement conducted in accordance with generally accepted auditing standards. General Accounting Office (GAO) *Government Auditing Standards (Yellow Book Rev. 2011)* paragraphs 3.02 through 3.59 contain the independence standards that comprise the Generally Accepted Governmental Auditing Standards (GAGAS). Paragraph 3.40 addresses non-audit activities such as financial statement preparation, modified accrual to accrual conversions, and other non-audit services provided to an audit client. Those non-audit activities must be evaluated using the conceptual framework provided in paragraph 3.46.

<http://www.aicpa.org/Research/Standards/AuditAttest/DownloadableDocuments/AU-C-00220.pdf>

<http://www.gao.gov/assets/590/587281.pdf>

Financial statement preparers of school district, charter school, renaissance school project, or EIRC financial reports 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 and schedules, including the basic financial statements and budgetary comparisons which are in excel files that can be downloaded by school staff. Please be aware that those illustrations may not be in conformity with recent pronouncements and statements issued by GASB. Information on Management Discussion and Analysis (MD&A) requirements and guidance on financial reporting for school 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 GASBS 34 presentation. Questions relating to the preparation of NJ school CAFRs may be emailed to [doecafr@doe.state.nj.us](mailto:doecafr@doe.state.nj.us).

The format of the CAFR should adhere to the Outline and numbering of the exhibits as shown on the following pages. If a section or exhibit is not applicable to the school district, charter school, renaissance school project, or EIRC, 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/ renaissance school project 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 school district, charter school, renaissance school project, or EIRC -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 school 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 school 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, renaissance school project, or EIRC 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 (GASBS 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 school auditors in preparing this section is posted on that the department’s web site (click on Audit Information, and then 2015-16 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-3.18 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

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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 the *Uniform Administrative Requirements* and New Jersey OMB Circular Letter 15-08-OMB .

**OUTLINE OF CAFR**

Page

**INTRODUCTORY SECTION**

Letter of Transmittal  
Organizational Chart  
Roster of Officials  
Consultants and Advisors

**FINANCIAL SECTION**

**Independent Auditor's Report**

**Required Supplementary Information – Part I  
Management's Discussion and Analysis**

**Basic Financial Statements**

A. District/Charter School/Renaissance School Project-Wide Financial Statements:

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

B. Fund Financial Statements:

Governmental Funds:

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

Proprietary Funds:

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

Fiduciary Funds:

- B-7 Statement of Fiduciary Net Position
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**Notes to the Financial Statements**

**Required Supplementary Information – Part II**

C. Budgetary Comparison Schedules:

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

**Notes to the Required Supplementary Information- Part II**

C-3 Budget-to-GAAP Reconciliation

**Required Supplementary Information – Part III**

L. Schedules Related to Accounting and Reporting for Pensions (GASB 68)

- L-1 Schedule of the District’s Proportionate Share of the Net Pension Liability –PERS
- L-2 Schedule of District Contributions – PERS
- L-3 Schedule of the District’s Proportionate Share of the Net Pension Liability – TPAF

**Notes to the Required Supplementary Information - Part III**

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**Other Supplementary Information**

D. School Based Budget Schedules (**if applicable**):

- D-1 Combining Balance Sheet
- D-2 Blended Resource Fund – Schedule of Expenditures Allocated by Resource Type – Actual
- D-3 Blended Resource Fund – Schedule of Blended Expenditures – Budget and Actual

E. Special Revenue Fund:

- E-1 Combining Schedule of Program Revenues and Expenditures – Budgetary Basis
- E-2 Preschool Education Aid Schedule(s) of Expenditures – Budgetary Basis

F. Capital Projects Fund:

- F-1 Summary Schedule of Project Expenditures
- F-2 Summary Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budgetary Basis
- F-2(x) Schedule(s) of Project Revenues, Expenditures, Project Balance, and Project Status – Budgetary Basis

G. Proprietary Funds:

Enterprise Fund:

- G-1 Combining Schedule of Net Position
- G-2 Combining Schedule of Revenues, Expenses, and Changes in Fund Net Position
- G-3 Combining Schedule of Cash Flows

Internal Service Fund:

- G-4 Combining Schedule of Net Position
- G-5 Combining Schedule of Revenues, Expenses, and Changes in Fund Net Position
- G-6 Combining Schedule of Cash Flows

H. Fiduciary Funds:

- H-1 Combining Statement of Fiduciary Net Position
- H-2 Combining Statement of Changes in Fiduciary Net Position
- H-3 Student Activity Agency Fund Schedule of Receipts and Disbursements
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- I-1 Schedule of Serial Bonds
- I-2 Schedule of Obligations under Capital Leases
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- J-1 Net Assets by Component
- J-2 Changes in Net Assets/Net Position
- J-3 Fund Balances – Governmental Funds
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**Revenue Capacity–N/A to Charter Schools**

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

- J-10 Ratios of Outstanding Debt by Type
- J-11 Ratios of General Bonded Debt Outstanding- **N/A to Charter Schools**
- J-12 Direct and Overlapping Governmental Activities Debt- **N/A to Charter**
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- J-14 Demographic and Economic Statistics
- J-15 Principal Employers

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- J-16 Full-time Equivalent District/Charter School/Renaissance school Employees  
by Function/Program
- J-17 Operating Statistics
- J-18 School Building Information
- J-19 Schedule of Required Maintenance Expenditures  
by School Facility
- J-20 Insurance Schedule
- J-21 Charter School Performance Framework, Financial Performance, Fiscal  
Ratios/Renaissance School Project Framework, Financial Performance,  
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\*Private citizens should be listed as Individual Taxpayer 1, Individual Taxpayer 2, etc.

**SINGLE AUDIT SECTION**

- K-1 Report on Internal Control over Financial Reporting and on Compliance and  
Other Matters Based on an Audit of Financial Statements Performed in  
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- K-2 Report on Compliance with Requirements Applicable to Each Major  
Program and on Internal Control Over Compliance in Accordance with  
OMB Circular A-133 and New Jersey OMB Circular Letter 04-04
- K-3 Schedule of Expenditures of Federal Awards, Schedule A
- K-4 Schedule of Expenditures of State Financial Assistance, Schedule B
- K-5 Notes to the Schedules of Awards and Financial Assistance
- K-6 Schedule of Findings and Questioned Costs
- K-7 Summary Schedule of Prior Audit Findings

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

**APPOINTMENT, SCOPE AND DECLARATION**

**Appointment of Auditor**

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

A school district board of education, charter school/renaissance school project 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 schools engage only licensed public school accountants who have had a peer review performed in accordance with *Government Auditing Standards, (Yellow Book)* and those schools obtain a copy of the audit firm's peer review and letter of comment. The board of education or, 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>. 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 may be dependent upon 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 or errors discovered through the review of responses 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/board of trustees/renaissance school project.

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/renaissance school projects]
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/renaissance school project CAFR as a component unit. Paragraph 6 of GASBS 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 management of the school district, charter school, and renaissance school project. A sample CAFR is available on the website <http://www.nj.gov/education/finance/fp/cafr/>. Sample schedules that are specific to school 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 must be completed through the DOE's web application. 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/>. School district, charter school, renaissance school project, auditors must request a unique PIN for each of their school audit clients by emailing a PIN request to [audsum@doe.state.nj.us](mailto: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](mailto:audsum@doe.state.nj.us). If you need an email reminder of your user name and/or password, please send a request to the Audsum email at [audsum@doe.state.nj.us](mailto:audsum@doe.state.nj.us). The auditor/user must then link the assigned school district, charter school, renaissance school project, PIN for the year under audit to their user name and password in order to access Audsum screens for a school client. 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 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'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, 2016).

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 *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*(2013); NJOMB Circular Letter 15-08-OMB; and audit requirements as prescribed by the State of New Jersey, Department of Education, Office of School Finance. 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 school district, charter school, and renaissance school project. See Section II-SA for required submission of reports.

#### Community Disaster Loans/Community Development Block Grants:

The department provided school districts with budgetary guidance that Community Disaster Loans (CDL) are recorded as actual receipts of loan proceeds in "Other Financing Sources" account number 10-5XXX and line 700 of Audsum. Appropriations and expenditures are recorded and reported in fund 11 – general fund. School districts received 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, 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. Continuing guidance for 2015-16, is that 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. 122-131 were issued by the Auditing Standards Board. 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. 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 designated by SAS No. 122 to AU sections.

The clarified standards are available on the AICPA website at: <http://www.aicpa.org/Research/Standards/AuditAttest/Pages/clarifiedSAS.aspx>

The State's Single Audit Policy effective December 26, 2014 established in the State of New Jersey Department of the Treasury Office of Management and Budget Circular Letter 15-08-OMB establishes the single audit threshold as \$750,000 of expenditures of federal or State financial assistance during any fiscal year period beginning after December 26, 2014. Treasury Circular Letter 15-08-OMB maintains that recipients that expend less than \$750,000 in federal or State financial assistance within the fiscal year, but expend \$100,000 or more in State and/or federal financial assistance within the fiscal year, must have either a financial statement audit performed in accordance with *Government Auditing Standards* (Yellow Book), or a program-specific audit in accordance with the Act, Amendments, Subpart F – Audit Requirements (of the *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*) and State policy.

The *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* section 200.61 defines internal control as a process, implemented by a non-Federal entity, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- (1) Effectiveness and efficiency of operations;
- (2) Reliability of reporting for internal and external use; and
- (3) Compliance with applicable laws and regulations.

Section 200.62 provides a specific definition for “Internal Control over Compliance Requirements for Federal Awards.”

Section 200.514 (c) Scope of Audit, *Internal Control of the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* provides (1) The compliance supplement provides guidance on internal controls over Federal programs based upon the guidance in Standards for Internal Control in the Federal Government issued by the Comptroller General of the United States and the Internal Control—Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). (2) In addition to the requirements of GAGAS, the auditor must 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 of noncompliance for major programs. (3) Except as provided in paragraph (c)(4) of this section, the auditor must: (i) Plan the testing of internal control over compliance for major programs to support a low assessed level of control risk for the assertions relevant to the compliance requirements for each major program; and (ii) Perform testing of internal control as planned in paragraph (c)(3)(i) of this section. (4) When internal control over some or all of the compliance requirements for a major program are likely to be ineffective in preventing or detecting noncompliance, the planning and performing of testing described in paragraph (c)(3) of this section are not required for those compliance requirements. However, the auditor must report a significant deficiency or material weakness in accordance with §200.516 Audit findings, assess the related control risk at the maximum, and consider whether additional compliance tests are required because of ineffective internal control.

Section 200.514 further states at *Compliance* (d)(1)- “In addition to the requirements of GAGAS - the auditor must determine whether the auditee has complied with federal statutes, regulations, and the terms and conditions of federal awards that may have a direct and material effect on each of its major programs.” At (d) (4) “The compliance testing must include tests of transactions and such other auditing procedures necessary to provide the auditor sufficient appropriate audit evidence to support an opinion on compliance.”

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

The *Yellow Book*, paragraph 4.19, requires that when providing an opinion or a disclaimer on financial statements, auditors should also report on internal control over financial reporting and on compliance with provisions of laws, regulations, contracts, or grant agreements that have a material effect on the financial statements. Auditors report on internal control and compliance, regardless of whether or not they identify internal control deficiencies or instances of noncompliance.

The AICPA's Auditing Standards Board (ASB) completed the Clarity Project with the issuance of SAS number 128, *Using the Work of Internal Auditors*, in February 2014. Auditors are encouraged to obtain information regarding each clarity statement (SAS No. 122 through SAS No. 128) 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/Renaissance School Projects (*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.*)**

**Renaissance School Project Revenue Received from Renaissance School District (*N.J.S.A. 18A:36C-7 e.*; *Contracts and Operations N.J.A.C. 6A:31-1.1 et. seq.*; and *Financial Operations N.J.A.C. 6A:23A-22.1 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*)

Other audit considerations for school district auditors 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 met 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* requires the school business administrator, or any other person designated by the board of education, to certify through the filing of E-CERT1 with 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. (Note: E-CERT is not applicable to charter schools or to renaissance school projects). 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](http://www.state.nj.us/treasury/taxation/pdf/other_forms/misc/e_cert1.pdf)
- *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 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 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.
- P.L.2015, c.46 effective May 7, 2015 amended *N.J.S.A. 18A:7F-41* for general fund legal reserve available to districts that receive federal Impact Aid. Accordingly, the department has added new reserve accounts to Audsum to report the year-end end balance of federal Impact Aid Reserve – general fund and federal Impact Aid Reserve - capital. A board of education (or a board of school estimate) may through the adoption of a board resolution, appropriate federal Impact Aid funds to establish or supplement the reserve accounts in the district’s annual budget, or through a transfer by a two-thirds affirmative vote of the authorized membership of the board between June 1 and June 30. The law specifies that cumulative transfers to the impact aid reserve in a given fiscal year shall not exceed the total amount of federal impact aid received during that same fiscal year. Withdrawal may occur through the budget process or by board resolution during the fiscal year in any subsequent school year. The board, at its discretion, may use the withdrawn funds to finance the district’s general fund (general fund Impact Aid Reserve) or to finance school

facilities projects (capital Impact Aid Reserve), in a manner consistent with federal law. The total year end balance of funds on deposit in either general fund Impact Aid or capital Impact Aid reserve account shall not be limited. As stated above, the amount of the cumulative annual (transfer(s)) deposit(s) to either reserve are categorically limited by the amount of federal Impact Aid received during the fiscal year of deposit to those reserves. All reserve accounts shall be established and held in accordance with GAAP and shall be subject to annual audit. Any capital gains or interest earned shall become part of the reserve account. A separate bank account is not required; however, a separate identity for each reserve account shall be maintained.

- *N.J.A.C. 6A:23A-5.2(a)(3)* require school 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 June 30, 2015 legal costs that exceed 130% of the 2014-15 audit statewide average as published in the *2016 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)*. To provide the school district with adequate implementation time, the auditor must through inquiry, or other appropriate audit technique, verify evidence of a 2015-16 resolution (or memo) stating the board's intention to implement the controls specified in code and the aforementioned resolution, effective for fiscal year 2016-17. 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 *2016 Taxpayer Guide to Education Spending* is available on the DOE website at: <http://www.nj.gov/education/guide/2016/>.

The 2014-15 Budget Guidelines, page 151, provides that the 2014-15 budget software includes a warning edit where the districts 2013-14 budgeted per pupil legal costs, revised as of February 1, 2014, exceeds 130 percent of the statewide average per pupil budget legal costs for the district's operating type as published in the 2014 Taxpayer Guide to Education Spending. School districts that received this warning edit in the 2014-15 software, may have utilized internal procedures during the time remaining in the 2013-14 fiscal year to control spending. However, where district imposed spending controls were not sufficient to control legal costs, the school district may have ended the June 30, 2014 year with actual audited legal costs above 130 percent of the statewide per pupil 2013-14 audited average for the district's operating type as published in the *2015 Taxpayers Guide to Education Spending*. Those school districts were provided planning time until the 2015-16 fiscal year (the year under audit) for the actual implementation of the required regulatory procedures. Where this has occurred, the auditor engaged for 2015-16 must verify implementation of the regulatory control procedures during 2015-16, unless evidence is provided by the school district to document the regulatory procedures would not result in a reduction of costs.

<http://www.state.nj.us/education/guide/2015/>

- P.L. 2013, c. 28 amended N.J.S.A. 52:14-15h to allow a district to opt for mandatory direct deposit for all employee compensation on or after July 1, 2014, with certain exceptions delineated in the law.

#### Renaissance School Projects:

P.L. 2014, c. 61, effective October 6, 2014, amended N.J.S.A. 18A:36C-7h to specify that in addition to the renaissance school contract, renaissance school projects must operate in accordance with the laws and regulations that govern "charter schools". For periods prior to the October 6, 2014 effective date of that law, in addition to the renaissance school contract, renaissance school projects were permitted to operate in accordance with the laws and regulations that govern "other public schools". Accordingly, for purposes of this Audit Program, unless specifically noted, effective October 6, 2014, renaissance school

projects are subject to the same laws, regulations, and audit policy requirements as charter schools. Renaissance school project auditors are advised that one notable exception provided by N.J.S.A. 18A:36C-7 d. is that renaissance school projects are not required to adhere to Public School Contracts Law (N.J.S.A. 18A:18A-1) and N.J.A.C. 6A:23A-22.5.

*N.J.A.C. 6A:23A-22* titled Financial Operations of Charter Schools, requires that charter schools' and renaissance school project's (subsequent to October 6, 2014 as required by P.L. 2014 c.61 which amended N.J.S.A. 18A:36C-7) 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 and renaissance school projects (*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*) Renaissance school project auditors are advised that one notable exception provided by *N.J.S.A. 18A:36C-7 d.* is that renaissance school projects are not required to adhere to Public School Contracts Law (N.J.S.A. 18A:18A-1) and N.J.A.C. 6A:23A-22.5.
- Public relations and professional services; board policies; efficiency (*N.J.A.C. 6A:23A-22.6*)
- Charter school and renaissance school project 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 and renaissance school project governing board 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-22.6* requires charter schools and renaissance school projects 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. Charter schools and renaissance school projects that reported audited June 30, 2015 legal costs which exceed 130% of the audited statewide per pupil 2014-15 average as published in the *2016 Taxpayer Guide to Education Spending*, 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)* and *N.J.A.C. 6A:23A-22.6*. Where excess spending has occurred during 2014-15, charter schools and renaissance school projects were provided planning time for the implementation of the required regulatory procedures until fiscal year 2015-16 (the year under audit). Accordingly, auditors engaged for 2015-16, must verify evidence of implementation of the controls specified in code effective for fiscal year 2016-17. If such controls are not established, the charter school or renaissance school project must document and have available for audit, evidence that such procedures would not result in a reduction of costs. The *2016 Taxpayer Guide to Education Spending* is available on the DOE website at: <http://www.state.nj.us/education/guide/2016/>

Additional cost saving programs encouraged for use by charter schools and renaissance schools include, but are not limited to:

- Take appropriate steps to maximize the participation in the Special Education Medicaid Initiative (SEMI) Program, pursuant to N.J.S.A. 18A:55-3 *N.J.A.C. 6A:23A-5.3*; *N.J.A.C. 6A:23A-6.1(b)4*
- Participate in the Alliance for Competitive Energy Services (ACES) energy program offered through the NJ School Boards Association unless the charter school or renaissance school project 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*)
- Participate in the Alliance for Competitive Telecommunications (ACT) or document why participation was not fiscally prudent (*N.J.A.C. 6A:23A-6.1(b)3*);
- Participate in the New Jersey School Boards Association Insurance Group or a joint insurance fund or document why participation was not fiscally prudent (*N.J.A.C. 6A:23A-6.1(b)3*);
- Submit all claims for reimbursable costs under the federal E-rate program for encouraging the use of the internet

*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* through *15.4*

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*)

Renaissance school project auditors must be aware that renaissance school projects receive revenue directly from the Renaissance School District (N.J.S.A. 18A:36C-7 e.). Renaissance school projects function under the regulations at *N.J.A.C. 6A:31-1.1* et. seq. Renaissance school project financial operations are subject to the same regulations as charter schools (*N.J.A.C. 6A:23A-22.1* et. seq.), with limited exceptions detailed throughout this Audit Program.

In addition to those requirements referenced above, a brief overview of several other requirements applicable to renaissance school projects follows:

- *N.J.A.C. 6A:31-4.1* and *4.2* contain the regulations for student recruitment and enrollment by the renaissance school project.
- *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 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.

### **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/renaissance school projects 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/renaissance school project when engaged to do so, and report any

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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/renaissance school project."

**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 /renaissance school projects 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 /renaissance school project 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/Board of Trustees Board, Policies required by statute or regulation (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
- Electronic Communications Between School Employees and Students

### **Minute Records**

The proceedings of the meeting of the board of education or board of school estimate/board of trustees/renaissance school project governing board 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, RENAISSANCE SCHOOL PROJECT 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). Renaissance school project students are included in the school district ASSA and Schedule of Audited Enrollment in the “Reported on ASSA On Roll” column. Charter School students are not included in the “Reported on ASSA On Roll” column, but are included, when applicable, in the “Resident Low Income”, “Resident LEP Low Income”, and “Resident LEP NOT Low Income” columns of the Schedule of Audited Enrollments. 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. Refer to Section III – Chapter 4 for an example of this schedule and auditor’s comment.

The Office of School Finance used the October 15, 2015 ASSA data in the calculation of 2016-17 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 16, 2016 DOE ASSA Summary prepared by the department and available through the district’s individual account on the DOE Homeroom page. This Summary reflects changes made prior to the final calculation of 2016-17 state aid.

Note that for the October 15, 2015 ASSA, school district students sent to a charter school are reported in the school district’s ASSA as enrolled in their resident district in the column headed, “Charter Schools”. Charter school students are not included in the column headed “On-Roll”. For additional information, refer to the 2016-2017 Application for State School Aid Online Technical Manual, page 38.

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 2016-2017 Application for State School Aid Online Technical Manual, page 38.

The School Funding Reform Act (SFRA) calculations for state aid required changes to the ASSA that were first effective for October 15, 2008. Since that time, special education students are reported as either elementary (PreK-grade 5), middle school (grades 6-8), or high school (grades 9-12) students according to their grade level. Auditors must be aware that grade level or age classification must be verified as part of on roll – full/shared and private school testing.

The ASSA data collection includes screens for on-roll (excluding choice and charter), students sent, students received, students on-roll Choice, and applicable to regional school districts only – regional enrollment breakdown. 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. The ASSA Summary printout (and the Schedule of Audited Enrollments) 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 the testing and reporting of low income status as well as LEP eligibility. For LEP students classified as low income status, the presence of a valid current year “Application for Free and Reduced Price Meals and Free Milk” is deemed to support the low income status classification. For purposes of meals, these students should appear on the school nutrition program Master Eligibility Lists as “Free” or “Reduced” status. For students that attend a CEP (Community Eligibility Program) school and are classified as an LEP low income student or a low income student, a low income determination must be supported by a 2015-16 New Jersey DOE Household Information Survey form as documentation in support of the classification.

In accordance with *N.J.A.C. 6A:32-8*, the School Register is a record of the continuous, year-to-year cycle of enrollment or re-entering of each student, recording daily attendance or absence, summarizing attendance records annually (school districts) or monthly (charter schools/renaissance school projects) and used in the reporting of year-end or monthly summaries to the Department of Education. Students are enrolled in the school district one time (often K or grade 1) and then their continuous enrollment from one school to another or to a new school district is tracked. School districts must complete a set of ASSA workpapers that document the compilation of School Register data for the ASSA student count, and provide an audit trail for the auditor to use as a basis for testing. The department maintains information about the New Jersey School Register on the department’s website at:

<http://www.nj.gov/education/finance/register/>.

School districts must also prepare written internal procedures that provide a description of the October 15, 2015 count process. Those 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 ASSA workpapers, original supporting documentation, and internal procedures must be maintained on file for a period of seven years.

### **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.

<u>TOTAL REPORTED</u>	<u>SAMPLE SIZE EXPRESSED AS %</u>	<u>TOTAL REPORTED</u>	<u>SAMPLE SIZE EXPRESSED AS NO.</u>
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  $\pm 2$  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, 2015 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.

**Special Education Grade Level Tables**

Special education 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 /renaissance school project be present to ensure compliance with the aforementioned provision. Additionally, the district/charter school/renaissance school project may require the auditor to sign the pupil access record to document the disclosure of this information.*

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

<u>Grade Level (as of 10/15/15)</u>	<u>School</u>
preK-5	Elementary School
6-8	Middle School
9-12	High School

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

<u>Age (as of 6/30/16)</u>	<u>School</u>
11 and under	Elementary School
12-14	Middle School
15-21	High School

## **2. Private Schools for the Disabled**

Obtain the ASSA 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, 2015. 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 2015 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 by a school district to private schools are not reported on the ASSA by tier. However, each student's placement must be supported by an appropriate IEP. Auditors must verify that 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, beginning on page I-3.13 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, beginning on page I-3.17 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, beginning on page I-3.17 of this Audit Program.

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

### **CHARTER SCHOOL AID – CHARTER SCHOOLS ONLY**

In accordance with *N.J.A.C. 6A:32-8*, the School Register is a record of the continuous, year-to-year cycle of enrollment or re-entering of each student, recording daily attendance or absence, summarizing attendance records monthly and used in the reporting year-end monthly summaries to the Department of Education. Students are enrolled in the school district one time (often K or grade 1) and then their continuous enrollment from one school to another or to a new school district is tracked.

In the School Register, school districts are required to identify charter school students who are resident in the district. Those students are reported to the Department through the resident school district's ASSA submission as "resident students" for purposes of calculating a school district's state aid. Data from the Charter School Enrollment system is prepopulated in the school district's ASSA.

The charter school receives funding 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 last attended non-public schools and students that were last home schooled (last school year) are funded by the state with direct payments to the charter school.

Auditors are required to design audit procedures to test revenue recognition in the charter school's accrual and modified accrual financial statements. Auditors are advised that Schedules of Payments required to be made by school districts to charter schools are available in the charter school homeroom page or by request made to the charter school. For 2015-16, three separate aid notices are calculated and posted on the homeroom page. The first notice, is based on FY 15-16 projected enrollments and established the initial payment amounts. That notice is dated February 27, 2015. The second aid notice is dated November 12, 2015 and is based on average daily enrollment at October 15, 2015. The second notice adjusted payment amounts from December 2015 through the end of June 2016. The final aid notice, based on average daily enrollment on the last day of school, is dated on or around June 24, 2016. The final notice is used to reconcile the payments made pursuant to the first and second aid notice with the aid calculated based upon the final average daily enrollment on the last day of school.

Auditor Note: The 2015-16 charter school aid revenue recognized is equal to the aid reflected on the final enrollment count notice referenced in the preceding paragraph. Auditors are required to determine whether the charter school has correctly reported revenues and any amount due to, or due from, school district(s). Those amounts are reported as a receivable or payable, without the right of offset.

### **Enrollment Counts and Student Characteristics – Charter Schools**

Pursuant to *N.J.A.C. 6A:23A-15.1 et. seq.* charter schools are required to conduct enrollment counts twice annually, on October 15 (to conform with the school district enrollment count date) and again on the last day of the school year. Each charter school is required to submit each of the two counts to the department through the live web-based Charter School Enrollment System (CHE), 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 (refer to above section addressing charter school aid). Charter schools must complete the enrollment count submissions, which report the compilation of School Register data, for ultimate use in the final charter school aid calculation. The enrollment counts provide a source document for auditor verification of the enrollment component included in the calculation of a charter school's revenue.

Charter schools follow the Charter School Enrollment System (CHE) submission process and are not required to submit an ASSA.

Charter schools are required to prepare written internal procedures providing a detailed description of the count process for the required enrollment count(s). The procedures should describe in detail the process for how the count(s) occurred, who was responsible for compiling the data, completing the enrollment count submission(s), and detail the various assigned responsibilities for collection of the data and the follow-up procedures to identify student information for correction in the count, if applicable. Note: The workpapers, original supporting documentation, and internal procedures must be maintained on file for a period of seven years.

Source documents related to the determination of student characteristics (e.g. Application for Free and Reduced Meals and Free Milk, Household Information Survey, workpapers listing bilingual education students) are obtained/determined by the charter school, are the responsibility of the charter school, must be maintained by the charter school, and copies of same provided to the student's school district of residence.

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

**School Register Sample Selection and Test Procedures for Audits of Charter Schools:**

In accordance with *N.J.A.C.* 6A:32-8, the School Register is a record of the continuous, year-to-year cycle of enrollment or re-entering of each student, recording daily attendance or absence, summarizing attendance records monthly and reporting year-end monthly summaries to the Department of Education. Students enroll in the school district one time (often K or grade 1) and then their continuous enrollment from one school to another or to a new school district is tracked throughout the subsequent years. The school district of residence must accurately track enrollment of charter school students in the school district's School Register and treat those students as resident students attending their home school for purposes of state aid.

In addition to student enrollments tracked through the School Register by the resident school district, (enrollment and) daily attendance or absence is tracked in a School Register by the charter school where the student is attending school. The charter school may maintain their School Register(s) in each classroom or in a designated central location for all classrooms. Attendance information must be updated on a daily basis and ultimately summarized and reported to the department through the annual year-end School Register Summary data collection.

The charter school is responsible to ensure the attendance of those students enrolled in their school in accordance with *N.J.S.A.* 18A:38 et al. and with *N.J.A.C.* 6A:23A-15.1 et. seq. Charter school auditors should be aware of, and design audit procedures to test for compliance with the requirement that a student who has been absent consecutively for 10 school days for an unknown reason must be reported/recorded as a dropout, and the charter school must immediately notify the school district of this condition in writing.

School Register(s) or section(s) of Expanded School Register(s) must be maintained for each program type defined at *N.J.A.C.* 6A:32-8.1(e) as: Pre-k; K, grades 1-5; grades 6-8; grades 9-12; each preschool class for the disabled; each class for the disabled; shared-time classes for regular students; shared-time classes for students with disabilities; full-time bilingual education programs; vocational day programs; summer school programs). (Auditor's note: For example, where school facility houses students from grades four through eight, at a minimum, two separate sets of School Registers must be maintained; one set for grades 4 and 5, and a separate set for grades 6 through 8).

Testing must occur for each category of reporting included in the auditor's Schedule of Audited Enrollments as follows:

**1. On-roll full and shared students** - The auditor must include audit procedures to verify the total enrollments reported in the School Register(s) match the total enrollments reported in each of the Charter School Enrollment counts reported to the Department and verified by the resident district through the CHE software. School Registers must also be subject to audit procedures that include samples taken from each of the enrollment count dates (i.e. October 15, and the last day of school) that are designed to verify the accuracy of the School Register. Although every enrolled student is not sampled for each of the two counts, the charter school auditor must apply testing procedures to 100% of the student enrollment records at least once. This is accomplished by utilizing a "sampling without replacement" method. Once a student record has been randomly selected for testing in the October 15 enrollment count, that record is excluded from the sample pool for the subsequent (year-end) count. Utilizing this "non-replacement" method ensures that the auditor examines 100% of the charter school student records without duplication. 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 size must include the remaining 250 students (only). From a risk perspective, 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 a component in the calculation of charter school funding, auditors are required to be diligent in verifying the accuracy of the information. All discrepancies between the data reported in the Charter School Enrollment System (CHE), including the "Enrolled Days" for determination of the average daily enrollment (ADE), and the charter school supporting documentation, including but not limited to, student transfer cards, IEPs, Free and Reduced Lunch Applications, Household Income Survey Forms, etc. must be reported by the auditor as an audit finding and recommendation for improvement, with discrepancies reported in the auditor's Schedule of Audited Enrollments. Reported discrepancies may result in monetary adjustment. The additional documentation subject to audit supports the charter school's request for additional funding from the district of residence for classification of a student as LEP, low income, or special education are to be documented and reconciled.

## **2. Special Education or Speech Only Student Enrollments**

Special education 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.

Charter school auditors must design audit tests to verify the existence of an IEP for 100% (may use sampling without replacement) of the student's recorded as Special Education or Speech Only in the School Register(s) and reported to the Department as Special Education or Speech Only. Speech Only students are those students whose only special education service received is speech language services as defined in N.J.A.C. 6A:14-3.6. For all Special Education students, the auditor must review the student's IEP to verify the classification as Special Education. Note: the Speech Only IEP should be reviewed to determine that the student has been classified as Speech Only.

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

### **3. Private Schools for the Disabled - Charter Schools**

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. The costs for educating these students are borne by the school district of residence. If a charter school student has been placed in a Private School for the Disabled or a residential program, the charter school auditor must: 1. Verify that the IEP requires the private placement 2. Verify that the code assigned in the student record in the Charter School Enrollment System is "Attending a Private School" and that the related Average Daily Enrollment (ADE) is zero.

### **4. Low-Income Students**

Please refer to low-income enrollment guidance applicable to charter schools beginning on page I-3.13 of this Audit Program.

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

Please refer to low-income LEP enrollment guidance applicable to charter schools beginning on page I-3.17 of this Audit Program.

### **6. Limited English Proficient (LEP) Students (not low income- kindergarten through 12**

Please refer to LEP enrollment section applicable to charter schools beginning on page I-3.17 of this Audit Program.

### **7. County Vocational School Students**

For charter school students in grades 9 to 12 that are recorded as shared with a county vocational school program in the School Register, auditors are required to verify that the final enrollment count reflects the corresponding reduction in Average Daily Enrollment (ADE). The Charter School Enrollment System record of students who were enrolled in the charter school for the entire school year, and during that same time period were also attending a vocational program, should reflect an ADE of 0.5. This ADE would be prorated accordingly for students who were only enrolled in the charter school for part of the school year. Any exceptions should be noted in the Schedule of Audited Enrollments and included as a finding and recommendation for improvement.

### **8. First Year Non-Public Students**

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

## **RENAISSANCE SCHOOL AID– RENASSAINCE SCHOOL PROJECTS**

Pursuant to N.J.S.A. 18A: 36C-7e, the renaissance school district in which a renaissance school project is located shall pay to the nonprofit entity in 12 equal monthly installments an amount per pupil equal to 95% of the district's per pupil expenditure. In addition, the 12 monthly installments shall include the

security categorical aid attributable to the student, a percentage of the district's special education categorical aid equal to the percentage of the district's special education students enrolled in the renaissance school project, and if applicable 100% of the preschool education aid. The district shall also pay directly to the renaissance school project any federal funds attributable to the student.

Pursuant to *N.J.S.A.* 18A:36C-7.1, if after approval, a renaissance school project is located in a temporary facility pending completion of the newly constructed facility or substantially reconstructed facility, the renaissance school project shall be funded pursuant to *N.J.S.A.* 36A-12, until it has obtained final site plan approval for the newly constructed facility or begun construction on the facility to be substantially reconstructed, provided that a renaissance school project shall not be located in a temporary facility for more than three years.

Auditors must verify that revenue/aid recognition in the modified accrual and accrual financial statements is in accordance with the above referenced statutes. The 2015-2016 Renaissance School Aid Calculation template is available from the resident school district [FY16RenaissanceAidSchedule.xlsx](#) must verify revenue recognized by the renaissance school project against the Renaissance School Project Payment Schedule received directly from the renaissance school district or from the department.

### **Enrollment Counts and Student Characteristics– Renaissance School Projects “Renaissance Enrollment Report”**

#### **School Register - Attendance - Renaissance School Projects**

Background:

In accordance with *N.J.A.C.* 6A:32-8, the School Register is a record of the continuous, year-to-year cycle of enrollment or re-entering of each student, recording daily attendance or absence, summarizing attendance records monthly and reporting year-end monthly summaries to the Department of Education. Students enroll in the school district one time (often K or grade 1) and then their continuous enrollment from one school to another or to a new school district is tracked throughout the subsequent years. The school district of residence must accurately track enrollment of renaissance school project students in the school register and treat them as resident students for purposes of state aid.

Daily attendance or absence is tracked in a School Register by the renaissance school project where the student is attending school. The renaissance school project may maintain School Register(s) in each classroom or in a designated central location for all classrooms. Attendance information must be updated on a daily basis, and ultimately summarized and reported to the department through the annual year-end School Register Summary data collection.

The renaissance school project is responsible to ensure the attendance of those students enrolled in their school in accordance with *N.J.S.A.* 18A:38 et al. and with *N.J.A.C.* 6A:23A-15.1 et. seq. Renaissance school project auditors should be aware of the requirement, and design testing to verify, that a student who has been absent 10 days for an unknown reason must be reported/recorded as a dropout and the renaissance school project must immediately notify the school district of this condition in writing. The auditor is required to test for appropriateness and accuracy the renaissance school project School Registers – (Attendance), School Register Summary – (Attendance), and related workpapers and supporting documentation, for all students transferred to the renaissance school project by the renaissance school district.

Renaissance school projects conduct an annual student enrollment count as of October 15<sup>th</sup>, which establishes the number of on-roll students in the renaissance school project on October 15<sup>th</sup>. Prior to the student enrollment count, renaissance school projects are required to prepare written internal procedures detailing the count process. Specifically, those procedures should describe how the count will be taken; identify who will be responsible for compiling the data; identify who will be responsible for completing

the enrollment count submission; provide a detailed account of the various assigned responsibilities for collection of the data; and describe the follow-up procedures to be applied to correct any erroneous student information. The workpapers, original supporting documentation and internal procedures should be maintained on file by the renaissance school project for a period of seven years.

Renaissance school projects do not submit an ASSA, rather, their data is included with their resident school district data. For their October 15, 2015 student count, renaissance school projects were required to certify their student enrollment count through the reporting requirements of NJSMART. NJ SMART is the source of the required data necessary to prepare the 2015-2016 Renaissance Aid Calculation and Payment Schedules. The renaissance school project auditor must design audit procedures to verify the accuracy of the School Register with the enrollment reported in the certified NJSMART report. A final (school year-end) student enrollment count is not required. However, a count may be conducted if deemed necessary by either the renaissance school project or the renaissance school district.

School Register(s) or section(s) of Expanded School Register(s) must be maintained for each program type defined at N.J.A.C. 6A:32-8.1(e) as: Pre-k; K, grades 1-5; grades 6-8; grades 9-12; each preschool class for the disabled; each class for the disabled; shared-time classes for regular students; shared-time classes for students with disabilities; full-time bilingual education programs; vocational day programs; summer school programs). (Auditor's note: For example, where a school facility houses students from grades four through eight, at a minimum, two separate sets of School Registers must be maintained; one set for grades 4 and 5, and a separate set for grades 6 through 8).

Auditors must design audit testing procedures to verify that School Registers maintained by the renaissance school project support the reporting of students in the auditor's workpapers and in the enrollment submissions to the Department through NJ Smart in sufficient grade level detail according to:

- Half Day Preschool-3 years old
- Full Day Preschool-3 years old
- Half Day Preschool-4 years old
- Full Day Preschool-4 years old
- Half Day Kindergarten
- Full Day Kindergarten
- Grade 1 through 5 (individually)
- Grade 6 through 8 (individually)
- Grades 9 through 12 (individually)
- Special Education Elementary School (Grade PreK-5)
- Special Education Middle School (Grade 6-8)
- Special Education High School (Grade 9-12)

Renaissance school project auditors may refer to the information regarding School Register enrollment codes, transfer card codes, and general discussion points at <http://www.nj.gov/education/finance/register/>.

### **School Register Sample Selection and Test Procedures for Audits of Renaissance School Projects:**

**1. On-roll full and shared students** - Renaissance school project auditors must obtain the School Registers maintained by the renaissance school project and also the enrollment records/workpapers developed in support of enrollments submitted to NJ SMART. Testing of enrollments presented in the renaissance school project's School Registers must include samples selected from the enrollment records produced at each of the enrollment count dates, i.e. October 15, and if initiated by either the renaissance school project or the renaissance school district, the count that occurs on the last day of school. In

instances where the October 15<sup>th</sup> count is the only count, the auditor must apply procedures to 100% of the records for the October 15<sup>th</sup> enrollment count. In instances where there is also a year-end count performed pursuant to a request made by the renaissance school district or the renaissance school project, in addition to the required October 15<sup>th</sup> count, although every enrolled student is not sampled for each of the two counts, the renaissance school project auditor must apply testing procedures to 100% of the student enrollment records at least once. This is accomplished by utilizing a “sampling without replacement” method. Once a student record has been randomly selected for testing in the October 15 enrollment count, that record is excluded from the sample pool for the subsequent (year-end) count. Utilizing this “non-replacement” method ensures that the auditor examines 100% of the charter school student records without duplication. For example, if total renaissance school project enrollment is 500 students, the October 15 sample is 250 out of the 500 records. The last day of school count sample size must include the remaining 250 students (only). The auditor should pay particular attention to students that have either enrolled into or transferred out of the renaissance school project during the school year to ensure that they are included in the testing, and that the enrolled days are accurate.

Auditor note: Since student enrollment is a component in the calculation of renaissance school project funding, auditors are required to be diligent in verifying the accuracy of the information. All discrepancies between the data reported in the Renaissance Enrollment Report used in the determination of enrollment, and the renaissance school project supporting documentation, including but not limited to, student transfer cards, IEPs, Free and Reduced Lunch Applications, Household Income Survey Forms, etc. must be reported by the auditor as an audit finding and recommendation, with the potential for monetary adjustment. The additional documentation supports the renaissance school project request for additional funding from the district of residence for classification of a student as LEP, low income, or special education are to be documented and reconciled.

## 2. Special Education Grade Level Tables

Special education students are reported by grade groupings – elementary, middle school, or high school. In order to verify the correctness of a student’s classification by the school as special education, the auditor must observe the existence of an IEP. Auditors are to employ procedures to ensure that special education students are not double-counted; once as graded and again as a special education student.

Renaissance School Project auditors must design audit tests to verify the existence of an IEP for 100% (may use sampling without replacement) of the students recorded as Special Education or Speech Only in the School Register(s) and reported to the Department as Special Education or Speech Only. Speech Only students are those students whose only special education service received is speech language services as defined in N.J.A.C. 6A:14-3.6. For all Special Education students, the auditor must review the student’s IEP to verify the classification as Special Education. Note: the Speech Only IEP should be reviewed to determine that the student has been classified as Speech Only.

*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 /renaissance school project be present to ensure compliance with the aforementioned provision. Additionally, the district/charter school/renaissance school project may require the auditor to sign the pupil access record to document the disclosure of this information.*

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

<u>Grade Level (as of 10/15/15)</u>	<u>School</u>
preK-5	Elementary School
6-8	Middle School
9-12	High School

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

<u>Age (as of 6/30/16)</u>	<u>School</u>
11 and under	Elementary School
12-14	Middle School
15-21	High School

### **3. Private Schools for the Disabled - Renaissance School Projects**

Pursuant to N.J.S.A.18A:36A-11(b) and N.J.S.A.18A:36C-14 renaissance school projects 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) and N.J.S.A.18A:36C-14, within 15 days of the signing of the individualized education plan, a renaissance school project 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. The costs for educating these students are borne by the school district of residence. If a renaissance school project student has been placed in a Private School for the Disabled or a residential program, the auditor must: 1. Verify that the IEP requires private placement, and 2. Verify that the student record has been classified as "Attending a Private School" on the renaissance school project Enrollment Count Detail.

#### **4.Low-Income Students**

Please refer to low-income enrollment guidance applicable to renaissance school projects beginning on page I-3.13 of this Audit Program.

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

Please refer to low-income LEP enrollment guidance applicable to renaissance school projects beginning on page I-3.17 of this Audit Program.

#### **6.Limited English Proficient (LEP) Students (not low income- kindergarten through 12**

Please refer to LEP enrollment section applicable to renaissance school projects beginning on page I-3.17 of this Audit Program.

For the October 15, 2015 renaissance school project enrollment count, NJSMART enrollment submission, and the related 2015-2016 Renaissance School Aid Calculation and Renaissance School Project Payment Schedule, audit procedures must include, but are not limited to, the following:

1. Obtain the count procedures employed by the renaissance school project;
2. Evaluate the appropriateness of those procedures;

3. Design audit test procedures to evaluate whether the procedures were applied as described;
4. Verify the accuracy of the renaissance school project enrollment count(s) including student characteristics described in items 1 through 5 above.

Source documents related to the determination of student characteristics (e.g. Transfer Cards, Application for Free and Reduced Meals and Free Milk, Household Income Information Survey, workpapers listing bilingual education students, etc.) are obtained and determined by the renaissance school project. Source documents are the responsibility of the renaissance school project, must be maintained by the renaissance school project, and copies of source documents are provided to the student's school district of residence.

The Schedule of Audited Enrollments and related auditor comments, findings, and recommendations are included in the Auditors' Management Report. The Schedule of Audited Enrollments is a supplementary schedule and subjected to the same auditing procedures applied in the examination of the renaissance school project's basic financial statements.

### **The Following Section Addresses School District, Charter School and Renaissance School Project Audits for Students Presented as Low-Income, Low-Income LEP, and LEP (Not Low-Income)**

All auditors are advised that for students enrolled in a charter school or renaissance school project, the charter school or renaissance school project is responsible to collect and to provide to the resident school district copies of the 2015-16 Household Application for Free and Reduced Priced Meals, 2015-16 Household Information Survey Forms (Community Eligibility Program (CEP) schools only) and a listing of the SNEARS-generated Direct Certification matches for students attending the school. Both the charter school or renaissance school project and the school district must have the appropriate low-income documentation on file for audit. **It is the responsibility of the charter school or renaissance school project to provide the district with the required low income documentation in support of the school district's ASSA submission made to the state.**

#### **Schools that are NOT Community Eligibility Program (CEP) Participating Schools:**

##### **3. Low-Income Enrollment – Full Time and Shared Time**

Low-income eligible students are resident and nonresident students eligible for free or reduced price meals or free milk, that are part of the school district, or charter school, or renaissance school project's enrollment. Obtain the low-income workpapers (by school, by grade) prepared by the school district, charter school, or renaissance school project and reconcile total low-income eligible students listed to the low-income eligible students reported on the ASSA (school districts), Charter School Enrollment System ("CHE" (charter schools) or Renaissance Enrollment Report (renaissance school projects). 2015-16 Free and Reduced Price Meals Applications on file as of October 1, 2015 are the population of "Applications" from which the school district, or charter school, or renaissance school project personnel determined the number of applications to select for internal verification as low-income eligible students in accordance with rules established by the US Department of Agriculture. Refer to *The USDA Eligibility Manual for School Meals*, updated July 2015 available on the USDA website at [http://www.fns.usda.gov/sites/default/files/cn/SP40\\_CACFP18\\_SFSP20-2015a.pdf](http://www.fns.usda.gov/sites/default/files/cn/SP40_CACFP18_SFSP20-2015a.pdf)

##### **Testing Requirements - Sampling**

For audits of school districts only, audit sampling is used. 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. Although as discussed below, (carryover) 2014-15 Free and Reduced Price Meals Applications may be used for determining low-income status for enrollment classification, and for free/reduced meals eligibility for the first thirty days of the school year only, carryover applications are not to be included in the determination of the auditor's sample size of the 2015-16 Free and Reduced Price Meals Applications verification pool. For resident school district students enrolled in a charter school or a renaissance school project, **it is the responsibility of the charter school or renaissance school project to obtain the 2015-16 Free and Reduced Price Meals Applications** from the student's parent or guardian for any student attending the charter school or renaissance school project. It is the responsibility of the resident **district to obtain copies of the 2015-16 Free and Reduced Price Meals Applications and related documentation in support of the ASSA submission made to the state.**

For audits of charter schools or /renaissance school projects only 100% of Free and Reduced Price Meals Applications are tested. Based on the total low-income eligible students listed on the charter school enrollment workpapers, the auditor is required to audit 100% of free or reduced price applications included in the applicable annual enrollment count(s) utilizing a "sampling without replacement" method as described earlier in this chapter. 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.

### **Use of Carryover 2014-15 Free and Reduced Price Meals Applications for 2015-16 Low Income Classification**

Applicable to audits of school districts, charter schools, and renaissance school projects, for the October 2015 enrollment count, the cutoff date for determination of a student as low-income based upon a carryover (2014-15 Free and Reduced Price Meals Application) is the "thirtieth operating day of the school year." "Operating days" are established by each school district or charter school or renaissance school project calendar and are defined by the USDA as "days during which any meal service is provided". Accordingly, students may be eligible for free or reduced price meals or free milk, and may also be classified as low-income as at the last school day prior to October 16 (October 15, 2015) when the student's status has been determined to be low-income eligible as evidenced by a (carryover) 2014-15 Free and Reduced Price Meals Application as of the thirtieth operating day of the 2015- 2016 school year. The "thirty day" measure begins the first day in which school is open to students during which any meal service is provided. Students may also be eligible for free or reduced price meals or free milk, and may also be classified as low-income as at the last school day prior to October 16 (October 15, 2015) when the student's status has been determined to be low-income eligible as evidenced by a current year 2015-16 Free and Reduced Price Meals Application under the National School Lunch Act and the Child Nutrition Act. Refer to *The USDA Eligibility Manual for School Meals*, updated July 2015 is available on the USDA website at: [http://www.fns.usda.gov/sites/default/files/cn/SP40\\_CACFP18\\_SFSP20-2015a.pdf](http://www.fns.usda.gov/sites/default/files/cn/SP40_CACFP18_SFSP20-2015a.pdf)

### **Audit Procedures Applicable to School District, Charter School, or Renaissance School Project Audits**

For school district audits, the sample selected, or for 100% of charter school and renaissance school project audits, the auditor 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. To be considered valid, an application must contain all required information and signatures. For those school districts or charter schools or renaissance school projects 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 School Register(s) to ensure that the students were on roll as of the last school day prior to October 16<sup>th</sup> (October 15, 2015). For purposes of the ASSA and State Aid, only on-roll students that are eligible for free or reduced price meals or free milk as of the thirtieth operating day of the school year beginning may be classified as low-income students. For purposes of determining the thirtieth day, the "first day" of the school year is defined, as "the first day that school is open to students during which any meal service is provided". Low Income eligibility for the first thirty days only, may be evidenced by a carryover of last year's "2014-15 Application for Free and Reduced

Price Meals and Free Milk” as described on the previous page of this Audit Program, or a current year “2015-16 Free and Reduced Price Meals Application”. After the “first thirty days” only a current year “2015-16 Free and Reduced Price Meals Application” is acceptable evidence of low-income status. Only “Free and Reduced Price Meals Application” eligible students as of the appropriate measurement date should be reported as low-income eligible students in the ASSA (school districts) or the “CHE” (charter schools), or the Renaissance Enrollment Report (renaissance school projects).

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 (school district), CHE (charter school) or Renaissance Enrollment Report (renaissance school project), those variances must be reported on the Schedule of Audited Enrollments as well.

### **Schools that are Community Eligibility Program (CEP) Participating Schools:**

#### **3. Low-Income Enrollment – Full Time and Shared Time**

CEP participating school districts, charter schools, and renaissance school projects were provided guidance for the administration, determination, and verification of low income status for students attending CEP schools. The CEP school’s Determining Official is responsible for ensuring that CEP school students presented as low income on the associated workpapers (e.g. ASSA/CHE/Renaissance Enrollment workpapers), in the New Jersey School Register as required by N.J.A.C. 6A:32-8.1, and any other State data collection (e.g. ASSA, CHE, Renaissance Enrollment Report, and NJ SMART) have the required supporting documentation. The CEP school Confirming Official is responsible to verify the determination made by the Determining Official (through the use of sampling) that the number of students in a CEP school reported as low income in the New Jersey School Register and any other State data collection is documented properly and correctly reported.

Auditors are encouraged to obtain that guidance from the department’s website at: <http://www.nj.gov/education/archive/finance/cep/1516/DetailedProcedures.pdf>

For 2015-16 (October 15, 2015 enrollment count), students in a CEP school are determined to be low income students when any of the following supporting documentation is maintained on file:

1. A completed valid 2015-16 Household Information Survey Form has been received and the determination is that the student is properly classified as Free-equivalent or Reduced-equivalent; or
2. In the absence of a 2015-16 Household Information Survey Form, a student is determined to be directly certified through the SNEARS matching system;

For 2015-16, all CEP school districts, charter schools, and renaissance school projects were instructed to verify the accuracy of a representative sample of the low-income students prior to reporting to the State. The department issued additional verification sampling guidance available on the finance website at: <http://www.nj.gov/education/archive/finance/cep/1516/verification.pdf>. Auditors are to verify that the departmental required procedures for verification of the accuracy of the low income determinations were followed by assigned school district/charter school/renaissance school project staff (e.g. Determining Official and the Confirming Official). The requirements from that aforementioned guidance are summarized below.

Eligibility Verification Requirements Applicable to CEP School Districts:

The Confirming Official for a CEP school district was required to calculate the required low-income verification sample size on an individual school basis and on a district wide basis. To calculate the individual school sample size, the school district Confirming Official was required to locate the sample size on the Sample Size Selection Chart that corresponds to the number of low-income on-roll students at each of the district's CEP schools. This process resulted in a sample size requirement for each school. Districts were encouraged to also determine the sample size requirement on a district wide basis, as the district wide sample might require fewer total verifications. Once these calculations are completed, the district may choose the sample size selection method that yields the smaller sample. When there are other CEP schools in the district, the districts were required to continue to determine the sample size for verification for each of the district's CEP schools individually using the same method. This process must continue until applied to each individual CEP school. Please note that non-CEP schools (and all students in non-CEP schools) were excluded from the CEP sample size calculations in both methods described herein.

#### Eligibility Verification Requirements Applicable to CEP Charter Schools:

CEP charter schools were required to calculate their verification sample size based upon the CEP school's low-income enrollment entered into the Charter School Enrollment System (CHE) and the sample size selection chart published on the DOE CEP website. For example, a CEP charter school reports 1,320 low-income students in the CHE. Use of the sample size selection chart on the NJDOE CEP website at: <http://www.state.nj.us/education/finance/cep/SampleSize.pdf> determines the charter school must select 264 students for verification out of the 1,320 that have been classified as low-income. The charter school's confirming official must determine a selection interval (e.g. every 5th student) for selection by dividing the number of students reported as low-income by the required sample size. Applying the method of every "nth" student; in this instance every 5th student ( $1,320/264 = 5$ ) is selected for verification until 264 students have been identified for verification. For detailed verification instructions, please refer to the Confirming Official's Guidance section on pages 4 through 7 of the document entitled "Detailed Procedures for Administering the NJ Household Information Survey" available on the NJDOE CEP website and also available using the following link: <http://www.nj.gov/education/archive/finance/cep/1516/verification.pdf>.

#### Eligibility Verification Requirements Applicable to CEP Renaissance School Projects:

CEP renaissance school projects were required to calculate their verification sample size based upon the CEP school's low-income enrollment entered into the Renaissance Enrollment Report and the sample size selection chart published on the DOE CEP website. For example, a CEP renaissance school project reports 1,320 low-income students in the Renaissance Enrollment Report. Use of the sample size selection chart on the NJDOE CEP website at: <http://www.state.nj.us/education/finance/cep/SampleSize.pdf> determines the renaissance school must select 264 students for verification out of the 1,320 that have been classified as low-income. The renaissance school's confirming official must determine a selection interval (e.g. every 5th student) for selection by dividing the number of students reported as low-income by the required sample size. Applying the method of every "nth" student; in this instance every 5th student ( $1,320/264 = 5$ ) is selected for verification until 264 students have been identified for verification. For detailed verification instructions, please refer to the Confirming Official's Guidance section on pages 4 through 7 of the document entitled "Detailed Procedures for Administering the NJ Household Information Survey" available on the NJDOE CEP website and also available using the following link: <http://www.nj.gov/education/archive/finance/cep/1516/DetailedProcedures.pdf>.

#### Audit Procedures Applicable to CEP School Districts, CEP Charter Schools, and CEP Renaissance School Projects:

A valid 2015-16 New Jersey Household Information Survey Form (CEP) is one that contains all required information (Part A. Household Members; Part B. Benefits Received (if applicable); Part C. (Household

Size and Gross Income) and signatures. For school districts, charter schools, or renaissance school projects with individual students that are determined to be low income students pursuant to a determination based upon a 2015-16 New Jersey Household Information Survey Form (CEP):

- Marked in Part B. as directly certified (FDPIR, TANF, SNAP, etc.) the auditor is required to verify that the pupil is included on the direct certification list maintained by the central office,
- Marked in Part C. as Range 1 (Free Equivalent) or as Range 2 (Reduced Equivalent). Note that Range 3 equates to not low income/ineligible.

Errors detected in income classifications during the testing of Household Information Forms, 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 (school districts), CHE (charter schools) or Renaissance Enrollment Report (renaissance school projects), those variances must be reported on the Schedule of Audited Enrollments, as well.

Auditors can review the detailed procedures utilized by school districts, or charter schools, or renaissance school projects for administering the NJ Household Information Survey at <http://www.nj.gov/education/archive/finance/cep/1516/DetailedProcedures.pdf>.

## **The Following Section Addresses School District, Charter School and Renaissance School Project Audits for Students Presented as Limited English Proficient (LEP)**

**Individual students who are identified as LEP must be classified as either Low-Income LEP or LEP (Not Low-Income) pursuant to the results of the low income testing (see above section).** School districts, charter schools and renaissance school projects are required to identify in the School Register and report on the ASSA, CHE, NJSMART students who qualify for LEP services and further classify the student as LEP low income, or as LEP (only).

### **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 four programs as follows:

- Full-Time 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/renaissance school project.
- Alternatives to a full-time bilingual program can be provided when there are 20 or more LEP students of a single language group in a district/charter school/renaissance school project and a district/charter/renaissance school project has an approved Bilingual Program Waiver Request for the current school year. The following program alternatives can be granted in lieu of a full-time bilingual program:
  - Sheltered Instruction;
  - High-Intensity ESL;
  - Bilingual Tutorial;
  - Bilingual Resource; and
  - Bilingual Part-Time Program.
- ESL-only (ESL) programs are provided when there are 10 or more LEP students and less than 20 LEP students of a single language group in a district/charter school/renaissance school project..

- English Language Services (ELS) programs are provided when there is at least 1, but fewer than 10, LEP students in a district/charter school/renaissance school project.

Program Plans for Full-Time Bilingual, Alternative, ESL-only and ELS programs are developed every three years. School districts/charter schools/renaissance school projects are required to develop plans and maintain them on file in the district/charter school/renaissance school project. Beginning with the July 2014 cycle, submission of the plan to the department is not required. The current three-year cycle began in July 2014, and will end in 2017. All programs operate from September to June. The auditor should also verify that the LEA/charter school/renaissance school project maintains on file a current Bilingual, ESL or ELS plan, which included the year ending June 30, 2016.

If applicable, districts/charter schools/renaissance school projects with an alternative program are required to develop a Bilingual Program Waiver Request and maintain it on file. The plan is submitted annually. All alternative programs operate from September to June. The auditor should also verify that the LEA/charter school/renaissance school project maintains on file a current Bilingual Program Waiver Request that included the year ending June 30, 2016.

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 enrolled in the district/charter school as of October 15, 2015 are eligible to be reported in the 2016-17 ASSA/CHE/Renaissance Enrollment Report:

- 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, 2015). **LEP students are listed on the ASSA as either low income or not low income. Where LEP and low income is indicated, auditors must also 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/renaissance school projects may continue to report these students as LEP on the ASSA/CHE/Renaissance Enrollment Report. 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/Renaissance Enrollment Report supporting documentation.

2015-16 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™)
- ACCESS for ELLs 2.0
- Comprehensive English Language Learning Assessment (CELLA), published by Accountability Works, Inc.
- WIDA MODEL TEST

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

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

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

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

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

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

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

**Standard**

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

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

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

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

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

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

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

Use the IPT designations to determine program placement.

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

**Standard**

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

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

Use the Standard Score Cut Points to determine program placement.

Standard Score Cut Points*				
Test Level	Grade	Fall	Spring	SEM**
Red	K	210	220	8
	1	566	588	14
Blue	2	548	564	12
	3	558	574	12
Orange	4	543	559	10
	5	556	569	11
Ivory	6	545	557	10
	7	551	562	10
	8	555	567	10
Tan	9	549	560	10
	10	558	570	11
	11	568	583	11
	12	580	593	11

\*For grades 1-12, cut points are set for Total Battery scores. For grade K, cut points are set in terms of total Speaking and Listening scores.

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

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

The WIDA-ACCESS Placement Test (W-APT)<sup>TM</sup> is an adaptive test that can gauge students' proficiency up to and beyond level 5 of the WIDA ELP Standards. Like ACCESS for ELLs®, 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:

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

**Assessing Comprehension and Communication in English State to State for English Language Learners (ACCESS for ELLs™) and ACCESS for ELLs 2.0**

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](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/renaissance school projects maintains written internal procedures which provide a description of the October 15, 2015 count process 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/Renaissance Enrollment Report., and
- 3) The various personnel assigned responsibilities for collecting the data.

If the district/charter school/renaissance school project 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, 2015 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](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 meeting 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/charter schools/renaissance school projects should have completed a Memorandum of Understanding between the district/charter school/renaissance school project 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/renaissance school project's compliance with federal reimbursement regulations. As a result, the State of New Jersey Department of the Treasury requires that each district/charter school/renaissance school project designate an employee who is responsible for the coordination of the district's/charter school's/renaissance school project's SEMI program with the third party billing administrator identified by the Department of Treasury. The CMS' compliance requirements for districts/charter schools/renaissance school projects are pertinent to the district/charter school/renaissance school project achieving maximum participation and include:

- Submission by the district/charter school/renaissance school project designated employee who is responsible for the coordination of the district's/charter school's/renaissance school project'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/renaissance school project of the district/charter school/renaissance school project 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/renaissance school project 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, health related evaluation services, and specialized transportation are activities for which a district/charter school/renaissance school project 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 /renaissance school projects are required to have all necessary documentation on file for review to support all claims for health related services performed as indicated in the applicable chapters of the SEMI Provider Handbook. Specific reference is to Chapter 5 of the SEMI Provider Handbook, "Covered Services and Practitioner Qualifications with Fee-for-Service Reimbursement" and to Chapter 6, Fee-for-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/renaissance school projects. 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 health 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 6, "Fee-for-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](mailto:nsumner@pcgus.com)) or Bryan Hawkorn (800-210-6113, email [bhawkorn@pcgus.com](mailto:bhawkorn@pcgus.com)).

Audit procedures involve testing to determine that documentation is being maintained by school districts/charter schools/renaissance school projects. 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/charter school/renaissance school project 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/charter school/renaissance school project 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 6/30/16 refer to October 14, 2015 count), it had 40 or fewer Special Education-Medicaid eligible students. This information must be based on reliable evidence and on the revenue projection provided by the NJDOE of the district's/charter school's/renaissance school project's eligible students or available SEMI reimbursement for the budget year. For the year ended 6/30/16, districts/charter schools/renaissance school projects received \$313.00 for eligible health related

evaluation/IEP services, \$10.85 per date of eligible related services, and if applicable \$5.13 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/charter school/renaissance school project 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/charter school/renaissance school project 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/charter school's/renaissance school project'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/charter schools/renaissance school projects that are first time participants in the SEMI Program are expected to achieve a 45 percent return rate of parental consent forms and 50% of the budgeted revenue for all SEMI eligible students for their initial year of participation only.

#### **SEMI-ARRA June 2015 Payment**

Pursuant to a July 2014 audit report issued by the United States Department of Health and Human Services, Office of Inspector General, and in order to achieve compliance with the political subdivision requirement for receiving an increase in Federal Medical Assistance Percentage (FMAP) under the American Recovery and Reinvestment Act (ARRA), Treasury has notified school districts and charter schools of a redistribution of additional Medicaid funding to LEAs participating in SEMI during the quarters ending December 31, 2008, March 31, 2009, and June 30, 2009 through December 31, 2010 in the total amount of \$13,916,801, of which \$13,342,414.05 is allocated to school districts and charter schools. Formal notification of the amounts due was distributed by Treasury on June 11, 2015. The audit report is available on the federal Health and Human Services Office of the Inspector General web site (Audit A-02-11-01039). The following link provides amounts to be distributed to school districts/charter schools participating in SEMI during those specific quarters by county and by LEA.

[SEMIARRAFinalPayout.xlsx](#)

Options for Use:

School districts were offered the option to use the funds against 2014-15 appropriations/expenditures. Districts that did not expend the funds during that period, were offered the two following options:

#### **1. Appropriate for use through a 2015-16 budget revision**

*N.J.A.C. 6A:23A-13.3(d)5* provides that district Boards of Education/Boards of Trustees may, at any time (by board resolution) and without Commissioner approval, choose to appropriate unbudgeted or underbudgeted federal revenue. Any portion of ARRA/SEMI funds not used in the 2014-15 budget may be appropriated by board resolution for use during 2015-16. If the 2015-16 budget is amended prior to February 1, 2016, the amount on line 3 of the 2016-17 Recapitulation of Balances must be increased to reflect the budgeted amount of the ARRA SEMI funds in 2015-16. If the 2015-16 budget is to be amended after February 1, 2016, the amount to be budgeted must be entered on the 2016-17 Recapitulation of Balances on line 5 for Additional Balance to Be Appropriated in 2015-16. **Amounts not budgeted for 2014-15 or for 2015-16, must be appropriated for 2016-17 (option 2).**

Also, for the year ended June 30, 2016 amounts not used against 2014-15 appropriations/expenditures or pursuant to a 2015-16 budget revision, remain assigned fund balance at June 30, 2016, and that amount may be presented as a decrease to unassigned general fund balance by inclusion on Line (C5) of the audited excess surplus calculation as “Assigned Fund Balance ARRA/SEMI– Unreserved-Designated for Subsequent Year’s Expenditures”; reported on (Audsum Line 90081); and included as “Assigned – Designated for Subsequent Year Expenditures” in the LEA’s June 30, 2016 Comprehensive Annual Financial Report (CAFR).

## **2. Appropriate for use in 2016-17 budget**

For Boards of Education/Boards of Trustees that report a June 30, 2015 balance of additional ARRA/SEMI funding on Line number 90081 of the 2015-16 Audsum, the 2016-17 budget software will force the amount to be budgeted as general fund revenue in the original 2016-17 budget certified for taxes. Any unexpended funds at June 30, 2017 will drop to surplus at June 30, 2017 and be subject to the **audited** excess surplus calculation.

ARRA/SEMI funds must be reported separately in the Schedule of Expenditures of Federal Awards identified using the prefix ARRA and the CFDA number 93.778. The additional allocation is not specifically identified by quarter, so use of the period 10/1/2008 – 12/31/2010 is acceptable.

Page 4-93.778-6 of the June 2010 *Compliance Supplement*, Department of Health and Human Services, CFDA 93.778 Medical Assistance Program (Medicaid; Title XIX) available at [https://www.whitehouse.gov/sites/default/files/omb/assets/omb/circulars/a133\\_compliance/2010/hhs.pdf](https://www.whitehouse.gov/sites/default/files/omb/assets/omb/circulars/a133_compliance/2010/hhs.pdf) provides auditor information on the additional ARRA FMAP.

## **DISTRICT REPORT OF TRANSPORTED RESIDENT STUDENTS (DRTRS) (DOES NOT APPLY TO CHARTER SCHOOLS/RENAISSANCE SCHOOL PROJECTS)**

### **Overview**

Auditors are required to perform detailed testing procedures relating to student transportation as reported on the 2015-16 District Report of Transported Resident Students (DRTRS). The department maintains the DRTRS as a web-based system. The DRTRS software creates a five-page DRTRS District Summary Report, which auditors must obtain directly from their school district client. After obtaining the 2015-16 DRTRS from your client, auditors must also obtain the October 2015 DRTRS County Summary Report (available from the DOE website <http://www.state.nj.us/education/finance/fp/audit/1516>). The October 2015 DRTRS County Summary Report is a compilation of district data by county/district. The DRTRS produced by the department’s transportation software and obtained from your district client must agree with the October 2015 DRTRS County Summary Report compiled by the department and posted to the department’s audit webpage. Additionally, an Excel spreadsheet supporting the data reported on the DRTRS is also provided. This spreadsheet allows for the sorting of data, as needed. Data can be sorted by selecting a variable in each column to match the DRTRS output for audit purposes. The following paragraph provides the crosswalk necessary to perform audit procedures on the two documents.

The DRTRS provides the transported student characteristics summarized by category (e.g. Category A. is labeled “Eligible Regular and In-District Special Education Students without Special Transportation Needs”) and reported in the four part (A through D) DRTRS District Summary Report. Each category of the DRTRS District Summary Report must be verified against the October 2015 DRTRS County Summary Report using the following crosswalk:

- The sum of lines A-1 (**include number only if the district is PreK Aid Eligible**), A-2, A-3, A-4 and A-5 should agree to the Regular Public Column.
- Line A-6 should agree to the Nonpublic Transported column.
- Line A-7 should agree to the Nonpublic AIL column.
- The sum of lines A-8, A-9 and A-10 should agree to the Regular Special Education column.
- The sum of lines B-1, B-2, B-3, B-6, B-7, and B-8 should agree to the Special Education Special Needs column.
- Line D-1 should agree to the Nonpublic Transportation 20.1 to 30 column.
- Line D-2 should agree to the Nonpublic Transportation >30 column.
- Line D-3 should agree to the Nonpublic AIL 20.1 to 30 column.
- Line D-4 should agree to the Nonpublic AIL >30 column.

### **Sample Size**

Use the table in the first part of this chapter to determine the appropriate sample size for the population listed on the October 2015 DRTRS County Summary report.

### **Sample Selection and Test Procedures**

- Obtain the October 2015 DRTRS County Summary Report produced by the department.
- Auditors should first agree the October 2015 DRTRS County Summary Report to the district DRTRS using the above crosswalk.
- Any discrepancies should be noted on the ASSA Schedule of Audited Enrollments.
- Review the district's DRTRS District Summary Report (page 5) to determine whether students on hazardous routes were reported (Indicated by a number >0 on the last line of the district profile: "The number of resident students who are receiving Non-Mandated transportation and 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 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 verification procedures on the district's detailed transportation report, "October 2015 DRTRS Student Summary" against the DRTRS as required throughout this section of the Audit Program.
  - The "Download Submitted Students" Report will display an Excel spreadsheet that will also be available to authorized school district staff. The workbook may be sorted by the auditor or by authorized school district personnel to provide the specific student information.
  - The "Download Student File by Summary Line" Report will display an Excel spreadsheet showing the student data and the line number on which each student is recorded on the software generated DRTRS District Summary Report. To utilize this report, sort on the last column (DRTRS Summary Line#) to view all students recorded on a specific summary line. Note: Students transported to more than one location are designated by the line number followed by .5 (e.g. A2\_0.5).
  - The "Download Student File by Attending School" Report will display all students assigned to each of the attending schools reported by the district in a PDF format.

**October 2015 DRTRS County Summary Report (Regular Public) & 2015-16 DRTRS District Summary Report (Part A - Eligible Regular Students lines 1. – 5. and Non-Public/Other Students Transported and Non-Public AIL lines 6. and 7.**

Eligible Regular Students as reported on the October 2015 DRTRS County Summary Report (in the column titled, “Regular Public” should include only pupils from the 2015-16 DRTRS District Summary Report, Part A, “Eligible Regular and In-District Special Education Students without Special Transportation Needs” inclusive of lines 1, 2, 3, 4 and 5. Please note that regular preschool students, reported in Part A line 1, are counted as eligible for transportation aid only if the district qualifies for preschool education aid (PEA) 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 as of October 15, 2015 of students reported in Part A. lines 1, 2, 3, 4, and 5 of the 2015-16 DRTRS District Summary Report against the school register(s) as follows:

- Trace the public school students to the school registers.
- Note that Share Time students (student who attend a share time program to more than one school) are identified on the NJDOE DRTRS detailed report by Half Day Programs = “Y”; and are included in the data sort of the Excel workbook, “DRTRS Summary Line #”\_0.5” (e.g. A2\_0.5). For charter school students reported on line 4 “Transported Charter School Students” or on line 5 “AIL Charter School Students” of the 2015-16 DRTRS, verify that a 2015-16 transportation application form “The Charter School Application for Transportation” is on file and received by the district on or before October 15, 2015.
- Examine the Charter School Application for Transportation Services for proper signature by the Chief School Administrator or Lead Person of the charter school.
  - Trace the charter school students listed on lines 4 or 5 the 2015-16 DRTRS District Summary Report to the 2015-16 school register(s). Trace Share Time students (students who attend a share time program to more than one school) by Half Day Programs = “Y”;
- For choice school students included as regular public school students on line 2 “Public School Students Excl. Voc. Students” of the 2015-16 DRTRS District Summary Report, verify that a 2015-16 transportation application form “The Choice School Application for Transportation” is on file and received by the district on or before October 15, 2015.

Verify the entries on line 6 “Transported Non-Public and Other School Students” and on line 7 “AIL Non-Public and Other School Students” of the DRTRS District Summary Report:

- Verify that the transportation application form “B6T” for nonpublic school students reported on the DRTRS District Summary Report is on file and received by the district on or before October 15, 2015.
- Verify that the B8T certifications for the first and second semester are on file to ensure the student is on roll in the nonpublic school.

All errors noted during the verification of the on- roll status of students reported on the DRTRS, require recalculation of the average mileage with corrections of 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 does not 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. Note that a common reconciling difference may be due to Vocational Technical shared time students counted twice.

**October 2015 DRTRS County Summary Report (Regular Special Education & 2015-16DRTRS District Summary Report (Part A. In-District Special Education Students without Special Transportation Needs – Lines 8, 9, and 10.)**

Part A. Eligible In-District Special Education Students without Special Transportation Needs, includes pupils in the 2015-16 DRTRS District Summary Report on lines 8, 9, and 10. The total of lines 8, 9, and 10 must match the “Regular Special Education” column of the October 2015 DRTRS County Summary Report.

Please note that regular special education preschool students are counted as eligible for transportation 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 PEA pursuant to *N.J.S.A. 18A:7F-54*.

An in-district 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 for students presented on line 8 of the DRTRS District Summary Report (as of October 15, 2015):

- Trace the special education public school students listed on line 8 of the 2015-16 DRTRS District Summary Report and detailed on the “October 2015 DRTRS Student Summary” to the 2015-16 school register(s) to verify on roll status. Trace Share Time students (student who attend a share time program to more than one school) by Half Day Programs = “Y”;
- Trace the special education charter school students listed on line 9 of the 2015-16 DRTRS District Summary Report and detailed on the “October 2015 DRTRS Student Summary” to the “The Charter School Application for Transportation” form that should be on file and received by the district on or before October 15, 2015.
- Private School Students with Disabilities listed line 10 of the 2015-16 DRTRS District Summary Report and detailed on the “October 2015 DRTRS Student Summary” should be verified with a valid tuition contract and October 2015 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 does not 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.

**2015-16 DRTRS District Summary Report Part B. Eligible Special Education Students with Special Transportation Needs (Lines 1 through 3) & Special Education Students without Special Transportation Needs (Lines 6 through 8) Reported on the October 2015 DRTRS County Summary Report as “Special Education Special Needs”**

Eligible Special Education Students includes all special education students transported outside the district and those with special transportation needs. The “Special Education Special Needs” column of the October 2015 DRTRS County Summary Report includes pupils included in the school’s DRTRS District Summary Report on lines 1, 2, 3, 6, 7, and 8 of Part B (“Eligible SPECIAL EDUCATION STUDENTS

with Special Transportation Needs and Out of-District Special Education Students without Special Transportation Needs").

Auditor's note: Special education pre-kindergarten students are counted as eligible for transportation 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 PEA pursuant to *N.J.S.A. 18A:7F-54*.

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, 2015, trace public school students to the school registers.

In order to verify students presented on lines 1, 2, 3, 6, 7, and 8 of the DRTRS District Summary report (PART B.) as of October 15, 2015:

- Trace the special education public school students with special transportation needs listed on line 1 of the 2015-16 DRTRS District Summary Report and detailed on the "October 2015 DRTRS Student Summary" to the 2015-16 school register(s) to verify on-roll status and trace special transportation need to the individual I.E.P. Trace Share Time students (students who attend a share time program to more than one school) by Half Day Programs = "Y";
- Trace the special education charter school students with special transportation needs listed on line 2 of the 2015-16 DRTRS District Summary Report and detailed on the "October 2015 DRTRS Student Summary" to the "The Charter School Application for Transportation" form that should be on file and received by the district on or before October 15, 2015.
- Trace the Private School Students with Disabilities listed line 3 of the 2015-16 DRTRS District Summary Report and detailed on the "October 2015 DRTRS Student Summary" to a valid tuition contract and October 2015 tuition voucher.
- Trace the special education out-of-district public school student without special transportation needs listed on line 6 of the 2015-16 DRTRS District Summary Report and detailed on the "October 2015 DRTRS Student Summary" to a valid tuition contract and October 2015 tuition voucher.
- Trace the special education out-of-district charter school student without special transportation needs listed on line 7 of the 2015-16 DRTRS District Summary Report and detailed on the "October 2015 DRTRS Student Summary" to a "The Charter School Application for Transportation" form that should be on file and received by the district on or before October 15, 2015.
- Trace the special education out-of-district Private School Students with Disabilities without special transportation needs listed on line 8 of the 2015-16 DRTRS District Summary Report and detailed on the "October 2015 DRTRS Student Summary" to a valid tuition contract and October 2015 tuition voucher.
- Note that Share Time students (students who attend a share time program to more than one school) are identified on the NJDOE DRTRS detailed report by Half Day Programs = "Y"; and are included in the data sort of the Excel workbook, "DRTRS Summary Line #".\_0.5<sup>2</sup> (e.g. A2\_0.5).<sup>2</sup>

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/contracts/>
- (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. The 2015-16 DRTRS District Summary Report, part A, Line 7, “AIL Non-Public and Other School Students” can be sorted in the DOE provided Excel workbook by selecting line A7 from the sort box for “DRTRS Summary Line #”. Verify that the B8T certifications for the first and second semester are on file to ensure the student is on roll in the nonpublic school.
- (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. The 2015-16 DRTRS District Summary Report, part A, Line 5 “AIL Charter School Students” can be sorted in the DOE provided Excel workbook by selecting line A5 from the sort box for “DRTRS Summary Line #”.
- (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 \$18,800, 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)
- (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 in the form prescribed by the Department of Education.

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.

N.J.S.A. 19:60-1.1 permits 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 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 from 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 to 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 of the fiscal year, 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 of the fiscal year, 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-10.27 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 as of 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 1<sup>st</sup> and June 30<sup>th</sup>. 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-10.35 for additional information on tuition reserve.

#### Impact Aid Reserves

P.L.2015, c.46, effective May 7, 2015, amended *N.J.S.A.* 18A:7F-41 to permit a board of education or board of trustees to appropriate federal impact aid funds to establish or supplement a federal impact aid legal reserve in the general fund. *N.J.S.A.* 18A:7F-41, as amended, provides for the creation of an Impact Aid General Fund Reserve account and an Impact Aid Capital Fund Reserve. A board of education or a board of school estimate, as appropriate, may through the adoption of a board resolution appropriate federal impact aid funds to establish or supplement the reserve account in the district’s annual budget, or through a transfer by a two-thirds affirmative vote of the authorized membership of the board between June 1 and June 30 of the fiscal year, for withdrawal in any subsequent school year. Transfers to the impact aid reserves shall not exceed the total amount of federal impact aid received, by federally designated category, i.e. general fund or capital, in the fiscal year. The board, at its discretion, may use the funds in the reserve accounts to finance the district’s general fund or to finance school facilities projects, in a manner consistent with federal law. The total amount of funds on deposit in the reserve account shall not be limited. All reserve accounts shall be established and held in accordance with GAAP and shall be subject to annual audit. Any capital gains or interest earned shall become part of the reserve account. A separate bank account is not required, however, a separate identity for each reserve account shall be maintained.

### **Interfund balances**

#### Districtwide statements/Schoolwide (accrual basis)

GASBS 34, paragraph 58 requires eliminations of interfund receivables and payables in the *Statement of Net Position* (GASBS 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. (GASBS 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**

**(Note: Sections of this chapter are not applicable, by statute, to renaissance school projects)**

**The following section is not applicable to renaissance school projects**

**Applicable Thresholds**

<http://www.nj.gov/dca/divisions/dlgs/lfns/15/2015-20.pdf> 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/charter school board of trustees concerning bid thresholds and the issuance of Qualified Purchasing Agent (QPA) certificates. LFN 2015-20 *Adjustment of Public Bidding Threshold July 1, 2015* was also issued by the DCA on September 28, 2015, and provides that effective July 1, 2015 under the Public Schools Contracts Law (N.J.S.A. 18A:18A-2), boards of education/charter school board of trustees operating without a QPA have a \$29,000 maximum bid threshold for contracting. LFN 2015-20 provides that boards of education/charter school 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 \$40,000 as of July 1, 2015 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/charter school 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”.

N.J.S.A. 18A:18A-4.6 regarding energy savings contracts permits, 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](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*.

## **Recovery and Rebuilding Projects**

### **Sandy Recovery and Rebuilding - Integrity Monitor Act**

*N.J.S.A.52:15D-1*, 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, *N.J.S.A 52:34-6.2* allows boards of education/charter school 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](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](http://www.nj.gov/dca/divisions/dlgs/resources/local_fin_notices.html) N.J.S.A. 34:11-56.26 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](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](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.

**During January 2016, the State of New Jersey, Department of the Treasury, Division of Purchase and Property, Contract Compliance and Audit Unit issued *Public Agency Guidelines for Administering Equal Employment Opportunity and Affirmative Action in Public Contracts*. These guidelines are available on Treasury’s website at:**

**[http://www.state.nj.us/treasury/contract\\_compliance/pdf/pa.pdf](http://www.state.nj.us/treasury/contract_compliance/pdf/pa.pdf)**

**The guidelines assist all public agencies, including school districts, charter schools and renaissance school projects with compliance with Equal Employment Opportunities law (N.J.S.A. 10:5-31 et seq.).**

**The specific language illustrated in Exhibit A of the aforementioned guidelines, must be included in all bid advertisements (N/A to renaissance school projects), contracts awarded under an exemption from public bidding (N/A to renaissance school projects), and contracted entered into by school districts, charter schools and renaissance school projects with vendors for the purchase of goods, professional services, and general services. For all construction contracts, school districts, charter schools and renaissance school projects must include the affirmative action language illustrated in Exhibit B. For districts and charter schools, all successful bidders for goods, professional services and general services contracts are required to submit evidence of appropriate affirmative action compliance to the Division and the awarding school district or charter school. For construction contracts, evidence must be submitted to the Department of Labor and Workforce Development and the awarding school district, charter school and renaissance school project.**

*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)** (the following section is not applicable to renaissance school projects)

*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](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/charter school 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, 2015.

*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 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/charter school 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/charter school 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/charter school 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 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](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/charter school 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 2015-16 is \$18,800. 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/charter school 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.

<u>ITEM</u>	<u>AGGREGATE TERMS (YEARS)</u>
(1) Fuel for Heating	3
(2) Fuel/Oil for Vehicles	3
(3) Thermal Energy (Approved by Board of Public Utilities)	40
(4) Removal of Snow and Ice	3
(5) Garbage Collection	3
(6) Data Processing Services	7
(7) Insurance	3

(8) Leasing of equipment in accordance with rules and regulations of the State Board of Education	5
(9) Sale and lease-back of textbooks and non-consumable instructional materials	5
(10) Voice, Data, Transmission and Switching Services	5
(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/charter school 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.

*N.J.S.A.* 18A:18A-11 permits 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 cannot be used.)

*N.J.S.A.* 18A:18A-4.6(c), Implementation of an energy savings improvement program by a board of education/charter school 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](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.

The following section provides auditor guidance for evaluation of the audit client’s internal controls over purchasing and is applicable to school districts, charter schools, and renaissance school projects

## Review of Purchase Orders

All public school accountants are required to give utmost consideration to encumbrances on the school district, or charter school, or renaissance school project books and records at year-end through a thorough review and analysis of open purchase orders and a search for unrecorded 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/renaissance school projects 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/renaissance school project 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. For additional guidance on blanket purchase orders, auditors can review N.J.S.A. 18A:19-1 N.J.S.A.18A:2e; N.J.A.C.5:30-11.2 and N.J.A.C.5:30-11.10.

### **Credit Cards**

Neither boards of education/board of trustees nor district/charter schools/renaissance school project 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/charter school 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.

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

**CHART OF ACCOUNTS/EXPENDITURE CLASSIFICATION**

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

New Jersey statute (*N.J.S.A.* 18A:4-14) requires that New Jersey school districts/charter schools/renaissance school projects 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/ 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.state.nj.us/education/finance/fp/af/coa/coa.pdf> 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/renaissance school project 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/renaissance school project 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/renaissance school projects 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/renaissance school project auditors must be adequately familiar with the publication to perform the annual audit.

Effective for reporting periods beginning after June 15, 2015, *GASB Statement No. 76, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* establishes the hierarchy of GAAP for state and local governments. The Statement supersedes Statement No. 55 and Statement No. 62. *GASB No. 76* is available at:  
[http://www.gasb.org/jsp/GASB/Document\\_C/GASBDocumentPage?cid=1176166147773&acceptedDisclaimer=true](http://www.gasb.org/jsp/GASB/Document_C/GASBDocumentPage?cid=1176166147773&acceptedDisclaimer=true)

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/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 is located at *Professional Standards Section AT sec. 801* available on the AICPA website at:

<http://www.aicpa.org/Research/Standards/AuditAttest/DownloadableDocuments/AT-00801.pdf>

SSAE No. 16 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 GASBS 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 (2015-16 Edition) [Chart of Accounts]*, and the terms and conditions of the grant award. Auditors should refer to Appendix C “Minimum Chart of Accounts Descriptions by Budgeting Line Item under Each Program/Function” in the *2015-16 Budget Guidelines* and use it as a reference tool in the coding of expenditures. Also included in the *2015-16 Budget Guidelines* is the section “Detailed Appropriations Grid” which may 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:

[PreschoolEducationAidAccountingClarificationMemo.pdf](#) 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 2015-16 *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 2016 state aid payments (made July 2016) for Preschool Education Aid should be recognized in the special revenue fund on the GAAP basis in 2016-17.

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 *2015-16 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-5(c)* 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.

Please note that although charter schools and renaissance school projects are not subject to the budgeted administrative cost limit as described in the above paragraph, proper classification and reporting of administrative expenditures is imperative for other fiscal use of the Audsum data by all types of public schools. The data is used for calculations such as the Taxpayers Guide to Education Spending and the Indirect Cost Rate calculations. .

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-1.2*, 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 part 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 caseload 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	
<b>General Administration</b>	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	
<b>School Administration</b>	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 the *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and/or NJOMB Circular Letter 15-08-OMB, 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.

A recent review of historical charter school data submitted through the Audit Summary (Audsum) electronic reporting system indicates that charter school reporting of expenditures through Audsum is lacking the required detail. Auditors and their charter school clients are reminded of the statutory requirement at *N.J.S.A.* 18A:4-14 to report expenditures (Audsum and CAFR) in accordance with the financial accounting and classifications established by the National Center of Educational Statistics (NCES) and the New Jersey Minimum Chart of Accounts. The reporting must be in conformity with generally accepted accounting principles (GAAP), which includes a double-entry, self-balancing set of accounts and records. *N.J.A.C.* 6A:23A, Subchapter 16 prescribes further regulation regarding the accounting. Renaissance school projects and school districts are also reminded of the reporting requirements.

**Note to Auditors of Charter Schools or Renaissance School Projects: The reporting of audited expenditures must be in the format detailed in the chart of accounts, regardless of the condensed line item budget that is submitted by the schools to the department's charter school or renaissance school project office. <http://www.state.nj.us/education/finance/fp/af/coa/coa.pdf>.**

**In the absence of detailed expenditure reporting, the department's compliance with federal reporting requirements may be compromised; the school may not be in compliance with certain regulatory requirements such as the percentage of legal fees at *N.J.A.C.* 6A:23A-22.6; the school may not be provided with an indirect cost rate for use with federal grant awards.**

*N.J.A.C.* 6A:23A-16.2(f)2 requires that the district board of education/ 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 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 (2015-16 Edition). The Chart of Accounts must be utilized within the charter school GAAP accounting system. All detailed accounts that are applicable to the school must be utilized. This Chart of Accounts (COA) may be found on the website at:

<http://www.state.nj.us/education/finance/fp/af/coa/coa.pdf> and was effective July 1, 2015. Annual updates to the Chart of Accounts are included in the annual school district Budget Guidelines, Appendix C- Minimum Chart of Accounts located at:

<http://www.state.nj.us/education/finance/fp/audit/1516/guide/appendixc.pdf>

Specific to charter schools/renaissance school projects, the Budget Summary statement was designed to keep financial reporting requirements at a minimum, while at the same time enabling charter schools/renaissance school projects to comply with monitoring standards and maintain comparability to public school financial data. For reporting purposes, the *Uniform Chart of Accounts for New Jersey Public Schools*, which is available from the publications office should be utilized. The charter school/renaissance school project should use 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 (applicable to school districts, charter schools, and renaissance school projects)**

Auditors should refer to *N.J.A.C.* 6A:23A-16.10 for detailed controls that district boards of education/ 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 2015-16 school budget year (paid in July 2014) as revenue for budget purposes only in the 2015-16 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).

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

**RESERVED**

**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 GASBS 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/renaissance school projects 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/renaissance school projects 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.

**June state aid payments (School Districts only)**

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 2015-16 budget year (received July 2016) as revenue for budget purposes only in the 2015-16 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 (2014-15) and to eliminate the current year (2015-16) June state aid payments that were recorded for budget purposes. This adjustment will eliminate the budgetary only recognition of 2015-16 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)  
(Applies to school districts/charter schools/renaissance school projects)**

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/renaissance school project 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, must 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/renaissance school projects 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/renaissance school projects 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/renaissance school projects must also determine the collectability of any uncollected accounts receivable balances as of June 30.

For school districts only, 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 school districts only, when reporting for budgetary purposes only, the June state aid payments of school fiscal year 2015-16 will be included in the revenue of 2015-16, 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 2014-15, made in July 2015 which was recorded in 2015-16 as revenue for budgetary purposes but not for GAAP statements. This is to enable the districts to be consistent with the state reporting under GASBS 33.

3) Analyze Balance Sheet Account Balances: (applicable to school districts/charter schools/renaissance school projects)

Districts/charter schools/renaissance school projects 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/renaissance school project 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/renaissance school project, 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/renaissance school project 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:

<u>A/C</u>	<u>DEBIT</u>	<u>CREDIT</u>
101 Cash in Bank	\$117,000	
106 Cash Equivalents	1,134,576	
111 Investments	570,600	
114 Interest Receivable on Investments	25,400	
142 Intergovernmental A/R - Federal	65,000	
301 Estimated Revenues	49,929,100	
302 Revenues		\$49,911,100

<u>A/C</u>	<u>DEBIT</u>	<u>CREDIT</u>
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:

	<u>DEBIT</u>	<u>CREDIT</u>
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 (school districts/charter schools/renaissance school projects)

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. School districts, charter schools, and renaissance school projects must remember to run final reports, ledgers, journals, etc. prior to posting the closing entries for the year.

**Capital Assets and Long Term-Debt (applicable to school districts/charter schools/renaissance school projects)**

School districts, charter schools, and renaissance school project 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/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 *Statement of Activities* (Exhibit A-2). Liabilities whose average maturities are greater than one year should be reported in two components – the amount due within one year and the amount due in more than one year. This includes compensated absences. Districts/charter schools/renaissance school projects 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/renaissance school projects 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/ renaissance school projects and auditors should refer to GASB Codification C60 for additional guidance on reporting in the governmental funds statements.

**Opening Balances (school districts/charter schools/renaissance school projects)**

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 (n/a to charter schools and renaissance school projects)	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** (school districts/charter schools/renaissance school projects)

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/renaissance school, projects 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/renaissance school projects 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 (applicable to school districts/charter schools/renaissance school projects)**

In summary, districts/charter schools/renaissance school projects 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/renaissance school projects 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/renaissance school projects)

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, GASBS 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 2015-16 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 2014-15 in 2015-16, school districts should recognize the 2014-15 last state aid payment in the 2015-16 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* and *N.J.A.C. 6A:23A-22* require every district board of education/board of trustees 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.

For school districts only, an example of the reconciliation process for the deferral of the 2015-16 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 2016) 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	<u>809,780</u>
Total General Fund	<u>272,690,480</u>
Preschool Education Aid	41,273,358
Total Special Revenue Fd	<u>41,273,358</u>
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	<u>4,537,328</u>
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	<b>A</b>	272,690,480	<b>B</b>	41,273,358	313,963,838
Deductions		<u>(5,407,007)</u>		N/A	<u>(5,407,007)</u>
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		<u>(9)</u>			<u>(9)</u>
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
<b>Total GF [A]</b>	<b>272,690,480</b>	<b>100 %</b>	<b>13,364,165</b>
Preschool Education Aid	41,273,358	100.00	2,063,668
<b>Total SRF [B]</b>	<b>41,273,358</b>	<b>100 %</b>	<b>2,063,668</b>
<b>Total State Aid</b>	<b>\$313,963,838</b>		<b>15,427,833</b>

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

		Debit	Credit
<b>General Fund</b>			
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)		
<b>Special Revenue Fund</b>			
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.

<b>GASBS 34 CAFR</b>			
<b>Exhibit</b>	<b>Statement Title</b>	<b>Impact of Last State Aid Payment</b>	
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 <b>Recapitulation</b> 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*.

**SECTION II – SPECIFIC COMPLIANCE**

**SCHOOL DISTRICT/CHARTER SCHOOL/RENAISSANCE SCHOOL PROJECT  
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/renaissance school projects 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/renaissance school project (Permanent funds) and those for which the district school/renaissance school project 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/renaissance school project 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/renaissance school project 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/renaissance school project.

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**

**(Applicable to school districts, charter schools and renaissance school projects)**

*N.J.S.A.* 18A:13-14 allows the board of education or board of trustees 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/renaissance school project's internal controls. The following is an overview of responsibilities of the board secretary when the treasurer position is eliminated.

*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/renaissance school project.

*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 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 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 provides that the board secretary shall draw and deposit the warrants.

**Board Secretary and (Optional) Treasurer Reports**

**(Applicable to school districts, charter schools and renaissance school projects)**

In accordance with *N.J.S.A.* 18A:17-9, 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/ 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/board of trustees elects to maintain the position) report must be reconciled on a monthly basis.

### **Cash Reconciliation**

**(Applicable to school districts, charter schools and renaissance school projects)**

The cash accounts must be reconciled. *N.J.S.A.18A:17-9* 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/renaissance school projects 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/renaissance school project.

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

### **Petty Cash Funds**

**(Applicable to school districts, charter schools and renaissance school projects)**

*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 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**

**(Applicable to school districts, charter schools and renaissance school projects)**

*N.J.S.A. 18A:29-3* authorizes a district board of education/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)**

**(Applicable to school districts, charter schools and renaissance school projects)**

*N.J.A.C. 6A:23A-16.6* requires that district boards of education/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 801 available on the AICPA website at: <http://www.aicpa.org/Research/Standards/AuditAttest/DownloadableDocuments/AT-00801.pdf>*. 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 Standards* (2011 edition) available electronically at the website <http://www.gao.gov/yellowbook> for further guidance on internal controls.

### **Third Party Disbursements (Applicable to school districts, charter schools and renaissance school projects)**

*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/ 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/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](http://www.nj.gov/dca/divisions/dlgs/resources/rules_docs/5_30/njac_53017.pdf)

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

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

### **Investments (Applicable to school districts, charter schools and renaissance school projects)**

Several statutes govern permissible investment of school monies by New Jersey school districts/charter schools/renaissance school projects. In a district/charter school/renaissance school project which appoints a treasurer of school moneys, *N.J.S.A. 18A:17-34* gives the treasurer of the school district/charter school/renaissance school project 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/renaissance school project 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/renaissance school project 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/renaissance school project'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/renaissance school projects. The division does not publish a listing of approved investments but districts/charter schools/renaissance school projects 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/renaissance school project can utilize. Districts/charter schools /renaissance school projects 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](http://www.state.nj.us/dobi/division_banking/depositories/gudpa.htm). A school district/charter school/renaissance school project 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/renaissance school projects 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/renaissance school projects. 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.

Effective for reporting periods after December 15, 2015, GASB Statement No. 79, “*Certain External Investment Pools and Pool Participants*”, establishes accounting and financial reporting standards for state and local governments that participate in a qualifying external investment pool that measures for financial reporting purposes all of its investments at amortized cost. The department believes this statement will have a limited impact on school districts, charter schools, and renaissance school projects. If an external investment pool meets the criteria in paragraph 4 of GASB Statement No. 79 and measures all of its investments at amortized cost, the pool’s participants should also measure their investments in that external investment pool at amortized cost for financial reporting purposes. If an external investment pool does not meet the criteria in paragraph 4, the pool’s participants should measure their investments in that pool at fair value as provided in paragraph 11 of Statement 31, as amended.

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.

Auditors should refer to the statement for further understanding and for illustrations of disclosures.

Effective for reporting periods beginning after June 15, 2015 districts/charter schools/renaissance school projects are required to implement *GASB Statement No. 72, Fair Value and Measurement Application*. The Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement applies to donated capital assets, donated works of art, donated historical treasures, and also to similar assets and capital assets received in a service concession arrangement such as the investment held in Solar Renewable Energy Certificates (SRECs). It provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. *GASB Statement No. 72* provides that donated capital assets should be measured at acquisition value (an entry price). Using the link below, auditors can access the DOE broadcast from May 31, 2016 for additional information on recording and reporting:

[https://education.state.nj.us/broadcasts/2016/MAY/31/14989/Implementation%20of%20Governmental%20Accounting%20Standards%20Board%20\(GASB\).pdf](https://education.state.nj.us/broadcasts/2016/MAY/31/14989/Implementation%20of%20Governmental%20Accounting%20Standards%20Board%20(GASB).pdf)

## **Revenues and Receipts**

**(Applicable to school districts, charter schools and renaissance school projects)**

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 /renaissance school project 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/renaissance school project that does not have a treasurer of school moneys, the board secretary will keep a record of the sums received.

## **Insurance Recoveries**

**(Applicable to school districts, charter schools and renaissance school projects)**

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**

**(This section is not applicable to charter schools and renaissance school projects)**

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 FEMA approval to take a 2015-16 CDL draw to reduce their 2015-16 budgeted and actual general fund tax levy (revenue line 100) in the amount of the declaration of drawdown should follow the same procedures and record the CDL proceeds requested and received in Audsum line 681 (“Other Financing Sources – CDL Property Tax Offset- Super Storm Sandy”) for fiscal year 2015-16. 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). The outstanding amount of principal and accrued interest of the CDL at the year-end should be included in the Statement of Net Position’s noncurrent portion of long-term obligations and described accordingly in the Notes to the Financial Statements. The CDL drawdown period ends with the 2015-16 year.

Broadcast announcement:

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

### **Community Development Block Grants (CDBG)**

**(This section is not applicable to charter schools and renaissance school projects)**

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 2015-16. 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 2015-16 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 2015-16 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](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**

**(This section is not applicable to charter schools and renaissance school projects)**

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**

**(Extraordinary Aid Application is applicable to school districts only; charter school and renaissance school project students are included in the resident school district's Extraordinary Aid Application)**

School districts shall file an application with the department for expenses incurred for which the district is seeking reimbursement and that additional State aid awarded for Extraordinary Aid (ExAid) costs shall be recorded by the district as revenue in the current school year (N.J.S.A. 18A:7F-55 c.) and paid to the district in the subsequent school year. School districts shall include the resident student enrolled in a charter school or a renaissance school project in their application. The awards for 2015-16 ExAid will be posted in the district's state aid folders upon release. 2015-16 ExAid Payments are expected to be made mid to late September 2016.

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/renaissance school projects must also establish a receivable for the appropriate amount of anticipated payment (*N.J.S.A.* 18A:7F-55 c., and GASBS 33 par.74). This amount (or a portion of the amount) may be excluded from the June 30, 2016 excess surplus calculation only if the district can clearly document that they did not budget this additional aid during the 2015-16 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**

**(This section does not apply to charter schools and renaissance school projects)**

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, 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*, 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 2015-16 budget, districts were required to include any applicable tuition adjustment for the certification of the 2014-15 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. 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 2015-16 budget districts were required to include any applicable tuition adjustment for the certification of 2013-14 rates.
5. For the 2015-16 budget year districts were required to withdraw and budget the June 30, 2014 deposit to the tuition reserve, which was based upon the estimated 2013-14 tuition costs, to

account for the actual 2013-14 certified tuition rate adjustments. The funds were legally reserved in 2013-14 based on an estimate of the 2013-14 tuition adjustment (estimated vs. actual) that would occur in 2015-16.

6. A district may have at June 30, 2016 a reserve for each applicable year 2014-15 and 2015-16. 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.

### **On-Behalf Payments**

**The following sections regarding Teachers’ Pensions and Annuity Fund (TPAF), Public Employees’ Retirement System (PERS), and Defined Contribution Retirement Plan (DCRP) Reporting are Applicable to School Districts, Charter Schools, and Where Deemed Appropriate, to Renaissance School Projects**

**Reporting of Teachers’ Pension and Annuity Fund (TPAF) On-behalf Payments. (TPAF is a Cost Sharing Multi-Employer Defined Benefit Pension Plan with a Special Funding Situation – 100% Legal Obligation of the State). On-Behalf Pension, Post Retirement Medical, and FICA Reimbursement Payments Made by the State - LEAs with Participating/Eligible Employees**

#### Accrual Basis Financial Statements

Pension Payments Made by the State:

Effective for the year ending June 30, 2014 Governmental Accounting Standards Board (GASB) Statement No. 68 *Accounting and Financial Reporting for Pensions* superseded GASB Statement No. 24 *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance* and eliminated the requirement to recognize revenue and expense for on-behalf pension payments made by the State in the accrual basis financial statements only (e.g. A-2 Statement of Activities). The requirements of GASBS No. 68 for the accrual basis statements are designed to report the true “cost of services” at the LEA level as it relates to pension costs; not only the amounts actually paid by the State (on-behalf) towards the cost of those services. Refer to the section below on reporting TPAF pension expense in the accrual basis statements under GASBS No. 68 for additional guidance.

GASB Statement No. 73, “*Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans*” is effective for reporting periods beginning after June 15, 2015 (with regards to those requirements for pension plans that are within the scope of GASBS No. 68.) and for fiscal years beginning after June 15, 2016 for all other requirements, this statement establishes requirements for pensions that are provided through pension plans that are administered through trusts or equivalent arrangements , and not within the scope of GASBS No. 68.

This Statement clarifies the application of certain provisions of Statements 67 and 68 with regard to the following issues:

1. Information that is required to be presented as notes to the 10-year schedules of required supplementary information about investment-related factors that significantly affect trends in the amounts reported.
2. Accounting and financial reporting for separately financed specific liabilities of individual employers and nonemployer contributing entities for defined benefit pensions.

3. Timing of employer recognition of revenue for the support of nonemployer contributing entities not in a special funding situation.

**FICA Reimbursements Received from the State (On-behalf FICA for TPAF Members):**

GASBS No. 68 doesn't address "FICA reimbursements" which are reimbursements made by the State to the employer district/charter/renaissance school project reimbursing the employer for the school's share of the FICA payroll tax expense. Accordingly, continue to report PRM payments in the accrual basis financial statements (A-2) as revenue and expense in equal amounts. LEAs must support the amounts recognized through the preparation of a schedule of the amounts reimbursed by the state for the current year FICA employer contribution for its TPAF members. 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.

**Post-Retirement Medical (PRM) Payments Made by the State:**

GASBS No. 68 doesn't address on-behalf Other Post Retirement Employee (Medical) Benefit payments. Accordingly, continue to report PRM payments in the accrual basis financial statements as revenue and expense in equal amounts. The department annually obtains allocated post-retirement medical payments for former TPAF members made by the State from Treasury. This schedule of payments for the year ending June 30, 2015 is available to LEAs on the DOE website at <http://www.nj.gov/education/finance/fp/audit/>.

**Modified Accrual Basis Financial Statements and Schedules**

**Pension and Post Retirement Medical Payments (on-behalf payments) made by the State:**

GASB Statement No. 24, paragraphs 7 through 13 require that an employer government (LEA) recognize equivalent amounts of revenue and expenditure for on-behalf payments for fringe benefits and salaries actually remitted by a non-employer on-behalf of the employer government during the fiscal year under audit. On-behalf payments for fringe benefits and salaries are direct payments made by one entity during the fiscal year (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 to modified accrual basis statements and schedules in New Jersey, LEAs are required to include in the (B-2) Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balance and in the (C-1) General Fund Budgetary Comparison Schedule the pension and post retirement medical premium contributions actually made during the fiscal year under audit directly to TPAF by the state on their behalf.

The department annually obtains from Treasury and makes available to LEAs a schedule of the TPAF pension amounts paid on their behalf for employer contributions to the TPAF on the DOE website at: <http://www.nj.gov/education/finance/fp/audit/>.

**FICA Reimbursements Received from the State (On-behalf FICA for TPAF Members):**

LEAs must also prepare a schedule of the amounts reimbursed by the state for the current year FICA employer contribution for its TPAF members on a modified 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 FICA payments are included in the CAFR as non-budgetary revenue and expenditure items (B-2, and C-1). LEAs 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 on this schedule, schools and their auditors should refer to Section II-SA, Federal and State Audit Requirements, of this Audit Program.

**Pension Reporting Under Governmental Accounting Statements Board Standard No. 68 (GASBS No. 68)** (first effective for periods beginning after June 15, 2014)

*Teachers' Pension and Annuity Fund (TPAF) – Cost Sharing Defined Benefit Plan with a Special Funding Situation*

TPAF qualifies as a special finding situation because the non-employer (the State) is the only entity with a legal obligation to make “employer” contributions directly to the TPAF. GASBS 68 requires an employer that has a special funding situation for defined benefit pensions to recognize a pension liability and deferred outflows of resources and deferred inflows of resources related to pensions *with adjustments for the involvement of non-employer contributing entities*. An LEA is also required to recognize its proportionate share of the collective pension expense, as well as additional pension expense and revenue for the pension support of the State. For special funding situations, the requirements for accounting and financial reporting by employers (LEAs) for defined benefit cost-sharing pensions are presented in GASBS 68 paragraphs 92-96 (GASBS 68 par. 16). To summarize those requirements for New Jersey LEAs by statement/schedule:

The district-wide statements are prepared on the economic resources measurement focus and the accrual basis of accounting and are identified in the CAFR as A-1 (Statement of Net Position) and A-2 (Statement of Activities):

1. GASBS No. 68, par. 92 provides that a liability should be recognized for the employer's proportionate share of the collective net pension liability. The State is the only entity that has a legal obligation to make employer contributions to TPAF. As clarified in the GASBS No. 68 Implementation Guide Q&A number 224 (available on the [GASB.org](http://GASB.org) website), in a situation where the State is the only entity with a legal obligation, the LEAs proportionate share percentage determined under paragraph 48 of GASBS No. 68 is zero percent. Accordingly, LEAs shouldn't recognize any portion of the TPAF collective net pension liability on the Statement of Net Position (A-1). Also on the A-1, and for the same reasons, LEAs should not recognize any portion of TPAF collective deferred outflows of resources and TPAF deferred inflows of resources.
2. GASBS No. 68, paragraph 93 requires LEAs to recognize pension expense in conformity with GASBS par. 52-57. Applying the same reasoning as directly above, the proportionate share percentage determined in accordance with GASBS No. 68 paragraphs 52-57 is zero. Accordingly, LEAs don't recognize any amount of proportionate share of pension expense on the district-wide Statement of Activities (A-2). In addition though, GASBS 68 paragraphs 94 and 95 require that LEAs also recognize an equivalent amount of TPAF pension expense and TPAF pension revenue on the (accrual basis) district-wide Statement of Activities (A-2) in an amount representative of the expense of the State (nonemployer contributing entity) that is associated with the particular LEA (employer). Although GASBS No. 68 doesn't specify the basis to be used for this purpose, GASB's implementation guidance is the “resulting proportion should represent the relationship of the employer to the total of all employers that are provided support as a result of the special funding situation” (reference Q&A # 225). The measurement period for the pension expense and revenue reported in the school's financial statements (A-2) at June 30, 2016 is based upon change in the collective net pension liability with a measurement period of June 30, 2014 through June 30, 2015. Accordingly, the pension expense and the related revenue associated with the support provided by the State is based upon the changes in the collective net pension liability between July 1, 2014 and June 30, 2015. An allocation schedule for the revenue and expense to be recognized on the district-wide Statement of Activities for each LEA will be provided by the plan accompanied by an auditor's opinion on that schedule. Note that GASBS No. 68 Implementation Guide Q&A number 227 clarifies that only the non-employer contributing

entity in a special funding situation should recognize as a deferred outflow of resources contributions made subsequent to the measurement date of the collective net pension liability.

The governmental funds statements are prepared on the current financial resources measurement focus and modified accrual basis of accounting and are identified in the CAFR as B-1, Governmental Funds Balance Sheet and B-2, Statement of Revenues, Expenditures, and Changes in Fund Balance. The B-3 provides a Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds (B-2) to the Statement of Activities (A-2):

1. LEAs participating in a “special funding situation” pension plan (e.g. TPAF) are required to recognize their proportionate share of the collective net pension liability on the B-1 to the extent the liability is normally expected to be liquidated with expendable available financial resources of the State (GASBS 68, paragraph 73). Because the State is the only entity legally responsible for TPAF employer contributions, this amount is zero for all LEAs.
2. LEAs participating in a “special funding situation” pension plan are required to recognize pension expenditures on the B-2 Statement of Revenues, Expenditures, and Changes in Fund Balances (GASBS 68, paragraph 73). Pension expenditures should be recognized equal to the total of
  - a. Amounts paid by the employer to the pension plan. Because the State is the only entity legally responsible for employer payments to the TPAF, for TPAF this amount is zero for all LEAs, and
  - b. The change between the beginning and ending balance of amounts normally expected to be liquidated with expendable available financial resources. Net pension liabilities are normally expected to be liquidated with expendable available financial resources to the extent that benefit payments are due and payable and the pension plan’s fiduciary net position is not sufficient for payment of those benefits. Because the State is the only entity legally responsible for employer payments to the TPAF, for TPAF this amount is zero for all LEAs

TPAF Footnote Disclosures, Required Supplementary Information (RSI), and Notes to RSI:

GASBS 68 requires LEAs to disclose in notes to financial statements information about the amount of support provided by non-employer contributing entities (e.g. the State) and to present similar information about the involvement of those entities in 10-year schedules of required supplementary information. Even though the LEA employer doesn’t recognize a proportionate share of the collective net pension liability for TPAF, paragraphs 75 (disclosures) and 81 (RSI) of GASBS 68 require that the LEA present note disclosures and schedules of RSI that include the proportionate share of the TPAF collective net pension liability, and other information that is detailed on paragraphs 76-82 of GASBS 68. Specific information provided by the TPAF plan required to meet the LEA’s disclosure and RSI requirements under GASBS 68, including but not limited to, plan financial reports, actuarial reports, auditor’s opinions, schedules (e.g. Schedule of the LEA’s Proportionate Share of the Net Pension Liability – Last 10 Fiscal Years – as historical information becomes available; Schedule of District Contributions – Last 10 Fiscal – as historical information becomes available) is posted on the Treasury website at: <http://www.state.nj.us/treasury/pensions/>. The GASBS 68 Implementation Guide includes illustrations (refer to illustration 4a and 4b for TPAF) available on the GASB website at: [http://www.gasb.org/jsp/GASB/Document\\_C/GASBDocumentPage?cid=1176163784087&acceptedDisclaimer=true](http://www.gasb.org/jsp/GASB/Document_C/GASBDocumentPage?cid=1176163784087&acceptedDisclaimer=true)

*Public Employees Retirement System (PERS) – Cost Sharing Defined Benefit Plan- No Special Funding Situation*

Background – Initial Year of Implementation

GASBS No. 68 (issued June 2012) was first implemented for PERS employer participants for the fiscal year ended June 30, 2015. For each succeeding year, the school's proportionate share of the collective net pension liability is to be reported in the year end financial statements and has a measurement date of one year prior (i.e. June 30, 2015) with a measurement period of beginning July 1, and ending June 30 (i.e. 2014 to June 30, 2015). Link to GASBS No. 68 Implementation Guide:

[http://www.gasb.org/jsp/GASB/Document\\_C/GASBDocumentPage?cid=1176163784087&acceptedDisclaimer=true](http://www.gasb.org/jsp/GASB/Document_C/GASBDocumentPage?cid=1176163784087&acceptedDisclaimer=true)

#### Application to the District-wide Financial Statements:

The district-wide financial statements are prepared on the economic resources measurement focus and the accrual basis of accounting and are identified in the CAFR as A-1 (Statement of Net Position) and A-2 (Statement of Activities):

1. A cost-sharing employer (e.g. LEA) that doesn't have a special funding situation (e.g. PERS) is required to recognize on the Statement of Net Position (A-1):
  - a. A liability for the LEA's proportionate share of the collective net pension liability as provided by Treasury for PERS employers (GASBS No. 68 paragraphs 48 – 51) and,
  - b. The LEA's proportionate share of the collective deferred outflows of resources as provided by Treasury for PERS employers (GASBS No. 68 paragraphs 52 -57) and,
  - c. The LEA's proportionate share of the collective deferred inflows of resources as provided by Treasury for PERS employers (GASBS No. 68 paragraphs 52 -57)

To facilitate the recording of the conversion entries for a. b. and c. above from the fund statements to the district-wide statements, the department has obtained access to Treasury's published Schedule(s) of Collective Net Pension Liabilities, Collective Deferred Outflows of Resources, and Collective Deferred Inflows of Resources including proportionate share by entity for the beginning of the measurement period (6/30/14) and for the end of the measurement period (6/30/15). The actuarial valuation date and the measurement date are one year prior to the ending date of the year under audit (6/30/16), i.e. June 30, 2015, as permitted by GASBS 68. Auditor's Note: The department has also provided on our website a link to the accompanying independent plan auditor's report for PERS.

2. Whenever there is a change in the LEA employer's proportionate share percentage (provided by Treasury) since the prior measurement date compared to the current ending measurement date (e.g. for PERS 6/30/14 compared to 6/30/15), the LEA PERS participating employer is required to record conversion journal entries that reflect any change in the LEA's proportionate share percentage of the collective beginning balances (6/30/14) compared to the LEA's ending proportionate share percentage (6/30/15) applied to the amounts provided by Treasury for the beginning of the measurement period (e.g. 6/30/14) for the collective balance of net pension liability, collective balance of deferred outflows of resources and collective balance of deferred inflows of resources related to pensions, and collective pension expense. Note that in conformity with GASBS. No. 68 paragraph 54, the net effect of the change in proportion is recognized in pension expense, beginning in the current reporting period, using a systematic and rational method over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions through the pension plan, determined as of the beginning of the measurement period. The amount of the net effect of a change in proportion that is not recognized in the employer's pension expense is reported as a deferred outflow of resources or deferred inflow of resources related to pensions.
  - a. Where Treasury reports an increase in the LEA's proportion, the result is an increase in pension expense and a deferred outflow of resources.
  - b. Where Treasury reports a decrease in the LEA's proportion, the result is a decrease in pension expense and a deferred inflow of resources.

(Refer to GASBS No. 68 Implementation Guide, Illustration 3b, page 163, item (2) (a) for an illustration of the conversion journal entry(s) and supporting calculations).

3. Whenever there is a contribution (GASBS No. 68 paragraph 55) made by the LEA employer to the pension plan (other than those to separately finance specific liabilities of an individual employer (e.g. ERIP)) during the measurement period (6/30/14 through 6/30/15 – e.g. payment of the April PERS billings) the difference between (a) the total amount of such contributions from the LEA and (b) the amount of the LEA employer's proportionate share of the total of such contributions from all employers and all non-employer contributing entities should be recognized in the employer's pension expense (A-2), beginning in the current reporting period, using a systematic and rational method over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions through the pension plan determined as of the beginning of the measurement period (e.g. 6/30/14). The amount not recognized in the employer LEA's pension expense should be reported as a deferred outflow of resources or a deferred inflow of resources related to pension.
  - a. Where the employer LEA's actual contribution(s) during the measurement period (6/30/14 through 6/30/15) exceed its proportionate share of total contributions reported by Treasury, the result is an increase in pension expense and a deferred outflow of resources.
  - b. Where the employer LEA's actual contribution(s) during the measurement period (6/30/14 through 6/30/15) are less than its proportionate share of total contributions reported by Treasury, the result is a decrease in pension expense and a deferred inflow of resources.

(Refer to GASBS No. 68 Implementation Guide, Illustration 3b, page 164, item (2) (b) for an illustration of the conversion journal entry(s) and supporting calculations). Note that the effects of GASBS No. 68 paragraphs 54 and 55 (numbers 2 and 3 above) in a single measurement period are permitted to be recognized on a net basis.

4. For the year of initial implementation only, (see GASBS No. 68 Implementation Guide Q&A numbers 267 through 272), for presentation in the district-wide Statement of Net Position (A-1) it was necessary to recognize a prior period adjustment to include amounts as of the beginning of the school's fiscal year – July 1, 2014 - for the effects of (a) the deferred outflows of resources determined at the beginning of the fiscal year for the amount of the employer's contributions to PERS since the beginning of the measurement period (e.g. the effect of employer contributions since the beginning of the measurement period includes contributions made during the period beginning July 1, 2013 and ending June 30, 2014) and (b) the proportionate share of the collective PERS net pension liability and other deferred outflows of resources and deferred inflows of resources determined as of the measurement date that is used to determine the school's *beginning balance* of the proportionate share of the collective net pension liability in the year of initial implementation (e.g. June 30, 2013). The aforementioned prior period adjustment to beginning net position in the year of initial implementation *removes* (a) the LEA's proportionate share of the collective net pension obligation (or asset) balance that was determined in accordance with GASBS No. 27 (which is "zero" for LEAs at June 30, 2014) and any payables to the pension plan for employer contributions billed but not paid prior to June 30, 2014 (this amount will vary from LEA to LEA). The prior period adjustment to beginning net position in the year of initial implementation also (b) *adds* the balance of the LEA's proportionate share of the collective net pension liability as of the beginning of the initial period of implementation (e.g. July 1, 2014), and (c) adds a deferred outflow of resources balance for the LEA's employer contributions to PERS made between the measurement date of the school's beginning proportionate share of the collective net pension liability (June 30, 2013) and the beginning of the LEA's fiscal year under

audit (July 1, 2014) and (d) adds balances associated with all other deferred outflows of resources and deferred inflows of resources determined as of the same date as the beginning net pension liability (June 30, 2013). If the LEA has any payables to PERS for employer contributions as of the beginning of the initial period of implementation (July 1, 2014) those balances remain because GASBS No. 68 continues the measurement and recognition requirements of GASBS No. 27 for those transactions.

5. A cost-sharing employer (e.g. LEA) that doesn't have a special funding situation (e.g. PERS) is required to recognize pension expense for its proportionate share of collective pension expense on the Statement of Activities (A-2) (GASBS. No. 68 paragraphs 52-57). This amount is determined by multiplying the collective PERS pension expense for the measurement period ended June 30, 2015 by the LEA's proportionate share. To facilitate the recording of conversion entries for pension expense from the fund statements to the district-wide statements, the department has obtained access to Treasury's published schedule(s) of Collective Pension Expense for the measurement period ended June 30, 2015 and the proportionate share for each participating employer entity. Note that pension expense as described in this paragraph may be adjusted for the provisions of GASBS No. 68 discussed in paragraph numbers 1 through 4 above.
6. Auditors are encouraged to refer to GASBS No. 63 (effective for fiscal year ended June 30, 2013) for definitions of net position, deferred outflow of resources, and deferred inflow of resources. Note that GASBS 68, paragraph 57, requires that contributions to the pension plan from the employer LEA subsequent to the measurement date (June 30, 2015) of the collective net pension liability and before the end of the employer's reporting period (June 30, 2016) should be reported as a deferred outflow of resources related to pensions on the Statement of Net Position (A-1). Preparer's/Auditor's Note: Refer to GASBS 68 Implementation Guide Q&A # 147 for additional guidance.

#### Application to the Governmental Funds Statements:

The governmental funds statements are prepared on the current financial resources measurement focus and modified accrual basis of accounting and are identified in the CAFR as B-1, Governmental Funds Balance Sheet and B-2, Statement of Revenues, Expenditures, and Changes in Fund Balance. The B-3 provides a Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds (B-2) to the Statement of Activities (A-2):

1. LEAs participating in a defined benefit pension plan (e.g. PERS) are required to recognize their proportionate share of the collective net pension liability on the B-1 to the extent the liability is normally expected to be liquidated with expendable available financial resources (GASBS 68, paragraph 73).
  - a. In a situation where the 2015 employer PERS billing, due April 1, 2015, was not remitted to Treasury prior to the year ending June 30, 2015, the amount billed, but not remitted, must be reported as a component of the LEAs proportionate share of the collective net pension liability on the B-1.
  - b. In a situation where at the measurement date (6/30/15), the PERS plan fiduciary net position is not sufficient to make benefit payments that were due and payable (e.g. within 30-90 days of the 6/30/15 year-end), the LEAs must recognize an amount equal to its proportionate share of the amount of benefits due and payable that exceeds the pension plan's fiduciary net position as its proportionate share of the collective net pension liability. Net pension liabilities are normally expected to be liquidated with expendable available financial resources to the extent that benefit payments are due and payable and the pension plan's fiduciary net position is not sufficient for payment of those benefits.
  - c. To facilitate reporting, the department has obtained access to Treasury's published Schedule of Proportionate Shares of Collective Net Pension Liabilities for PERS and also a link to the accompanying independent auditor's report on the plan's Schedule of

Proportionate Shares of Collective Net Pension Liabilities for PERS. Preparer's and auditor's note: refer to GASBS 68 Implementation Guide Q&A # 197) for additional guidance.

2. LEAs participating in a defined benefit pension plan (e.g. PERS) are required to recognize pension expenditures on the B-2 Statement of Revenues, Expenditures, and Changes in Fund Balances (GASBS 68, paragraph 73). Pension expenditures should be recognized equal to the total of:
  - (a) Amounts paid by the employer to the pension plan, and
  - (b) The change between the beginning and ending balances of amounts normally expected to be liquidated with expendable available financial resources. Preparer's and Auditor's Note: To the extent that GASB 68 requires the recognition of pension expenditures on the B-2, a budget to GAAP adjustment should be reported on the C-3 (Budget to GAAP Reconciliation).

PERS Footnote Disclosures, Required Supplementary Information (RSI), and Notes to RSI:

GASBS 68 paragraphs 74 through 82 address the required notes to the financial statements disclosures, required supplementary information (RSI), and notes to RSI for LEAs. For PERS, 10-year schedules of Specific information provided by the PERS plan required to meet the LEA's disclosure and RSI requirements under GASBS 68, including but not limited to, plan financial reports, actuarial reports, auditor's opinions, schedules (e.g. Schedule of the LEA's Proportionate Share of the Net Pension Liability – Last 10 Fiscal Years – as historical information becomes available; Schedule of District Contributions – Last 10 Fiscal – as historical information becomes available) is posted on the Treasury website at: <http://www.state.nj.us/treasury/pensions/>. The GASBS 68 Implementation Guide includes illustrations (refer to illustration 3a and 3b for PERS) available on the GASB website at:

[http://www.gasb.org/jsp/GASB/Document\\_C/GASBDocumentPage?cid=1176163784087&acceptedDisclaimer=true](http://www.gasb.org/jsp/GASB/Document_C/GASBDocumentPage?cid=1176163784087&acceptedDisclaimer=true)

#### *Defined Contribution Retirement Plan (DCRP)*

The district-wide statements are prepared on the economic resources measurement focus and the accrual basis of accounting and are identified in the CAFR as A-1 (Statement of Net Position) and A-2 (Statement of Activities):

1. A change in the DCRP pension liability is required to be recognized for the difference between amounts recognized in expense and amounts paid by the employer to DCRP.
2. An LEA whose employees are provided with defined contribution pensions is required to recognize pension expense for the amount of contributions to employees' accounts that are defined by the benefit terms as attributable to employees' service in the period, net of forfeited amounts that are removed from employees' accounts.

The governmental funds statements are prepared on the current financial resources measurement focus and modified accrual basis of accounting and are identified in the CAFR as B-1, Governmental Funds Balance Sheet and B-2, Statement of Revenues, Expenditures, and Changes in Fund Balance. The B-3 provides a Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds (B-2) to the Statement of Activities (A-2):

1. A pension liability should be recognized to the extent the liability is normally expected to be liquidated
2. Pension expenditures should be recognized equal to the total of:
  - a. Amounts paid by the employer to the DCRP and,
  - b. The change between the beginning and ending balances of amounts normally expected to be liquidated with expendable available financial resources

For DCRP, the notes to the LEAs financial statements should include descriptive information about the pension plan and benefit terms, contribution rates and how they are determined, and amounts attributable to employee service and forfeitures in the current period. The GASBS 68 Implementation Guide includes illustrations (refer to illustration 6 for DCRP) available on the GASB website at:

[http://www.gasb.org/jsp/GASB/Document\\_C/GASBDocumentPage?cid=1176163784087&acceptedDisclaimer=true](http://www.gasb.org/jsp/GASB/Document_C/GASBDocumentPage?cid=1176163784087&acceptedDisclaimer=true)

## AICPA - Independent Auditing Firm Guidance for GASBS No. 68 Implementation

### 1. AICPA Auditing Interpretations of generally accepted auditing standards (GAAS):

#### a. Interpretation #2 (April 2014) *“Auditor of Participating Employer in a Governmental Cost-Sharing Multiple-Employer Pension Plan”*. AU-C Section 9500 *Audit Evidence: Auditing Interpretations of AU-C Section 500* - (APPLIES TO TPAF, PERS, DCRP):

.25 GASBS 67 requires only the disclosure of the collective net pension liability for all participating employers in GAAP financial statements of the cost-sharing plan (TPAF/PERS/DCRP), not each employer’s proportionate share of the collective net pension liability. GAAP doesn’t require the plan to present deferred outflows of resources or deferred inflows of resources by category, pension expense, or each participating employer’s share of collective pension amounts. **Unaudited** information provided by the plan to the employer district to support allocations or pension amounts that has not been subjected to further audit procedures would not constitute sufficient appropriate audit evidence to support the relevant assertions in the employer’s financial statements related to the pension amounts, including required disclosures.

.26 Absent additional audit evidence from the cost-sharing plan, (e.g. auditor’s opinions on the schedule of employer allocations and net pension liability, deferred outflows/inflows, total pension expense) the school district/charter school auditor would not likely be able to accumulate sufficient appropriate audit evidence to support the pension amounts and disclosures in the school’s (employer’s) financial statements. In this case, the auditor should modify the audit opinion pursuant to AICPA, *Professional Standard*, AU-C section 705, *Modifications to the Opinion in the Independent Auditor’s Report*.

.28 The school district/charter school (employer) auditor may use the plan auditor’s report on the schedules as evidence that the pension amounts allocated to the employer and included in the employer’s financial statements are not materially misstated. In accordance with .29, the employer auditor should evaluate whether the plan auditor’s report and accompanying schedules are adequate and appropriate for the employer auditor’s purposes:

- i. Evaluate whether the plan auditor’s report and accompanying schedules are adequate and appropriate for the employer auditor’s purposes;
- ii. Employer auditor must evaluate whether the plan auditor has the necessary competence and independence for the employer auditor’s purposes;
- iii. Verify and recalculate amounts specific to the applicable employer, including the employer amount used in the allocation percentage – the numerator of the calculation; (entity’s proportionate share/collective amount)
- iv. Recalculate the allocation percentage for the employer;
- v. Recalculate the pension amounts allocated to the employer based on the allocation percentage

- b. Interpretation #1 (April 2014) “Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors): Auditor Interpretations of AU-C Section 600” & “Special Considerations – Audits of Single Financial Statements and Specific Elements, Accounts, or Items of a Financial Statement: Auditing Interpretations of AU-C Section 805”

AU-C Section 9600 - .02 A governmental pension plan is not a component of the school district/charter school (employer). It would not be appropriate for a school district/charter school (employer) auditor to make reference to the audit report of the governmental pension plan auditor.

AU-C Section 9805 – Is directly applicable to the report issued by the auditor of the cost-sharing multiple employer pension plan (not to the school district/charter school (employer) auditor). The school district/charter school auditor electing to rely upon this report is responsible to ensure the format and content are appropriate. Also provides samples – Schedule of Employer Allocations; Schedule of Pension Amounts by Employer; and Schedule of Collective Pension Amounts.

1. AICPA Governmental Audit Quality Center (GAQC) Whitepapers:

Governmental Employer Participation in Cost-Sharing Multiple-Employer Plans: Issues Related to Information for Employer Reporting. Applicable to PERS and DCRP only (doesn't address special funding situations – TPAF) There is no question that significant interaction between the plans, participating employers and related auditors will be needed for purposes of corroborating pension amounts in employer financial statements. GASB 68 doesn't specify which party (plan or employer) is responsible for calculating the allocation percentages. Cost-sharing plans are in the best position to perform this calculation because they have the necessary information to do so including the data supporting the allocation measure for each individual employer (the numerator) and for all employers (denominator) for the calculation. While not required to be disclosed in the plans financial statement, there is an expectation that deferred outflows/inflows by category and pension expense are calculated by the actuary of the plan and included in the actuarial valuation report.

It is the recommendation of State and Local Government Expert Panel (SLGEP) that cost sharing plans calculate and disclose in schedules each employer's allocation percentage and collective pension amounts. Identified schedules are: “Schedule of Employer Allocations” and “Schedule of Pension Amounts by Employer”. Further, GLGEP recommends pension plans engage their auditors to obtain reasonable assurance and report on the schedules in accordance with AU-C section 805, *Special Considerations – Audits of Single Financial Statements and Specific Element, Accounts, or Items of a Financial Statement*. The plan auditor's report on the schedules provides evidence that the pension amounts allocated to the employer and included in the employer's financial statements are not materially misstated. When pension amounts are material to one or more applicable opinion units of the employer's financial statements and the auditor is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement, the auditor should **modify the audit opinion** pursuant to AU-C section 705 *Modification to the Opinion in the Independent Auditor's Report.*(AICPA Professional Standards). .28 The employer auditor may use the plan auditor's report on the schedules as evidence that the pension amounts allocated to the employer and included in the employer's financial statements are not materially misstated. .29 The school district's independent auditor would be required to:

- i. Evaluate whether the plan auditor's report and accompanying schedules are adequate and appropriate for the employer auditor's purposes;
- ii. Employer auditor must evaluate whether the plan auditor has the necessary competence and independence for the employer auditor's purposes;
- iii. Verify and recalculate amounts specific to the applicable employer, including the employer amount used in the allocation percentage – the numerator of the calculation; (entity's proportionate share/collective amount)
- iv. Recalculate the allocation percentage for the employer;
- v. Recalculate the pension amounts allocated to the employer based on the allocation percentage

*“Single-Employer and Cost-Sharing Multiple-Employer Plans: Issues Associated with Testing Census Data in an Audit of Financial Statements”* is guidance for the plan auditor, not for the school (employer) auditor. Note there are two options: 1) Retirement system auditor issues a SOC 1, Type 2 report on the census data maintained by the system to provide assurance that the system's controls over census data are suitably designed and operating effectively for the year which the actuarial valuation was performed. 2) Engage the systems auditor to perform an examination-level engagement (an audit of the census data).

Sample Journal Entries, Notes & Schedules from **GASB 68 Implementation Guide** applicable to school districts/charter schools:

- 1) Page 155 Illustrations 3a and 3b – Note Disclosures and Required Supplementary Information for a Cost Sharing Employer (No Nonemployer contributing entities – PERS and DCRP); Net Pension Liability, Deferred Outflows of Resources and Deferred Inflows of Resources, and Pension Expense – Sample school district – Includes sample 10 year schedules (Includes sample journal entries)
- 2) Page 166 Illustration 4a – Note Disclosures and Required Supplementary Information for a Cost-Sharing Employer That Has a Special Funding Situation and Page 174 Illustration 4b Net Pension Liability, Deferred Outflows of Resources and Deferred Inflows of Resources related to Pensions, Pension Expense, and Sample Journal Entries – TPAF)
- 3) Page 186 Illustration 6 Note Disclosures for an Employer with Defined Contribution Pensions (No Nonemployer Contributing Entities) - DCRP

### **Compensation Reporting (Applicable to school districts, charter schools and renaissance school projects)**

*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/> for suggested audit procedures.

The following link is provided to assist auditors and districts/charter schools/renaissance school projects 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.

### **Compensation Reporting- E-CERT1**

**(This section is not applicable to charter schools and renaissance school projects)**

*N.J.S.A. 18A:17-14.4* requires the school business administrator, or any other person designated by the board of education, 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/renaissance school projects) 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](http://www.nj.gov/treasury/taxation/pdf/other_forms/misc/e_cert1.pdf).

### **Pensionable Wages**

**(Applicable to school districts, charter schools and renaissance school projects)**

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/renaissance school projects, these include the TPAF and PERS. School districts/charter schools/renaissance school projects are issued a Quarterly Report of Contributions to report and reconcile employee pension information and monies each calendar quarter. Districts/charter schools/renaissance school projects 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](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](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) (Applicable to school districts, charter schools and renaissance school projects)**

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, 2016. Additional information is available at the Department of Education, Office of Technology website at <http://www.state.nj.us/education/techno/teleact/> and at the School and Libraries website at [www.sl.universalservice.org](http://www.sl.universalservice.org).

## **Cancellations**

**(Applicable to school districts, charter schools and renaissance school projects)**

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**

**(Applicable to school districts, charter schools and renaissance school projects)**

*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/renaissance school project travel policies and procedures. District/charter school/renaissance school project 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/renaissance school project auditors should refer to *The State Aid/Compliance Supplement* for suggested audit procedures related to travel.

Travel Regulation Circular No. 16-11-OMB effective March 1, 2016 supersedes 12-14-OMB and includes a relaxation of the rules regarding the use of Amtrak rail travel and updates the allowable reimbursement for meals when authorized. 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 16-11 OMB for 2015-16. 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/renaissance school project 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**

**(Applicable to school districts, charter schools and renaissance school projects)**

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/renaissance school projects 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/renaissance school project'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/renaissance school project'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/renaissance school project accounting records or were inaccurately reported as fund balance. Public school accountants should review the terms of district/charter school/renaissance school project policies and statements/monthly activity reports issued by the carrier. If the district/charter school/renaissance school project 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/renaissance school project liability for the IBNR claims at June 30
- District/charter school/renaissance school project 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/renaissance school project's behalf)\*
- Investment income earned during the year on district/charter school /renaissance school project 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/renaissance school project 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/renaissance school project 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/renaissance school project'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/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/renaissance school project or the carrier on the district's/charter school's/renaissance school project'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**

**(Applicable to school districts, charter schools and renaissance school projects)**

*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/renaissance school project 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**

**(Not Applicable to charter schools/renaissance school projects)**

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 2015-16.**

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:  
(Not Applicable to charter schools/renaissance school projects)**

Additional Spending Proposals

**Additional spending proposals (school districts only)** 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  
(Not Applicable to charter schools/renaissance school projects)**

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-30.6 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, 2016 Balance Sheet should reflect the actual balance at June 30, 2016 and not increases/withdrawals included in the 2015-16 budget. The department recommends footnote disclosure in the Comprehensive Annual Financial Report.

## Excess Surplus

### Overview

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*. 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 in 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 end 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 GASBS 33. See the example on the last page of this chapter.

Amounts included in the 2016-17 certified budget (reserved fund balance – excess surplus designated for subsequent year’s expenditure) and any additional amounts reserved for appropriation in the 2016-17 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, 2016. 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 2016-17 budget software in the Budget Tab using projected 6/30/16 surplus balances and revised 2015-16 budgeted appropriations. The software, via the edits, forced the

inclusion of the greater of the audited excess surplus at 6/30/15 or the calculated projected excess surplus at 6/30/16 in the 2016-17 budget as budgeted fund balance.

The 6/30/16 audited calculation should be based upon June 30, 2016 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. Beginning with June 2012, Transfer to Food Services is no longer an adjustment to expenditures. This calculation is also adjusted for any allowable adjustments such as the amount of current year federal impact aid received, sale and lease-back, extraordinary aid, Family Crisis Transportation 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 federal impact aid adjustment only applies to districts receiving current year general fund (8002 and 8003) Federal Impact Aid. The amount that can be entered as an adjustment to expenditures is limited to the amount of general fund federal impact aid (8002 and 8003) revenue received in the current year that has not been transferred to the Federal Impact Aid General Fund Reserve pursuant to P.L.2015, c.46 that effective May 7, 2015 amended N.J.S.A. 18A:7F-41. See section III-4 for an illustration.

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, federal impact aid general fund reserve, and any other state/government imposed or department approved legal reserve that has not been appropriated in the 2016-17 budget and that are in compliance with *N.J.A.C. 6A:23A-16.2*. Adjustments for legal reserves not appropriated in 2016-17 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 Field Services, 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 6/30/16 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*, 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 2016-17 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, 2016 CAFR and appropriated in the 2017-18 budget. The amount which has been included in the 2016-17 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, 2016 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-4.30 et.seq.

**Fund Balance Classifications (Applicable to school districts, charter schools, and renaissance school projects. Auditor note: Not all fund balance classifications illustrated below are applicable to all operating types)**

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> GASBS 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/renaissance school projects 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 {inclusive of tuition reserve, waiver offset reserve, emergency reserve, impact aid general fund reserve, impact aid capital fund reserve excess surplus (current year), and excess surplus – (prior year) designated for subsequent year’s expenditures}. 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 GASBS 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/renaissance school project staff should refer to GASBS 34, paragraphs 30 – 37 for further clarification of these classifications.

*Auditor’s Note* – No appropriation of surplus after June 30, 2016 is to be reflected in the June 30, 2016 balance sheet as designated for subsequent year’s expenditures. The department recommends footnote disclosure in the CAFR.

Under GASBS 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/renaissance school projects should submit requests to the Assistant Commissioner for Field Services 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/renaissance school project’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/renaissance school projects 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** (applicable to school districts only) maintained in the general fund allows a district to accumulate funds for future capital projects. See page II-10.30 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** (applicable to school districts only) 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*). 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** (applicable to school districts only) 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 board of education/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 (applicable to school districts only) 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).
- P.L.2015, c.46, effective May 7, 2015, amended *N.J.S.A.18A:7F-41* to include the creation of two general fund reserves, an **Impact Aid General Fund Reserve (for 2015-16 federal funding source 8002 and 8003) account and an Impact Aid Capital Reserve (for 2015-16 federal funding source 8007 and 8008) account**. A board of education or a board of school estimate, as appropriate, may through the adoption of a board resolution appropriate federal impact aid funds to establish or supplement the reserve account(s) in the district's annual budget, or through a transfer by a two-thirds affirmative vote of the authorized membership of the board between June 1 and June 30, for withdrawal in any subsequent school year for use in accordance with federal requirements. Any transfer to either the capital or general expenditure impact aid reserve accounts shall not exceed the total amount of federal impact aid received by federal type (i.e. general use or capital) during the fiscal year under audit. The board, at its discretion, may use the funds in the reserve account to finance the district's general fund or to finance school facilities projects, in a manner consistent with federal law. The law requires that the total amount of funds on deposit in the reserve account shall not be limited. All reserve accounts shall be established and held in accordance with GAAP and shall be subject to annual audit. Any capital gains or interest earned shall become part of the reserve account. A separate bank account is not required for either federal impact aid reserve; however, a separate identity for each reserve account shall be maintained. Refer to the excess surplus calculation in section III-4 of this Audit program for information regarding the presentation of federal impact aid in the excess surplus calculation.

A board of education that establishes a federal impact aid reserve account shall:

- (a) report the amount of federal impact aid received, expended, and on deposit in the federal impact aid reserve account in its annual audit pursuant to *N.J.S.A. 18A:23-1*, and in the budget made available in a "user-friendly" format using plain language pursuant to *N.J.S.A. 18A:22-8*;
- (b) report the amount of federal impact aid received, expended, and on deposit in the federal impact aid reserve account at each board of education meeting, and shall include

the information in the board secretary's monthly report in a format to be determined by the commissioner and

- (c) provide any additional supporting documentation that may be required by the commissioner pursuant to subsection c. of section 5(cf: P.L.2007, c.62, s.6)
- 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* (not applicable to charter schools or renaissance school projects).
    - 2) Sale/lease-back reserve *N.J.S.A. 18A:7F-7(e)* (not applicable to charter schools or renaissance school projects).
    - 3) The 50% portion of School Bus Advertising Revenue recognized during the current year under audit (6/30/15) (*N.J.S.A. 18A:7F-7.1*) that must be budgeted to offset fuel costs no later than the second subsequent year (2015-16) (*N.J.S.A. 18A:39-31*) (not applicable to charter schools or renaissance school projects).

For year end June 30, 2015 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/renaissance school project to the Assistant Commissions for Field Services no later than September 30, 2016 for the June 30, 2016 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 school district, or charter school, or renaissance school project and it cannot be removed without the consent of those imposing the restriction or through formal due process. School districts, or charter schools, or renaissance school projects 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/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. School districts, charter schools and renaissance school projects that are in unsettled contract negotiations are required to accrue and record the potential liability or disclose the loss contingency related to the ongoing labor contract negotiations as required by GASBI 6 and GASBS 62. 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 2016-17 “School District Budget Statement” and in the 2015-16 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 (applicable to school districts only)** represents the audited excess surplus from the prior year budgeted in the subsequent year. Any portion of the June 30, 2015 audited excess surplus that was appropriated in the 2016-17 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, 2015 of \$55,000 and an unexpended 2014-15 additional spending proposal of \$9,000. The district appropriated \$149,000 (sum of the (a) items in the 2016-17 original budget (comprised of the \$9,000 unexpended 2014-15 additional spending proposal, \$55,000 audited excess surplus from June 30, 2015 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, 2016 the district had generated an additional \$142,000 (b) of excess surplus. The \$142,000 is required to be appropriated in the 2017-18 original budget and should also be reported on line 90030 of the June 30, 2016 Audsum data collection.

	<u>June 30, 2016</u>	<u>June 30, 2015</u>
<b>Fund Balances:</b>		
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	<u>253,000</u>	<u>215,000</u>
	<u>\$ 563,900</u>	<u>\$ 564,000</u>

- 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, 2016 that has not been anticipated and appropriated in the 2016-17 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 2016-17 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, 2016. 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 (applicable to school districts only)** 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

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 assignment 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 2016-17 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*.

All other fund balance is classified as “**Unassigned**” fund balance. Charter schools/renaissance school projects 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 2016-17 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: Auditor note: Not all categories are applicable to each operating type. Refer to discussion above.**

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
Impact Aid General Fund Reserve [if applicable]	xxx
Impact Aid Capital Fund 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
	<u>563,900</u>
Reconciliation to Governmental Funds Statements (GAAP):	
Last State Aid Payment Not Recognized on GAAP Basis	<u>(551,385)</u>
Fund Balance per Governmental Funds (GAAP)	<u><u>\$ 12,515</u></u>

**Deficit Due to Delay of One or More June State Aid Payment(s) – [Does not apply to charter schools or to renaissance school projects]**

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.

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**SECTION II – SPECIFIC COMPLIANCE**  
**FUND 20 – SPECIAL REVENUE FUND**

**TPAF Reimbursement** (applicable to school districts/charter schools/renaissance school projects)

*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 page II-10.6 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, 2016: <http://www.state.nj.us/education/finance/>.

Districts/charter schools/renaissance school projects were given specific guidance in a hotline dated June 29, 1993 on accruing a year-end liability for the TPAF Pension and Social Security related to salaries charged to federal grants. Pursuant to *N.J.S.A. 18A:66-90*, the reimbursement must be made by October 1 following the fiscal year end. The 2015 revision to the *Reimbursement to State of New Jersey – N.J.S.A. 18A:66-90* form which accompanies the school’s payments to the State **does not** require the signature of the Licensed Public School Accountant. In lieu of affixing his or her signature to the form, the Licensed Public School Accountant is required to review the form and issue a comment on the timeliness and accuracy of the amount of the payment in the Auditor’s Management Report (AMR). Adjustments, if necessary, may be made subsequent to the payment date and after the Licensed Public School Accountant’s review. Adjustments after payment may be made by filling out a revised *Reimbursement to State of New Jersey – N.J.S.A. 18A:66-90* form.

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, 2016 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, 2015 through December 31, 2015 and

salaries paid from January 1, 2016 through June 30, 2016. Salaries paid for the calendar year ended December 31, 2015 will also be needed to calculate the social security and Medicare portions of FICA salaries over and under \$118,500 for the 2015 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 \$118,500 for the 2015 calendar year; the amount which exceeds \$118,500 for the 2015 calendar year; the amount paid which is less than or equal to \$118,500 for the 2016 calendar year; and the amount which exceeds \$118,500 for the 2016 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 I percentage calculated on the current year *Schedule of Expenditures Allocated by Resource Type* to determine the Title I 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 I.
- 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 2015-16 is 16.80%. The social security rate remains at 7.65%. Consequently, estimated TPAF and FICA rates now total 24.45% 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 2015-16 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. The auditor signature is no longer required on the reimbursement form. The district’s public school accountant will need to verify these calculations and prepare a comment in the AMR.

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:

[TPAF 2015-16SBB districts](#)

## **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, 2016 and are reported as GAAP expenditures (Exhibit B-2) in the subsequent year.

### **June State Aid Payments (School Districts Only)**

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. GASBS 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 I-8 provides an in depth discussion of the budget to GAAP reconciliation.

### **FEMA Reimbursements (School Districts Only)**

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>

### **Preschool Education Aid (PEA) (Applicable to School Districts/Charter Schools Only)**

Pursuant to *N.J.S.A. 18A:7F-54*, districts with high concentrations of low income students shall establish preschool for all three- and four-year-olds and full day kindergarten for all five-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 2014-15 school year. For the 2015-16 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 2015-16 the department reviewed and issued approvals for Preschool Education Aid budgets for 7 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 2015-16 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 FY 2015-16, seven charter schools are operating approved preschool programs: Learning Community Charter School and Golden Door Charter School located in Jersey City; Red Bank Charter School located in Red Bank; Marion P. Thomas Charter School, Newark Educators' Charter School, Newark Legacy Charter School, and University Heights Charter School located in Newark.

Funding for preschoolers with disabilities is provided separately from PEA. When budgeting for classrooms that include both general education and inclusion students, K-12 base aid funding provided for preschool students with disabilities must be combined with PEA in order to cover the full general education cost of those inclusion classrooms. Districts with preschool inclusion programs have been instructed to transfer the state aid received for these students for the general education portion of their education from the general fund into the special revenue fund. The following memo provides additional guidance [PEAAccountingClarification Memo.pdf](#)

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 2015-16, no transfer approvals were 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, 2016 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 2015-2020 Five-Year Preschool Program Plan. Auditors should verify that the 2015-16 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 (Applicable to School Districts/Charter Schools Only)***

*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 2015-16.

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 2015-16 expenditures less the reversal of the prior year end encumbrances (6/30/14) plus encumbrances at June 30, 2015. 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 2015-16 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 2014-15 Available & Unbudgeted funds and the Actual Budgetary Carryover as of June 30, 2015.

Line (1) represents the total 2015-16 Preschool Education Aid (PEA) allocation. This amount can be obtained from the district’s/charter school’s “Estimated 2015-16 State School Aid/State Aid Summary” (NET) and is a budgetary amount.

Line (2) represents the actual audited PEA carryover as of June 30, 2015. Carryover balances may have been anticipated in the 2015-16 original budget. Districts/charter schools were instructed to utilize a Carryover Funds form to request use of June 30, 2015 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 2015-16 certified advertised revenues.

Line (4) represents the total 2015-16 funds available for the 2015-16 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 2015-16, 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, 2015 carryover, then this amount is considered Available and Unbudgeted as of June 30, 2016. Line (6) is then considered a component of the Actual Carryover – Preschool Education Aid of June 30, 2016.

Line (7) represents the actual June 30, 2016 Unexpended Preschool Education Aid from the variance column of the Budgetary Basis Schedule of Preschool Education Aid. This amount represents the 2015-16 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 2015-16 Carryover of Preschool Education Aid Programs to 2016-17 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, 2016. There is a collection line in Audsum for Actual Budgetary PEA Carryover at June 30, 2016. **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) 2015-16 Preschool Education Aid Carryover from Line (9) that has been budgeted for preschool Programs in 2016-17 can be found in the 2016-17 Preschool Education Aid “Additional Information” from the 2016-17 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 2016-17 Preschool Education Program budget.

The Budgetary Preschool Education Aid Carryover 2015-16 (line 9) is for budgetary purposes and will differ from the June 30, 2016 Preschool Education Aid deferred revenue reported on (GAAP) Schedule B, *Schedule of State Financial Assistance* by the amount of the 2015-16 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 2015-16 is not in conformity with GAAP revenue recognition based on GASBS 33; however, districts are legally required to recognize the revenue of the last two state aid payments for fiscal year 2015-16 in their budgetary schedules. The Schedule of State Financial Assistance does not include the last two payments for 2014-15 (received in July 2015) 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.

**Anytown School District/Charter School  
Special Revenue Fund  
Schedule of Preschool Education Aid  
Budgetary Basis  
For the Fiscal Year Ended June 30, 2016**

	<u>Budgeted</u>	<u>Actual</u>	<u>Variance</u>
<b>EXPENDITURES:</b>			
<b>Instruction:</b>			
Salaries of Teachers	\$ 808,955	\$ 743,268	\$65,687
Other Salaries of Instruction	250,000	250,000	0
Purchased Professional and Educational Services	30,474	22,365	\$ 8,109
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			
<b>Total Instruction</b>	<u>1,524,9299</u>	<u>1,413,133</u>	<u>111,796</u>
<b>Support Services:</b>			
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			
<b>Total Support Services</b>	<u>167,071</u>	<u>142,278</u>	<u>24,793</u>
<b>Facilities Acquisition and Const. Services:</b>			
Instructional Equipment	15,000	10,000	5,000
Noninstructional Equipment	-	-	-
<b>Total Facilities Acquisition and Const. Services</b>	<u>15,000</u>	<u>10,000</u>	<u>5,000</u>
<b>Contribution to Charter Schools</b>	<u>20,000</u>	<u>20,000</u>	<u>-</u>
<b>Total Expenditures</b>	<u>\$1,727,000</u>	<u>\$1,585,411</u>	<u>\$141,589</u>

**EX E-2 (cont'd)**

**CALCULATION OF BUDGET & CARRYOVER**

Total revised 2015-16 Preschool Education Aid Allocation	\$ 1,642,835	(1)
Add: Actual ECPA/PEA Carryover (June 30, 2015)	212,404	(2)
Add: Budgeted Transfer from the General Fund 2015-16	42,835	(3)
Total Preschool Education Aid Funds Available for 2015-16 Budget	<u>1,898,074</u>	(4)
Less: 2015-16 Budgeted Preschool Education Aid (Including Prior year budget carryover)	<u>(1,700,000)</u>	(5)
Available & Unbudgeted Preschool Education Aid Funds as of June 30, 2016	198,074	(6)
Add: June 30, 2016 Unexpended Preschool Education Aid	134,589	(7)
Less: 2015-16 Commissioner-approved Transfer to the General Fund	<u>( 34,000)</u>	(8)
**2015-16 Carryover – Preschool Education Aid Programs	<u>298,663</u>	(9)
2015-16 Preschool Education Aid Carryover Budgeted for Preschool Programs 2016-17	<u>\$ 50,000</u>	(10)

**\*\* Enter Line(9) as the 2015-16 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 – (this section applicable to charter schools and renaissance school projects. Note that school district guidance follows this section.)**

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>

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/renaissance school projects 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/renaissance school project after consideration of alternative correction actions.

**Capital Projects Fund – (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 (GASBS 37, par. 16). Debt issuance costs paid out of proceeds should be reported as expenditures (GASBS 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, (*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 N.J.S.A 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](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*, 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 Office of whether the project is eligible when requesting approval of a project in their LRFP, if they intend to withdraw from 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 not 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.

P.L.2015, c.257, effective January 19, 2016, amended N.J.S.A.18A:7F to provide the Commissioner with the authority, in consultation with the New Jersey Schools Development Authority, to approve the capital outlay budget of SDA districts to include the construction of capital project(s). Prior to the effective date above, school facilities projects included in the annual capital outlay budget of an SDA district is subject to a \$500,000 per project maximum. The Commissioner's approval may also contain specific conditions including, but not limited to, a requirement that the district follow the design requirements and materials and system standards established by the development authority.

### **General Rules for SDA Grant Recording:**

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 the 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 bonds, bond proceeds must 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” – GASBS 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**

### Background:

Under EFCFA effective July 18, 2000, districts were 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 were permitted to 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.

### Current:

Under EFCFA, a district may acquire improvements or additions to school facilities through lease purchase agreements of five years or less 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.

Accounting and Reporting Requirements: 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

Auditors are advised to review the status of each project reported in the capital projects fund. Projects that are complete (e.g. certificates of occupancy have been issued; contractor's retainage has been paid, etc.) must be closed out and removed from the capital projects fund balance. Refer to the appropriate regulations and to the guidance on pages II-10.29, and II-30.5 of this Audit Program for statutory and regulatory reference for the available transfer options for unexpended bond proceeds (*N.J.A.C.* 6A:26-4.6(c); unexpended transfers from capital reserve (*N.J.A.C.* 1A:23A-14.1(j)3); and unexpended transfers from capital outlay (*N.J.A.C.* 6A:23A-14.1(h)5).

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, 2016**

**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	<u>6,650,000</u>

**Expenditures and Other Financing Uses**

Purchased professional and technical services	94,251
Land and Improvements	-
Construction services	5,728,749
Equipment purchases	-
Total expenditures	<u>5,823,000</u>

Excess (deficiency) of revenues over (under) expenditures 827,000

Fund balance – beginning 37,500

Fund balance – ending \$ 864,500

F-2a

**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, 2016**

	<u>Prior Periods</u>	<u>Current Year</u>	<u>Totals</u>	<u>Revised Authorized Cost</u>
<b>Revenues and Other Financing Sources</b>				
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	<u>-</u>	<u>6,650,000</u>	<u>6,650,000</u>	<u>6,650,000</u>
<b>Expenditures and Other Financing Uses</b>				
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	<u>-</u>	<u>5,785,500</u>	<u>5,785,500</u>	<u>6,650,000</u>
Excess (deficiency) or revenues over (under) expenditures	\$ <u>-</u>	\$ <u>864,500</u>	\$ <u>864,500</u>	\$ <u>-</u>

**Additional project information:**

Project Number	011-05-0468
Grant Date/Letter of Notification	7/15/2007
Bond Authorization (Referendum) Date	3/1/2007
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-16

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, 2016**

	<u>Prior Periods</u>	<u>Current Year</u>	<u>Totals</u>	<u>Revised Authorized Cost</u>
<b>Revenues and Other Financing Sources</b>				
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	<u>437,500</u>	<u>-</u>	<u>437,500</u>	<u>437,500</u>
<b>Expenditures and Other Financing Uses</b>				
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	<u>\$ 400,000</u>	<u>\$ 37,500</u>	<u>\$ 437,500</u>	<u>\$ 437,500</u>
Excess (deficiency) or revenues over (under) expenditures	<u>37,500</u>	<u>(37,500)</u>	<u>-</u>	<u>-</u>
<b>Additional project information:</b>				
Project Number	010-04-0231			
Grant Date/Letter of Notification	07/02/2007			
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-16			

**SECTION II – SPECIFIC COMPLIANCE**  
**FUND 40 DEBT SERVICE FUND**  
**[THIS SECTION DOES NOT APPLY TO CHARTER SCHOOLS or RENAISSANCE SCHOOL**  
**PROJECTS]**

**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 2015-16 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 2015-16 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 2015-16 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 2015-16 budget in February 2015 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 2015-16.

**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) 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 (This Section is Applicable to School Districts, Charter Schools,  
and Renaissance School Projects)**

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/renaissance school project's programs.

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

- The district/charter school/renaissance school project 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/renaissance school project is required to use the principal or earnings for the benefit of those outside the district/charter school/renaissance school project (individuals, private organizations, or other governments), not for district/charter school/renaissance school project 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**

**(This Section is Applicable to School Districts, Charter Schools, and Renaissance School Projects)**

Proprietary funds are used to account for district/charter school/renaissance school project activities that are similar to business operations /renaissance school project in the private sector. They are not used to account for the normal operations of a district/charter school/renaissance school project 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 /renaissance school project staff and auditors should refer to GASBS 34, paragraphs 91 through 105 for guidance on proprietary fund financial statements. Additional guidelines for districts/charter schools/renaissance school projects 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/renaissance school projects 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 (Applicable to school districts, charter schools, and renaissance school projects)**

A school district board of education, or charter school, or renaissance school project board of trustees that operates and maintains a child nutrition program 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/renaissance school project 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 or board of trustees may contract with a food service management company (FSMC) to install, equip, supply and operate cafeterias without profit to the school district/charter school/renaissance school project pursuant to *N.J.S.A.* 18A:33-3. When the school district/charter school/renaissance school project 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/renaissance school projects entering into a FSMC contract must do so pursuant to the Public School Contracts Law, *N.J.S.A.* 18A:18A-1 et seq. and the applicable rules under *N.J.A.C.* 5:34-1 et seq. Where the district/charter school/renaissance school project participates in any federally funded Child Nutrition Program(s), procurement of the FSMC contract must also follow the standards prescribed in [2 CFR 200.318 – 200.326](#).

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/board of trustees 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/board of trustees is considered the School Food Authority. Even if federal reimbursements are not received, school districts/charter schools/renaissance school projects 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 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/renaissance school project 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, any interest charged on payments that are not made within the negotiated dates may not be charged to the food service fund. Interest is not permitted to be charged to the food service account under any circumstance.
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/renaissance school project 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/renaissance school project, 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/renaissance school projects, it may use the above method allocating invoice amounts between districts/charter schools/renaissance school projects based on the percentage of each district's/charter school's/renaissance school project'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/renaissance school projects. Each district's/charter school's/renaissance school project's pro-rata share of the costs would be the per-meal cost multiplied by the meals served in each district/charter/renaissance school project (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 school district/charter school/renaissance school project can agree to this, but must pay the interest/late fees directly from the school district's/charter school's/renaissance school project'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/renaissance school project 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/renaissance school project. **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**

**SSAE No. 16 (Formerly SAS No. 70) (Service Organizations) Reports  
Statement on Standards for Attestation Engagements (SSAE) No. 16 Reporting on Controls at a Service Organization and AU-C Section 402 (Source: SAS No. 122; SAS No. 128) 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/renaissance school project were notified by the Department of Agriculture within the Sample 2015-16 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](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, 2016

**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/Renaissance School Project  
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/Renaissance School Project during the month of September 201X. The costs incurred are listed below:

<u>Invoice #</u>	<u>Date</u>	<u>Vendor Name</u>	<u>Amount</u>
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	<u>\$13,006.79</u>

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



**SAMPLE 2 (2 of 2)**

**NEW CITY SCHOOL DISTRICT/CHARTER SCHOOL/RENAISSANCE  
SCHOOL PROJECT FOOD SERVICES ALLOCATION**

<b>Invoice #</b>	<b>Date</b>	<b>Vendor Name</b>	<b>New City</b>	<b>Upper</b>	<b>Lower</b>	<b>Middle</b>	<b>Total</b>
			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
		<b>Total</b>	<b>\$3,107.21</b>	<b>\$2,223.95</b>	<b>\$4,384.80</b>	<b>\$6,056.67</b>	<b>\$15,772.63</b>

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

June 30, 2016

**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/Renaissance School Project  
Highland Street  
Old Town, NJ 08111

For reimbursement of the New City school district's/charter school's/renaissance school project'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/RENAISSANCE SCHOOL PROJECT  
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

<u>School District/Charter School/Renaissance School Project</u>	<u>No. of Meals</u>	<u>Price/Meal</u>	<u>Amount</u>
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	<u>1,175</u>	<u>\$ 2.45</u>	<u>2,875.44</u>
Total	5,315	\$ 2.45	\$13,006.79

## Child Nutrition Program Requirements

NJ Circular 15-08 requires audits of recipients in accordance with 2 CFR Part 200 *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Administrative Requirements,) 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 15-08 states “Auditors should use the risk based approach for federal programs as described in Federal Sub-part F –Audit Requirements, Section 200.518 to determine which state programs are major programs. Auditors should also use the criteria outlined in Sections 200.519 and 200.520 when making risk determinations for state programs.” 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 10.558 Child and Adult Care Food Program, CFDA 10.579 School Meals Equipment, 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 <https://www.whitehouse.gov/omb/circulars/default>. The Division of Food and Nutrition Programs’ audit policy complies with *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. The procedures below reflect the Compliance Supplement but are not intended to be all inclusive.

Districts/charter schools/renaissance school projects 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/renaissance school project 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.

### Community Eligibility Provision Schools

The Community Eligibility Provision (CEP) is an option that allows high poverty schools and districts to offer breakfast and lunch free of charge to all on-roll students without the need to collect and perform eligibility verification procedures related to the traditional school meal eligibility form, “The Household Application for Free and Reduced Price Meals and Free Milk”. Additional information about the CEP program is found later in this section.

#### **Applicable to CEP and non-CEP school audits for Fiscal Years in Which the Child Nutrition Program (CNP) is Not Audited as a Major Program, but the SFA Expended \$100,000 or More in State and/or Federal Financial Assistance:**

Applicable to CEP and non-CEP school audits, for fiscal years in which the Child Nutrition Program is not audited as a major program, but the school food service program **expended \$100,000 or more in State and/or federal financial assistance within the fiscal year under audit**, auditors are required to:

1. Inquire as to whether the SFA has any overclaims or underclaims and make an appropriate comment in the AMR (see auditor’s note below).
2. Inquire as to whether the SFA’s expenditures of school food service revenues were limited to allowable direct and indirect costs and make an appropriate comment in the AMR.

#### **Applicable to CEP and non-CEP school audits for Fiscal Years in Which the Child Nutrition Program (CNP) is Not Audited as a Major Program, and the SFA Expended Less than \$100,000 in State and/or Federal Financial Assistance:**

Applicable to CEP and non-CEP school audits, for fiscal years in which the CNP is neither audited as a major neither program, nor expended \$100,000 or more in State and/or federal financial assistance, there are no specific CNP audit requirements prescribed by the New Jersey Department of Agriculture or the New Jersey Department of Education.

Note to Auditors: 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 make inquiries about the reports and may also request printouts of these reports from the district/charter school/renaissance school project.

### **Audit Procedures Applicable to Non-CEP Schools for Fiscal Years in Which the Child Nutrition Program (CNP) is Audited as a Major Program:**

For fiscal years in which the Child Nutrition Program is audited as a major program auditors must design procedures necessary to 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. Auditors must also determine whether there are internal controls in place that provide reasonable assurance that all meals reported to the State agency for reimbursement are based on accurate counts and are served to eligible children.

Note to auditor: Click on the link below to access a sample NET CASH RESOURCE calculation prepared in the format required by the USDA. **The Net Cash Resource schedule is only required to be included in the AMR for fiscal year audits in which the Child Nutrition Program is audited as a major program in the current audit period in accordance with Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards** [Net Cash Resource Schedule.xlsx](#)

The following audit procedures, numbered 1 through 12, are designed to address the minimum requirements of the NJ Department of Agriculture and are applicable only to audits where the CNP/SFA program(s) is audited as a major federal and/or State program:

1. Suggested audit procedures to ensure that reimbursement received is supported by source documents.
  - a. ELIGIBILITY APPLICATIONS – For non-CEP schools, obtain a copy of the school’s process for collection and review of current school year Federal Household Applications for Free and Reduced Price Meals and Free Milk (i.e. Eligibility Applications). Confirm that the process for collection and review of current year Eligibility Applications is in compliance with *The USDA Eligibility Manual for School Meals*, revised July of 2015 and available on the NJ Department of Agriculture website at:

<http://www.state.nj.us/agriculture/divisions/fn/pdf/eligibilitymanual.pdf>

The revised manual provides detailed information on determining and verifying free/reduced eligibility and what characteristics are considered to result in an incomplete Eligibility Application. Obtain copies of all current year Eligibility Applications on file. Perform a review of the sample of current year Eligibility Applications selected to determine whether the determination process as described was followed, and that Eligibility Applications meet the standard for completeness

established in the aforementioned manual, and perform procedures to verify the proper application of the federal eligibility determination guidelines. Any incomplete free or reduced price applications discovered during the audit process should be placed in the Paid (denied) category, and an over claim must be assessed on the Schedule of Meal Count Activity. Incorrectly determined applications should be re-assigned to the correct category (i.e. free, reduced, paid), and the resulting over claim/under claim must be identified on the Schedule of Meal Count Activity. For electronic applications, Free and Reduced Price Eligibility Software Systems contain a box which parents are required to check certifying that all information is true. This certification serves as the parent signature. Please refer to page 23 of *The USDA Eligibility Manual for School Meals* for additional information regarding electronic and scanned applications. Additionally, audit findings related to the free and reduced eligibility determination process and execution must be reported in the Auditor's Management Report (AMR) in the School Food Service section.

**Eligibility for Free Meals - Direct Certification - Determination Process:**

Direct Certification (DC) is the process for identifying via electronic, matching school age children that are recipients of NJ-SNAP (Food Stamps), or TANF (Temporary Assistance to Needy Families) benefits or have been placed in Foster Care as directly certified as eligible for free meal benefits in the child nutrition programs. The Direct Certification Process must be performed by the school district, charter school, or renaissance school project that is operating and maintaining the school child nutrition program three times per school year in accordance with timelines established by the NJDA Division of Food and Nutrition. Please refer to the June 8, 2015 memo on Direct Certification which specifies the required three times were July 15-September 5, 2015, October 5-October 30, 2015 and March 5-March 30, 2016. A copy of this memo is also available on file at the school district/charter school/renaissance school project office or by using the following link: [Direct Certification Information for SY 2015-2016 and Webinar Date.](#) Schools must directly certify students with access to meals 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 NJ SNAP (Food Stamps)/TANF for the selected municipalities. Direct certification eligibility must be extended to any other students living in the household; refer to the Department of Agriculture memo dated September 8, 2009, "Important Changes in Determination of Eligibility for Free School Meals/Milk" on file with the SFA or available through the NJ Department of Agriculture. In order for the district/charter school/renaissance school project to identify newly eligible students, direct certification matching against updated NJ SNAP (Food Stamp)/TANF data may be performed any time during the school year. The Department of Agriculture has determined that errors in reporting are resulting in multiple school districts/charter schools/renaissance school projects duplicating free/reduced eligibility for the same student(s). In an effort to reduce duplication of directly certified students among and between SFAs, beginning with school year 2013-14 each SFA reporting "free meals" eligibility for the same student receives an email notification when a student directly certified by the SFA has also been directly certified by another SFA. SNEARS is not able to determine the actual school of attendance for any student. Each SFA must verify that the student identified as duplicate is actually enrolled in AND eating meals in the SFA claiming the meal reimbursements. If he/she is not, the SFA must remove the student from the SNEARS listing. In addition, "sending" school districts must obtain the direct certification lists from the school where the children are consuming meals in order to prevent duplication of matches for the same student in the SNEARS. See the June 2,

2015 memo, “Direct Certification – Guidance for Sending Districts” at the following link: [DirectCertSendDistr.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 categorically eligible to receive free meals. School districts, charter schools, and renaissance school projects may verify foster child status through direct certification, welfare agency or court documents, or an eligibility application submitted by the foster family.
- Although a foster child’s eligibility status does not extend to other children in the household, a foster family may include their foster child on the same household application that includes their non-foster children. This streamlines the application process and may be a factor in determining the eligibility of the foster family’s non-foster children to qualify for free or reduced price meals based on household size and income.
- Household applications must be maintained centrally. (The Department of Agriculture has strongly recommended that a representative from the School Food Authority (SFA) attend a Determining Official Workshop, also available to view (select: Determining Official Webinar) through the SNEARS training link.)
- Household applications must be on the approved format for the school year being reviewed. Please note that the template for the Household Application for Free and Reduced Price School Meals changed for the 2015-16 School Year.
- 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 Household Application.
- The eligibility determination associated with a Household Application is effective for the entire school year. There is no provision for “temporary” eligibility status for zero income Household Applications.
- 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. Effective 2015-2016, Household Applications instruct the applicants to enter a zero when there is no income to report. However, if the parent or guardian doesn’t complete an income entry for any of the adult household members, inclusive of leaving the entry blank (e.g. no “zero” is entered), the Household Application is not considered incomplete, unless the application lacks other required data.
- There is a section on the household application used to identify children who are homeless, migrant or runaway and categorically eligible. School districts/charter schools/renaissance school projects

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** (Daily meal count records must be maintained by all schools where food is served) - Review meal count records on a school-by-school basis to verify the accuracy of meals claimed on reimbursement claims. 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-4.23a and III-4.23b. The link is available on page III-4.30 of this Audit Program. **Both the federal and state Schedules of Meal Count Activity must be prepared for audits where the Child Nutrition Program is a major federal and/or state program audited in the current audit period in accordance with the federal *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and/or New Jersey Treasury Circular 15-08-OMB.** 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. 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, provides for an additional six cent federal lunch reimbursement for those schools that have applied for, and been approved by the DOA, to receive additional reimbursement. No additional 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 no less than three percent of approved Household Applications on file as of October 1 of each school year. (refer to 2b below) The number of current school year free and reduced price Household Applications on file as of October 1 must be used to determine the number of Household Applications that must be verified by the SFA. When determining the number of Household Applications to verify, the SFA has been instructed that Carryover Household Applications for Free and Reduced Price Meals are not included as a factor in determining the size of the current year Household 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 current year Household Applications on file as of October 1. The independent auditor’s review of Household Applications should include an examination of the internal verification process and internal sampling records.

The Sample Selection Method for Internal Verification of Applications utilized by the SFA is:

- a) Use all current year approved applications on file at October 1, 2015 to determine the appropriate sample size and to select the applications for verification. Note that sample size depends on the number of paper and/or electronic applications, NOT the number of children represented.
- b) The required sample size is no less than the established 3 percent. Additional applications may be verified for cause, at the discretion of the SFA. If conditions indicate the discrepancies are, or may be, present in the selected sample, the SFA may elect to expand the verification sample beyond 3%. However, in under no circumstances is the SFA required to expand the verification sample beyond 3%. The sample must be selected from “error prone” applications. Refer to “c” below for definition of “error prone” and for guidance where 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 the number of error prone applications exceeds the required sample size (i.e. 3%), the SFA must randomly select the required number of applications from all error prone applications.
- 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/renaissance school project 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/renaissance school project resulted in approved applications being classified in the district/charter school/renaissance school project 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 school district/charter school/renaissance school project 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 30th. Auditors should be aware that the report electronically calculates the number of applications the school district/charter school/renaissance school project must verify. Part 2 of the Verification Summary Report is due by November 30, and includes the school district’s /charter school’s/renaissance school project’s reporting of the results of the verification process performed pursuant to Part 1. The NJDOA offered verification training sessions during September/October. 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 and is required to be completed. If the Child Nutrition Program is audited as a major program in the current audit period in accordance with federal *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, the Net Cash Resource Schedule is a required submission included in the auditor's management report (AMR). The auditor must also comment in the AMR as to whether proper net cash resource balances are maintained by the district/charter school/renaissance school project. In the event that net cash resources exceed three months average expenditures, the state agency may require the School Food Authority to improve food quality, or take other actions designed to improve the nonprofit school food service. (REF 7 CFR 210:14)

5. The auditor should comment on whether USDA commodities were received and if they were properly processed and warehoused and inventoried on a FIFO basis. If the school district/charter school/renaissance school project is utilizing a FSMC to operate its food service program, review evidence that the market value of all Food Distribution Program processed and warehoused USDA Foods was credited to the school district/charter school/renaissance school project. 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](#) and [Handout 349.pdf](#) by the district or charter school/renaissance school project.)
  - 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? (Not applicable to renaissance school projects)
  - 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 charged the school district/charter school/ renaissance school project 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 [FSMCCContract.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 and overclaims (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 and addendum that was approved as part of the annual FSMC registration process must be used in its entirety. The audit must include a detailed review the contract and compliance with the contract and federal rules and regulations sufficient to determine that:

- a. The FSMC charged the school district/charter school/ renaissance school project only for costs that are actual and allowable, net of all discounts, rebates and other applicable credits accruing to or received by the FSMC to the extent those credits are allocable to the allowable portion of the costs billed to the school district/charter school/ renaissance school project. The FSMC's determination of allowable costs has been made in compliance with the applicable USDA and Child Nutrition Program regulations and Office of Management and Budget Cost Circulars.
    - i. The FSMC has separately identified on its billing documents, for each cost that has been submitted for payment, the amount that is allowable and the amount that is unallowable or,
    - ii. The FSMC will exclude all unallowable costs from its billing documents and certify that only allowable costs have been submitted for payment and that records have been established that maintain visibility of unallowable costs, including directly associated costs, in a manner suitable for contract cost determination and verification.
  - b. The FSMC has identified the amount of each discount, rebate and other applicable credit on bills and invoices presented to the school district/charter school/ renaissance school project for payment and individually identified the amount as a discount, rebate, or in the case of other applicable credits, the nature of the credit. The FSMC shall report this information: may not be less frequent than annually.
  - c. The FSMC has identified the method by which it will and has reported discounts, rebates and other applicable credits allocable to the contract, that are not reported prior to the conclusion of the contract.
  - d. The FSMC has maintained documentation of costs and discounts, rebates and other applicable credits, and shall furnish such documentation upon request to the school district/charter school/ renaissance school project, State Agency or USDA.
  - e. No expenditure has be made from the nonprofit school food service account that permits or results in the FSMC's receiving payments in excess of its actual, net allowable costs.
9. The FSMC shall charge the school district/charter school/ renaissance school project only for costs that are actual and allowable, net of all discounts, rebates and other applicable credits accruing to or received by the FSMC to the extent those credits are allocable to the allowable portion of the costs billed to the school district/charter school/ renaissance school project. The FSMC's determination of allowable costs shall be made in compliance with the applicable USDA and Child Nutrition Program regulations and Office of Management and Budget Cost Circulars.
10. For school district/charter schools/renaissance school projects with schools selected to participate in the Fresh Fruit and Vegetable Program (FFVP):
- a. School districts/charter schools/renaissance school projects must have a signed Child Nutrition Program addendum ([FSMCCContractAddendum.pdf](#)) for the FFVP.

- b. 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>
  - c. Food costs, labor charges, and equipment purchases for this program must be identified as such, and must correspond to the appropriate FFVP reimbursement vouchers.
11. For school districts/charter schools/ renaissance school projects participating in the Child and Adult Care Food Program (CACFP) At-Risk Afterschool Meals (Dinner) Program:
- a. School districts/charter schools/ renaissance school projects must account for all reimbursements received according to CACFP regulations; however, reimbursements may be used to pay expenses related to any of the Child Nutrition Programs.
  - b. Indirect costs must be charged appropriately to the nonprofit school food service account.

12. A School Food Authority is required to ensure that the revenue generated from the sale of non-program foods complies with the following requirements, whether or not it is contracted with a FSMC, in accordance with 7 CFR 210.4:

*Revenue from nonprogram foods.* School food authorities shall ensure that the revenue generated from the sale of nonprogram foods complies with the requirements in this paragraph.

**(1)***Definition of nonprogram foods.* For the purposes of this paragraph, nonprogram foods are those foods and beverages that are:

- (i)** Sold, or offered for sale, in a participating school other than reimbursable meals and meal supplements; and
- (ii)** Purchased or prepared for sale using funds from the nonprofit school food service account.

**(2)***\*Revenue reported from nonprogram foods must exceed the nonprogram foods revenue threshold as calculated below.* The proportion of total revenue from the sale of nonprogram foods to total revenue of the school food service account must be equal to or greater than:

- (i)** The proportion of total food costs associated with obtaining nonprogram foods to
- (ii)** The total costs associated with obtaining program and nonprogram foods from the account.

**(3)** All revenue from the sale of nonprogram foods shall accrue to the nonprofit school food service account of a participating school food authority.

Auditor's Note: \*Item (2) referenced above is the Non-Program Food Revenue Tool used by the SFA. The link below provides guidance for use by the SFA and auditors. Auditors must verify compliance with the Non-program Food Revenue Tool; the AMR must provide comment(s) regarding compliance.

Has the school district/charter school/ renaissance school project provided the detailed revenue and expenditure information necessary in order to execute the USDA mandated Non-Program Food Revenue Tool at least annually?  
[www.fns.usda.gov/sites/default/files/SP39-2011ar.xls](http://www.fns.usda.gov/sites/default/files/SP39-2011ar.xls)

## **Community Eligibility Provision Schools**

### Background:

The Community Eligibility Provision (CEP) is an option that allows high poverty schools and districts to offer breakfast and lunch free of charge to all on-roll students without the need to collect and perform eligibility verification procedures related to the traditional school meal eligibility form, “The Household Application for Free and Reduced Price Meals and Free Milk”. Any school with 40 percent or more “identified students” is eligible to participate in CEP. School districts with 40 percent or more identified students may participate district-wide or may group schools together to reach the 40 percent identified student threshold. Identified students include those children who are directly certified (through data matching) for free meals because they live in households that participate in the Supplemental Nutrition Assistance Program (SNAP), Temporary Assistance for Needy Families (TANF), or Food Distribution Program on Indian Reservations (FDPIR), as well as children who are certified for free school meals without submitting a paper application because of their status as being in foster care, enrolled in Head Start, homeless, runaway, or migrant students. Please refer to Community Eligibility Guidance Form 220 for additional program information. [Form 220 CEP.pdf](#)

The New Jersey Department of Agriculture issues a determination as to whether a school district (or an individual school or grouping of schools within a school district), or charter school, or renaissance school project is eligible to participate in the Community Eligibility Program (CEP). Once approved to participate in the CEP, all students attending the CEP school will receive a free meal through the Child Nutrition Program. CEP eligibility information is available at <http://www.fns.usda.gov/school-meals/community-eligibility-provision>.

### **Notes to Auditors of Schools participating in Provision I, Provision II, or the Community Eligibility Provision (CEP):**

1. Schools participating in Provision I, Provision II, or Community Eligibility Provision (CEP) are not required to collect Household Applications for Free and Reduced Price Meals and/or Milk. For Provision I and Provision II guidance please refer to eligibility requirements provided in the July 20, 2015 memo “Annual Application Process for Provisions I and II” issued by the NJ Department of Agriculture and available at the following link: [AnnualAppProcessProvI&II.pdf](#)
2. Although all children in a CEP school are eligible for receipt of a free meal without collection of a Federal Household Application for Free or Reduced Price Meals, each CEP school is required to maintain equivalent meal count records to those schools that are not participating in CEP. Accordingly, auditors are advised that the meal count testing procedures (above) applicable to a non-CEP school, are the same procedures that must be applied to the meals served, and related reimbursements, in a CEP school whenever the school’s CNP is audited as a major program. School districts may operate CEP schools and Non-CEP schools. Auditors are advised to adjust their audit procedures accordingly.
3. For ease of use by CEP school auditors, those audit procedures beginning on page II-60.12 of this Audit Program applicable to Non-CEP schools or Non-CEP school districts that are also applicable to audits of CEP schools or CEP school districts are repeated below.

**For any fiscal year in which the CEP school’s Child Nutrition Program is audited as a major federal and/or state program, the CEP school’s meal count records are subject to the following auditing procedures:**

1. MEAL COUNT RECORDS – (Daily meal count records must be maintained by all schools where food is served including CEP schools) When conducting an audit where the CNP is audited as a major program for the year under audit, the auditor must review meal count records on a school-by-school basis to verify the accuracy of meals claimed on a reimbursement claim. Edit Check Worksheet(s) must be completed for every breakfast and lunch reimbursement claim submitted. CEP schools have been advised to use the CEP Edit Check Worksheet at the following link: [Form 218 CEP.pdf](#) The following required comparisons must be made by the SFA prior to submission of the reimbursement claim:

- a. The daily meal count records number of meals served must be compared to the enrollment for reasonableness.
- b. The daily meal count records number of students served meals must be compared to the enrollment times the school's attendance factor for reasonableness.
- c. Auditor's comments, findings, and recommendations should be reported in relation to the daily meal count records when either of the following two conditions are found:
  - i. The number of meals served exceeds the daily enrollment, or
  - ii. The number of students served meals exceeds the enrollment multiplied by the school's attendance factor.
- d. Verify that the daily counts of breakfast and lunch meals served have been accurately transferred to the school's reimbursement vouchers.

The Schedule of Meal Count Activity summarizes the results of the above audit testing and is a required presentation in the AMR of a CEP School District, Charter School, or Renaissance School Project where the CNP is audited as a major program for the year under audit. **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/renaissance school project.**

Sample Schedule(s) of Meal Count Activity for federal and for state over/under claims (Note: same schedules for CEP and non CEP) are presented on pages III-4.23a and III-4.23b of this Audit Program. Each of these schedules are prepared only if the Child Nutrition Program is a major federal and/or state program audited in the current audit period in accordance with *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and/or *New Jersey OMB 15-08*. Instructions for completion are as follows:

**NOTE: For CEP participating schools, although a percentage of meals may actually be reimbursed at the "paid" rate, all student meals served to students of the CEP school are reported by the SFA through the SNEARS website in the "Free" category. The percentage of meals actually reimbursed at the "Free" meal rate may be less than 100% where the school is below 62.5% of directly certified students. The reimbursement percentage (e.g. free/paid rates) is determined annually by the New Jersey Department of Agriculture. That determination is based upon SFA data entry into the CEP Site Data Collection Form completed through SNEARS. Auditors are not required to verify the calculation and distribution of "free/paid" reimbursement requests across the population of meals served. However, auditors are required to verify the accuracy of the total number of student meals actually served and the total number of student meals actually served reported on the "Free" category of the reimbursement request.**

**The number of student meals served must also be verified against daily attendance records maintained by the school.**

Presentation of the Schedule of Meal Count Activity:

- a. Most column headings are self-explanatory.
- b. When less than 100 percent of the meals claimed for a program have been tested, the auditor should report the number of meals examined in the Meals tested column, and verified in the Meals Verified column.
- c. The column titled “Difference” is calculated as the difference between the “Meals Tested” column and the “Meals Verified” column for each program
- d. The column titled “(Over)/under Claim” is calculated as the “Difference” times the “Rate” for each program. If the SFA was reimbursed only at the free rate, any identified difference would be reported times the free rate. If the SFA was reimbursed at the free and paid rates, any identified difference would be reported at the free and paid rate in the same proportion as the monthly reimbursements. A net over/under claim for all meal programs combined is presented at the bottom of the “(Over)/Under Claim” column.
- e. 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 NJDA on a case-by-case basis. \*See note below.
- f. 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, provides for an additional six cent federal lunch reimbursement for those schools that have applied for, and been approved by the NJ DA, to receive additional reimbursement. No additional state reimbursement exists for the 2015-16 school year. (Reference 7-CFR-PART 210.)

**In addition to the audit of Meal Count Records**, required CEP School Verification Audit Procedures that must be incorporated into the audit procedures whenever CNP is audited as a major federal and/or State program include, but are not limited to, verification that the SFA has:

2. Between October 1st and October 30th 2015, the CEP school accessed SNEARS and selected the Verification Summary Report link. The CEP school is required to certify CEP status by checking the box that states, “Check this box to certify that either ALL schools or RCCIs under the school district/charter school/renaissance school project

do NOT have approved Free/Reduced price applications on file as of October 1 OR the district is operating under district-wide CEP, Provision 1 or Provision 2 in a NON-BASE year”.

3. On or after October 30, 2015 but prior to November 30, 2015, CEP districts were required to complete Sections 1 and 2 of the Verification Summary Report through SNEARS.
4. Expenditures of school food service revenues must 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.
5. A School Food Authority is required to maintain a nonprofit School Food Service fund. The nonprofit status of the School Food Service fund 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 fund 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 and is required to be completed. For any year in which the Child Nutrition Program is audited as a major program in accordance with *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, or *New Jersey OMB 15-08* the **Net Cash Resource Schedule** is a required submission included in the auditor's management report (AMR). The auditor must also comment in the AMR as to whether proper net cash resource balances are maintained by the district/charter school/renaissance school project. In the event that net cash resources exceed three months average expenditures, the state agency may require the School Food Authority to improve food quality or take other actions designed to improve the nonprofit school food service. (REF 7CFR 210:14)
6. The auditor must comment on whether USDA commodities were received and if they were properly processed, warehoused, and inventoried on a FIFO basis.
7. Auditors must 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, [Handout248.pdf](#), [Handout349.pdf](#) and [Handout 269.pdf](#) received by the district or charter school/renaissance school project.)
  - 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 charged the school district/charter school/ renaissance school project 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 [FSMCCContract.pdf](#))

- f) 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 underclaims and overclaims (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 applicable to school districts, charter schools and renaissance school projects and are published in the Federal Register, Vol. 72, No 210, dated October 31, 2007. The state agency prototype contract and addendum that was approved as part of the annual FSMC registration process must be used in its entirety.
- a) The FSMC charged the school district/charter school/ renaissance school project only for costs that are actual and allowable, net of all discounts, rebates and other applicable credits accruing to or received by the FSMC, to the extent those credits are allocable to the allowable portion of the costs billed to the school district/charter school/ renaissance school project. The FSMC’s determination of allowable costs shall be made in compliance with the applicable USDA and Child Nutrition Program regulations and New Jersey OMB Circular 15-08.
  - b) The FSMC will separately identify on its billing documents, for each cost submitted for payment, the amount that is allowable and the amount that is unallowable.
  - c) The FSMC will exclude all unallowable costs from its billing documents and certify that only allowable costs are submitted for payment and that records have been established that maintain visibility of unallowable costs, including directly associated costs, in a manner suitable for contract cost determination and verification.
  - d) The FSMC shall identify the amount of each discount, rebate and other applicable credit on bills and invoices presented to the school district/charter school/ renaissance school project for payment and individually identify the amount as a discount, rebate, or in the case of other applicable credits, the nature of the credit. The FSMC shall report this information: may not be less frequent than annually.].
  - e) The FSMC shall identify the method by which it will report discounts, rebates and other applicable credits allocable to the contract, that are not reported prior to the conclusion of the contract.
  - f) The FSMC shall maintain documentation of costs and discounts, rebates and other applicable credits, and shall furnish such documentation upon request to the SFA, State Agency or USDA.
  - g) No expenditure shall be made from the nonprofit school food service account that permits or results in the FSMC’s receiving payments in excess of its actual, net allowable costs.
9. For school districts/charter schools/renaissance school projects with schools selected to participate in the Fresh Fruit and Vegetable Program (FFVP):

- a) School district/charter school/ renaissance school project must have a signed Child Nutrition Program addendum for the FFVP.
  - b) 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>
  - c) Food costs, labor charges, and equipment purchases for this program must be identified as such, and must correspond to the appropriate FFVP reimbursement vouchers.
10. For school districts/charter schools/ renaissance school projects participating in the Child and Adult Care Food Program (CACFP) At-Risk Afterschool Meals (Dinner) Program:
- a) School districts/charter schools/ renaissance school projects must account for all reimbursement received according to CACFP regulations, however, reimbursements may be used to pay expenses related to any of the Child Nutrition Programs.
  - b) Indirect costs must be charged appropriately to the nonprofit school food service account.
11. A School Food Authority is required to ensure that the revenue generated from the sale of non-program foods complies with the following requirements, whether or not it is contracted with a FSMC, in accordance with 7 CFR 210.4:

*Revenue from nonprogram foods.* School food authorities must ensure that the revenue generated from the sale of nonprogram foods complies with the requirements in this paragraph.

**(1) Definition of nonprogram foods.** For the purposes of this paragraph, nonprogram foods are those foods and beverages that are:

- (i) Sold, or offered for sale, in a participating school other than reimbursable meals and meal supplements; and
- (ii) Purchased or prepared for sale using funds from the nonprofit school food service account.

**(2) \*Revenue reported from nonprogram foods must exceed the nonprogram foods revenue threshold as calculated below.** The proportion of total revenue from the sale of nonprogram foods to total revenue of the school food service account must be equal to or greater than:

- (i) The proportion of total food costs associated with obtaining nonprogram foods to
- (ii) The total costs associated with obtaining program and nonprogram foods from the account.

**(3)** All revenue from the sale of nonprogram foods shall accrue to the nonprofit school food service account of a participating school food authority.

Auditor's Note: \*Item (2) referenced above is the Non-Program Food Revenue Tool used by the SFA. The link below provides guidance for use by the SFA and auditors. Auditors must verify compliance with the Non-program Food Revenue Tool; the AMR must provide comment(s) regarding compliance.

Has the school district/charter school/ renaissance school project provided the detailed revenue and expenditure information necessary in order to execute the USDA mandated Non-Program Food Revenue Tool at least annually?  
[www.fns.usda.gov/sites/default/files/SP39-2011ar.xls](http://www.fns.usda.gov/sites/default/files/SP39-2011ar.xls)

The following memoranda and attachments are for the school year 2015-16 and should be available at local school district/charter school/renaissance school project offices:

- a. [November 5, 2014 - Food Service Management Company \(FSMC\) Registration for SY 2015-2016](#)
- b. [November 10, 2014 - Local Education Agencies \(LEAs\) contracting with Food Service Management Companies \(FSMCs\) and Commercial Vendors intending to participate in the Child and Adult Care Food Program \(CACFP\) At-Risk Afterschool Meals Program](#)
- c. [January 9, 2015 - Training on Contracting with Food Service Management Companies for SY2015-16](#)
- d. [March 24, 2015 – 2015-2016 Fresh Fruit & Vegetable Program](#)
- e. [April 1, 2015 – Seamless Summer Option](#)
- f. [April 15, 2015 – Parent Notification of Payment Owed in the National School Lunch and School Breakfast Program](#)
- g. [May 1, 2015 – Exemption Requests from the Whole Grain-Rich Requirement](#)
- h. [June 2, 2015 – DC Guidance for Sending Districts](#)
- i. [June 8, 2015 – Direct Certification Information for SY2015-2016](#)
- j. [June 15, 2015 – Updates to the Application Packet for Participation in the School Nutrition Programs for SY2015-2016](#)
- k. [July, 2016 - Certification and Benefit Issuance Workshops/Webinar for Determining Officials](#)
- l. [July 6, 2015 – DC Training Memo SY2015-2016](#)
- m. [July 20, 2015 - Annual Application Process for Provisions I and II](#)
- n. [Verification Workshop Webinar Schedule.pdf](#)
- o. [September 3, 2015 – Back to School Information and Reminders](#)
- p. [November 20, 2015 – LEA Procurement Reviews beginning in SY2016-2017](#)
- q. [January 2016 – NJSTART Memo](#)
- r. [January 6, 2016 – Nonprogram Food Revenue Tool](#)
- s. [January 28, 2016 – Civil Rights Memo](#)
- t. [March 11, 2016 – Equipment Purchases/Procurement of FSMC Services](#)
- u. [April 20, 2016 – Crediting for USDA Foods in an SFA to SFA Vended Meal Contract](#)
- v. [April 20, 2016 – 2016 National School Lunch Program Equipment Grant Application](#)

## FISCAL YEAR 2016

### REIMBURSEMENT RATE BREAKDOWN

#### NATIONAL SCHOOL LUNCH PROGRAM

REGULAR RATE (July 1, 2015 – June 30, 2016) LEAs/charter school /renaissance school project w/less than 60% of Free and Reduced				HIGH RATE (July 1, 2015- June 30, 2016 – Federal EXTRA .02 CENTS) LEAs/charter school/renaissance school project w/more than 60% of Free and Reduced			
	FEDERAL	STATE	TOTAL		FEDERAL	STATE	TOTAL
FREE	3.07	0.055	3.125	FREE	3.09	0.055	3.145
RED	2.67	0.055	2.725	RED	2.69	0.055	2.745
PAID	0.29	0.04	0.33	PAID	0.31	0.04	0.35
HHFKA*	.06	.00	0.060	HHFKA*	.06	.00	\$0.060

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

#### SCHOOL BREAKFAST PROGRAM

REGULAR RATES – NON-SEVERE NEED				SEVERE NEED RATES			
	FEDERAL	STATE	TOTAL		FEDERAL	STATE	TOTAL
FREE	1.66	0.00	1.66	FREE	1.99	0.00	1.99
RED	1.36	0.00	1.36	RED	1.69	0.00	1.69
PAID	0.29	0.00	0.29	PAID	0.29	0.00	0.29

#### AFTER SCHOOL SNACKS

AT RISK/ AREA ELIGIBLE (NO CHARGE)	0.84
NON-AREA ELIGIBLE	
FREE	0.84
REDUCED	0.42
PAID	\$ 0.07

#### SPECIAL MILK PROGRAM

FREE	Average cost per half pint *Based on Individual LEA's/charter school costs
PAID	0.2000

Commodity Value    \$ 0.2375

\* LEAs = LOCAL EDUCATION AGENCIES

7/30/2015

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

Districts/charter schools /renaissance school projects 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/ board of trustees, or to other district boards of education/ 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/renaissance school project 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/renaissance school project uses its own employees and buses are accounted for in an internal service fund. Joint transportation agreements where the lead district 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/renaissance school project would also be accounted for in an internal service fund in the records of the lead district/charter school/renaissance school project. Each of the "sharing" districts/charter schools/renaissance school projects, including the employing lead district/charter school/renaissance school project, should reflect their agreed-upon portion of the costs in the general fund. For the employing district/charter school/renaissance school project, that cost would be budgeted as a salary expenditure. The "sharing" districts/charter schools/renaissance school projects would account for the payments made to the lead district/charter school/renaissance school project as a contracted service under the appropriate function. If the shared employees have employment contracts with each of the districts/charter schools/renaissance school projects involved, each district's/charter school's/renaissance school project'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/renaissance school projects involved to establish an internal service fund.

- The district board of education/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/renaissance school project 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/renaissance school projects 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/renaissance school project controlling and self-directing the costs of administering an insurance program while retaining a risk of loss. GASBS

Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, as amended by GASBS 30, *Risk Financing Omnibus*, provides the accounting and financial standards for risk financing and self-insurance related activities. GASBS 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 GASBS 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 GASBS 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/school-wide financial statements (the Exhibit A series) but is reported in the fund statements (Exhibit B7 and B8) as described below. Inclusion of the trust or agency fund resources in the district/school-wide financial statements might mislead the reader about the financial position of the district/charter school/renaissance school project since these funds are not available for use by the district/charter school/renaissance school project.

**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/renaissance school project's employee benefit plans. Investment trust funds report the resources of a combined investment effort among school districts/charter schools/renaissance school projects. 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/renaissance school project. 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/renaissance school project, 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/renaissance school project 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/renaissance school project 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/renaissance school projects 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 the following website:

<http://lwd.dol.state.nj.us/labor/handbook/chap1/chap1sec4ContributionReports.html#7>

Districts/charter schools/renaissance school projects 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 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/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/renaissance school project 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/renaissance school project’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 /renaissance school project 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/renaissance school project 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/renaissance school project 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 Premium Withholding from Employees**

*N.J.S.A. 18A:16-17.1* provides law regarding contributions by employees of a local board toward the cost of health care benefit coverage. 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/renaissance school project but offsets the cost (expense/expenditure) of health benefits paid by the district/charter school/renaissance school project.*** 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](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](mailto:pension.nj@treas.state.nj.us).

P.L. 2011 c.78, effective June 28, 2011, changed 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 2015-16, 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](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/renaissance school projects 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**

N.J.S.A. 18A:16-19.1 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/ 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/renaissance school project by the plan provider once sufficient funds are accumulated through the deduction process.

In the event the district's/charter school/renaissance school project 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](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/renaissance school project whereby the district/charter school/renaissance school project 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/renaissance school project, 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/renaissance school project. 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/renaissance school projects. *N.J.A.C. 6A:23A-16.12(c)* states, "Each district board of education and 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/ school/renaissance school project 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 board of education/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/renaissance school projects 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/renaissance school projects 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 GASBS 34 and the National Center for Education Statistics Chart of Accounts. Districts/charter schools/renaissance school projects 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. Effective for reporting periods beginning after June 15, 2015, GASB Statement No. 72, “*Fair Value and Measurement Application*.” donated capital assets should be measured at acquisition value (an entry price) for donated capital assets, donated works of art, historical treasures, and similar assets and capital assets received in a service concession arrangement..

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/school-wide statements	Funds statements	Budgetary comparison schedules
Governmental	Y	No	No
Proprietary	Y	Y	N/A
Fiduciary	N/A	Y	N/A

***Statement of Net Position***

Report capital assets within the governmental activities column in the district/school-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 (GASBS) 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/renaissance school project and therefore are not reported on the district/school-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/renaissance school project 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/renaissance school project 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-wide Statement of Net Position at fair market value. This is applicable to buildings constructed for a district by the Economic Development Authority/School Construction Corporation (SDA). Districts 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'/renaissance school projects' 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.
<b>Buildings:</b>									
<b>School #1</b>			7/1/xx	\$5,000,000	S/L	35 yr	\$1,285,715	\$142,857	\$1,428,572
<b>Furniture:</b>									
<b>Desks</b>	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/renaissance school project should note “N/A” in the program column.

**N3** – Districts/charter schools/renaissance school projects 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/renaissance school projects 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 (revised as of July 1, 2015) and eliminated the GLTDAG to be consistent with GASBS 34 and the National Center of Education Chart of Accounts. Districts/charter schools/renaissance school projects 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/renaissance school project should be reported in the governmental activities column of the district/school-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” (GASBS 34, par. 31).

Interfund liabilities, even if non-current, are not long-term liabilities. District/charter school/renaissance school project 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/schoolwide statements.

*Disclosures*

Refer to GASBS 34, GASBS 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/renaissance school project’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 GASBS 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/schoolwide Statement of Net Position may generate a deficit in unrestricted net assets. This occurs because the pre-GASBS 34 fund balance is based on current resources, whereas the GASBS 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)**

Pensions:

Please refer to section II-10 of this Audit Program for guidance regarding Governmental Accounting Standards Board Statement (GASBS) No. 68 *Accounting and Financial Reporting for Pensions*.

Other Postemployment Benefits (OPEB):

For purposes of the district's/charter school's/renaissance school project's accrual and modified accrual statements, 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. GASBS 45 has phase-in periods for implementation beginning with reporting periods after December 15, 2006 and based on the criteria used for GASBS 34. Examples of OPEB include healthcare benefits, life insurance, and long-term care. Due to the technical nature and level of detail of GASBS 45, district/charter school/renaissance school project staff and auditors should refer to TB 2004-02 and the GASBS 45 available through GASB's website ([www.gasb.org](http://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/renaissance school projects are assessed annually for their actuarially determined contribution to fund this program. Each participating district/charter school/renaissance school project was given several options as to the length of time it desired to fund this liability.

Under GAAP, the district/charter school/renaissance school project ERIP liability is considered a contractual obligation. The liability is calculated for each participating district/charter school/renaissance school project and billed to the district/charter school /renaissance school project 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](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 *Statement 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 GASBS 27, *Accounting for Pensions by State and Local Governmental Employers*, or GASBS 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 GASBS 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 Federal Office of Management and Budget on December 26, 2013 released the *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Grant Guidance) applicable to federal awards received by nonfederal entities beginning on or after December 26, 2014. The Uniform Grant Guidance consolidates the former grants administrative circulars (Circular A-89, A-102 and A-110), the cost principle circulars (Circular A-21, A-87, A-122), and Circular A-133 into a single guidance. These administrative rules and cost principle requirements apply to direct federal funding and also apply to any sub-awards made by the State of New Jersey to sub-recipients from new federal awards or incremental funding received on or after December 26, 2014. Accordingly, beginning with the June 30, 2016 year end, and all subsequent year ends, the administrative requirements, cost principles, and single audit requirements contained in the *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* are applicable. The Uniform Grant Guidance does not apply to grant awards made before December 26, 2014. For those grants, the US Department of Education clarified that Uniform Grant Guidance doesn't apply to administrative actions (e.g. time extension) and/or any supplements made to such awards, even if those actions and supplements are made after December 26, 2014. Also for those grants, funds that carry over to a non-competing continuation (NCC) after December 26, 2014 *are* subject to the Uniform Grant Guidance. As noted below in this Audit Program, LEA auditors should be aware that certain requirements included in the new standards are first effective for the fiscal year ending June 30, 2016. Of note, effective for the fiscal year ending June 30, 2016 the single audit threshold increased from \$500,000 to \$750,000 of expenditures of federal awards; the major program threshold increased from \$300,000 to \$750,000; the major program determination is modified to focus on areas identified as having internal control deficiencies that are also identified as material weaknesses; and the reporting threshold for questioned costs increased from \$10,000 to \$25,000.

The link to the U.S. Department of Education webpage for Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Grants follows:

<http://www2.ed.gov/policy/fund/guid/uniform-guidance/index.html>

The Act requires that Generally Accepted Governmental Auditing Standards (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](http://www.gao.gov). The printed version of the December 2011 revision of *Government Auditing Standards* can be viewed online or purchased through the Government Printing Office (GPO) online via the GPO website at <http://bookstore.gpo.gov>

The 2016 edition of Office of Management and Budget (OMB) A-133 Compliance Supplement will be available online at [https://www.whitehouse.gov/omb/circulars\\_default](https://www.whitehouse.gov/omb/circulars_default). Reference to the draft guidelines should be reviewed to ensure that nothing changed in the final 2016 Supplement posted by OMB.

Once final, auditors should select from a list of Agency Program Requirements 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 for the 2016 *Compliance 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 and (FAIN) numbers can be found beginning on page II-SA.20 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. CFDA numbers will also be available in Part 4 of the 2016 *Compliance Supplement*.

### **State of New Jersey Single Audit Policy**

State of New Jersey Department of the Treasury Circular 15-08-OMB - effective December 26, 2014.

- State of New Jersey Department of the Treasury Single Audit Policy for Recipients of Federal Grants, State Grants, and State Aid is available at: [http://www.state.nj.us/infobank/circular/cir1508\\_omb.pdf](http://www.state.nj.us/infobank/circular/cir1508_omb.pdf)
- Part III. Policy – All state agencies that disburse federal grant, state grant or state aid funds to recipients that expend \$750,000 or more in federal financial assistance **or** State financial assistance within their fiscal year must require those recipients to have an annual single audit, or a program specific audit, performed in accordance with the Act, Amendments, Subpart F - Audit Requirements and State policy. The federal government will not pay for any costs of auditing a recipient that is exempted from having an audit conducted under the Act and Subpart F for reasons that expenditures under federal awards are less than \$750,000 during the recipient’s fiscal year.
- All state agencies that disburse federal grant, State grant, or State aid funds to recipients that expend less than \$750,000 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 require these recipients to 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, and Subpart F - *Audit Requirements of the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Note that program specific audits in accordance with subpart F can be elected when a recipient expends federal or State awards under only one federal or State program and the federal or state program’s statutes, regulations, or terms and conditions of the grant do not require a financial statement audit of the recipient. Note: because of the requirements at N.J.S.A. 18A:23-1 et. seq. require every board of education to undergo a financial statement audit, a program specific audit is not appropriate for any New Jersey school district, charter school board of trustees or renaissance school project board of trustees.

Background on 15-08-OMB and State Single Audit Policy

Circular 15-08-OMB was first effective December 26, 2014 in recognition of the administrative rules and cost principle requirements contained in the Federal Office of Management and Budget *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Refer to the federal information above. Circular Letter (CL) 15-08-OMB *Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid* replaces CL 04-04-OMB and specifies that rules and requirements contained in the federal OMB are also applicable to any sub-awards made by the State of New Jersey to sub-recipients from new federal awards or incremental funding received on or after December 26, 2014. CL 15-08-OMB revises State policy regarding audits of grant recipients to recognize that new and incrementally funded federal awards issued on or after December 26, 2014 are subject to the Federal Office of Management and Budget *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*.

Note to Auditors Regarding TPAF On-behalf Pension and Other than Pension Employee Benefits (OPEB) Payments and the State Single Audit Determination under CL 15-08-OMB:

The Department's policy with regard to TPAF on-behalf pension and other than pension benefits payments (OPEB) made by the State remains unchanged from the guidance under previous State Single Audit policies. That policy requires auditors to include the amount of TPAF On-behalf payments (pension and OPEB) made by the State to the benefit of the school employer in the threshold calculation and determination of whether or not the school is subject to a single audit. As reiterated and illustrated in the following section, the amount reported as TPAF On-behalf pension and OPEB, however, is excluded from the major program determination. Exclusion from the major program determination is required because of the absence of specific compliance requirements on the part of the school related to the State's TPAF On-behalf pension and OBEP payments. Please note this requirement does not impact the compliance requirements for Reimbursed TPAF Social Security (FICA) Contributions for a school's employees that have been funded by federal programs. Accordingly, TPAF Social Security Contribution reimbursements made by the State to the school are properly included in the threshold calculation and determination of whether or not the school is subject to a single audit, and also in the major program determination.

State Aid/Grant Compliance Supplement

Compliance requirements of the Department of Education (and other departments) are contained in the annual *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. The *State Grant Compliance* is available on the Department's audit webpage as well as on the Treasury's website at <http://www.state.nj.us/treasury/omb/> (see Highlights). For Department of Education's 2016 Compliance Supplement, please visit the Department's "Audit Information" webpage at:

<http://www.state.nj.us/education/finance/fp/audit/>

## AICPA Single Audit Guidance

The AICPA audit guide, *Government Auditing Standards and Single Audits (Audit Guide)* 2015 edition is updated to include OMB Uniform Guidance for federal awards and is available for purchase from the AICPA website at <http://www.aicpa.org/Publications/Pages/publications.aspx>.

Single Audit Threshold under the *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and New Jersey State Policy Circular 15-08-OMB:

New Jersey Circular 15-08-OMB provides the single audit threshold for fiscal year ended June 30, 2016 is \$750,000 or more expended in federal financial assistance **or** state financial assistance within the recipient's fiscal year. That is, any school district, charter school, or renaissance school project that has expended \$750,000 or more in federal **or** state assistance during the year under audit, must have a single audit conducted. As stated above, Treasury Circular 15-08-OMB reiterates the federal government will not provide resources to pay for any costs of auditing a recipient that is exempted from having an audit conducted under the Act and Subpart F – Audit Requirements because its expenditures under federal awards are less than \$750,000 during the recipient's fiscal year.

### Determination of Major Federal and State Programs:

Once it is determined that a federal and/or State single audit is required, auditors are to refer to section 200.518 of *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* which requires the auditor to use a risk-based approach to determine which Federal programs are major programs; section 200.519 for risk criteria; and section 200.520 for low-risk auditee criteria. New Jersey Treasury Circular 15-08-OMB, Part III, Policy, requires auditors to apply the same risk-based approach to programs supported by State Financial Assistance as required for federal programs.

### Major Program Determination as per section 200.518 of the Code of Federal Regulations and New Jersey Treasury Circular 15-08-OMB:

Total Federal or State awards expended	Type A/B threshold
Equal to or exceed \$750,000 but less than or equal to \$25 million	\$750,000
Exceeds \$25 million but less than or equal to \$100 million	Total Federal awards expended times .03
Exceeds \$100 million but less than or equal to \$1 billion	\$3 million
Exceeds \$1 billion but less than or equal to \$10 billion	Total Federal awards expended times .003
Exceeds \$10 billion but less than or equal to \$20 billion	\$30 million
Exceeds \$20 billion	Total Federal awards expended times .0015

Utilizing the table above, auditors perform separate calculations for federal and for State programs. For example, a school district expended \$20 million dollars for federal programs during the fiscal year under audit. The school district expended greater than \$750,000 and is therefore required to undergo a federal single audit. At this level of total federal expenditures, the table results in any federal program that expended more than \$750,000 in federal dollars for this fiscal year being labeled as a "Type A program". Any program that does not meet the quantitative threshold for a "Type A" program this fiscal year is considered a Type B program. Repeat this calculation and determination for State programs.

**Note to auditors: The four step process that auditors must follow for expenditures federal and state awards is described in detail at 200.518 through 200.520 of the *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Auditors should**

**be aware that the minimum threshold for classification as a Type A program has been increased to \$750,000 (from \$300,000) beginning with fiscal year end June 30, 2016. Upon OFAC review of the submission of the Single Audit Summary, failure to correctly calculate the threshold is a material weakness that may result in the school district, charter school, or renaissance school program's major programs (federal and/or State) not being properly audited during the current fiscal year, or the two most recent audit periods.**

**Summary of *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (2 CFR sections 200.518 through 200.520)**

**Summary of Type A Program Risk Rating for Federal and for State Programs**

Once Type A programs are identified (step 1) based on the dollar thresholds reviewed above, the risk of each Type A program is required to be assessed resulting in the labeling of each Type A program as high risk or low risk. In order to identify (step 2) which Type A programs are low-risk, the auditor must refer to the *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* section 200.519 *Criteria for Federal program risk*. Next, in order for the auditor to conclude that a Type A program is low risk in accordance with section 200.518 (c), the program must have been:

- i. Audited as a major program in at least one of the last two fiscal years, and;
- ii. In the most recent audit period the program must have NOT had:
  - a. A modified opinion on the program in the auditor's report on major programs compliance opinion
  - b. Internal control deficiencies which were identified as material weakness in the auditor's report on internal control for major programs
  - c. Known or likely questioned costs exceeding 5 percent of the total federal/State awards expended for the program

**Summary of Type B Program Risk Rating 200.518(d) - (step 3)**

Any program that does not meet the quantitative thresholds for a Type A program is considered a Type B program. The auditor is required to perform a risk assessment on Type B programs that exceed twenty-five percent (.25) of the Type A threshold determined in step 1. Of those Type B programs identified as exceeding 25% of the Type A threshold, the auditor must identify Type B programs which are high-risk using professional judgment and criteria found in section 200.519. The auditor is not required to identify more high-risk Type B programs than at least one fourth (25%) the number (dollars) of low-risk Type A programs identified as low-risk under step 2. The only single criterion that would automatically result in an assessment of high risk for a Type B program would be a known material weakness in internal controls or compliance problems.

**Summary of Determining What Programs to Audit (step 4)**

At a minimum, the auditor must audit all of the following as major federal/State programs:

- All Type A programs **not** identified as low risk under step 2
- All Type B programs identified as high-risk under step 3
- Additional programs as may be necessary to comply with the percentage of coverage rule discussed in the following paragraph

### Summary and Effect of Criteria for a Low-risk Auditee

If the auditee meets the criteria specified in *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* section 200.520 for identification of the auditee as a “low-risk” auditee, policy permits the auditor to audit only the major programs identified as Type A programs not labeled as low-risk and such additional federal/State programs with federal/state awards expended that in aggregate for federal/state awards (determined separately for federal and for State awards) encompass at least 20 percent (.20) of the total federal or State (federal and State are separate calculations) awards expended. If not determined to be a low-risk auditee, the auditor must classify the major programs identified as Type A programs not labeled as low-risk and such additional federal/State programs with federal/state awards expended that in aggregate for federal/state awards (determined separately for federal and for State awards) encompass at least 40 percent (.40) of the total federal or State (federal and State are separate calculations) awards expended. The criteria presented in section 200.520 must be met for an auditee to be identified as a low-risk auditee. Auditees that meet **all** of the following conditions for each of the preceding two audit periods qualify as a low-risk auditee and must be eligible for reduced audit coverage in accordance with section 200.518:

- i. Single audits were performed annually. This includes submitting in a timely manner the data collection form and the reporting package to the Federal Audit Clearinghouse.
- ii. The auditor's opinion on whether the financial statements were prepared in accordance with GAAP (or a basis of accounting required by state law) and the auditor's in relation to opinion on the schedule of expenditures of awards were unmodified.
- iii. There were no deficiencies in internal control which were identified as material weaknesses under the requirements of Generally Accepted Governmental Accounting Standards (GAGAS)
- iv. The auditor did not report a substantial doubt about the auditee's ability to continue as a going concern.
- v. None of the federal (or State) programs had audit findings from any of the following in either of the preceding two audit periods in which they were classified as a Type A program:
  - a. Internal control deficiencies identified as material weaknesses in the auditor's report on internal control for major programs as required by section 200.515 paragraph (c),
  - b. Known or likely questioned costs that exceeded five percent of the total federal/state awards (calculated separately for federal and State programs) expended for a Type A program during the audit period,
  - c. A modified opinion on a major program in the auditor's report on major programs as required by section 200.515 paragraph (c)

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) implemented the Single Audit Summary Sheet. This Summary 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/renaissance school project and all questions in Section D of the Summary for districts/charter schools/renaissance school projects that have a federal and/or state single audit. The form is accessible through the FY16 Single Audit Summary link at the OFAC website:

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

## **Schedules of Expenditures of Federal Awards and State Financial Assistance 2 CFR Section 200.510 (b)**

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/renaissance school project 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 totals reflected in each schedule must agree with the total awards expended as determined in accordance with section 200.502. The required format of the schedules included in the sample CAFR on the Department's website is 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. Beginning with the year ended June 30, 2016, 200.510(b)(4) requires the schedule(s) be revised and expanded to report:

1. In columnar form, whether the total expenditures (defined at 200.34) for each grant were funded directly by the grantor, or received by the grantor as a pass-through award from a pass-through entity (defined by 200.74), followed by the total expenditures.
2. In columnar form, the dollar amount of the total expenditures passed through to sub-recipients (as defined at 200.93). If the payment was issued to a contractor (as defined at 200.23 and referred to as a vendor under A-133) it is not considered pass-through funding provided to a sub-recipient. For additional guidance regarding sub-recipient and contractor determinations, auditors are advised to refer to section 200.330. Instructions regarding schedule preparation are included in this section of the Audit Program.

## **Preparing the Schedule of Expenditures of Federal Awards and Schedule of Expenditures of 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 grantee records and must include all active (i.e. - not closed) financial assistance programs in which a grantee 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. 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.

### **Specific New Jersey Department of Education Requirements:**

- The Department has provided school districts with the following guidance regarding Departmental loans and the impact on the Schedule of State Financial Assistance. Departmental loans made to the school district will be repaid to the Department through deductions from future period State Aid payments. Refer to the audit guidance in Section II-10 of this Audit Program for additional information regarding the recording and reporting of loans against future State Aid. For purposes of the Schedule of State Financial Assistance, do not report the "loan" as State Aid revenue in the year of receipt. In accordance with 15-08-OMB and sections 200.40 and 200.63, the receipt of the loan is considered financial assistance and is included in the Schedule of Expenditures of State Financial Assistance. In the ensuing repayment years, report the full State Aid award per the award notice(s) on the Schedule of State Financial Assistance. In the ensuing loan repayment fiscal years, don't reduce the State Aid for cash deductions made by the Department representing loan repayment. The annual repayment of principal and interest made

through State Aid deductions is recorded and reported as an appropriation and expenditure against that year's State Aid award.

- TPAF On-behalf Pension and Other than Pension Employee Benefits are reported on the *Schedule of Expenditures of State Financial Assistance*. Please see page II-SA.3 of this Audit Program for additional guidance.
- Both schedules are prepared using budgetary expenditures comparison schedules 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 2015 (recognized on GAAP in 2015-16) and July 2016 (not recognized on GAAP until 2016-17) (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.
- Both schedules must be in the same format as those shown in the sample schedules in this chapter. Where the final Expenditure Report has been approved by the Office of Grants Management, 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. For federal awards only, the value of noncash assistance may be included in the notes as opposed to directly entered and reported on the federal schedule. In addition, federal programs included in a cluster of programs must be listed individually.
- Districts/charter schools/renaissance school projects may have received (from the Department) grant funds in advance of the expenditure of the grant funds received. When the grantee elects to carry over the unexpended current year balance approved through the Final Expenditure Report, and the district/charter school/renaissance school project 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 grantee elects not to carry over the unexpended current year balance approved through the Final Expenditure Report, and the grantee 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 grantee 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 grantee, the balance is considered "released" by the grantee to the DOE. Released funds are unexpended award amounts that have not been received by the grantee and are automatically calculated in EWEG and indicated as a release of funds in the Final Expenditure Report on the Expenditure Summary tab. Those funds will not be claimed by the grantee. The amount of funds released by the grantee (not expended by the grantee 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) **Federal FAIN Number:** This Federal Award Identification Number (FAIN) has been assigned by the applicable federal agency to each federal grant, and is required to be used in all federal award and sub-award documents. It is intended to enhance data on USASpending.gov. A table that contains the FAIN, CFDA and Federal Award Date for each NJDOE federal grant is posted on OGM's website annually as soon as the information is received from USDOE at <http://www.state.nj.us/education/grants/entitlement/FY2016FederalAwardIdentificationNumbers.pdf>
- 4) **Grant (Contract) or State Project Number (State Aid NJCFS Number):** This represents 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. On the federal schedule, this represents the federal grant project identifier.
- 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. For State awards, Noncash awards such as a state grant for facilities (EDA/SCC/SDA grants) which are paid directly by the EDA/SCC/SDA to the vendors are included in this column and may be notated (NC).
- 6) **Grant Period:** Represents the initial period for which the program was awarded.
- 7) **Balance at June 30, 2015:** 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 grantee 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 GASBS 33. The budgetary receivable included in the 2014-15 *Schedule of Expenditures of State Assistance* is not included in this column.
- 8) **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, 2015 column) in the preceding year was attributable to the deferral of the last state aid payment (GASBS 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 restricted state aid programs.

- 9) **Cash Received:** Reflects the amount of cash received during the current fiscal year for the applicable financial assistance program.
- 10) **Budgetary Expenditures:** On the *Schedule of Expenditures of Federal Awards*, expenditures must be presented in multiple columns. The first column presents expenditures of funds received as a pass through award. The second column presents expenditures of funds received directly. Finally, a total expenditures column is presented and represents the total costs chargeable to the program during the current fiscal year. Additionally, after the column “Total Expenditures”, the portion of total expenditures that has been passed through to sub-recipients must be presented in a separate column. On the *Schedule of Expenditures of State Financial Assistance*, a single column for budgetary expenditures is acceptable. The total 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.

- 11) **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 grantee may include a column for Adjustments only if it is applicable.
- 12) **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 grantee may include a column for Repayment of Prior Years' Balances only if it is applicable.
- 13) **Intergovernmental Accounts Receivable at June 30, 2016:** 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.
- 14) **Deferred Revenue at June 30, 2016:** Unexpended award proceeds as of fiscal year end which are expendable in the subsequent fiscal year are reflected here. On the *Schedule of State Financial Assistance*, for Preschool Education Aid, if the grantee 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.

- 15) **Due to Grantor at June 30, 2016:** 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 grantee 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 grantee 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.
- 16) **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.
- 17) **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/renaissance school projects.
- 18) **Note Reference(s):** This column (on both schedules) is used to indicate the footnote to which a program is related.

### **Additional Guidance:**

#### 1. Federal Awards: Carryover/Deferred Revenue/Due Back to Grantor

If the budgetary expenditures incurred by the district/charter school/renaissance school project (grantee) are less than the amount of federal aid cash received (special revenue only), the final expenditure report as submitted by the grantee will indicate 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." The 2015-16 federal entitlement (formula) grant period begins July 1 and ends June 30. For discretionary (competitive) grants, the grant period begins/ends at any time, and is stated in each Notice of Grant Opportunity; there is no set period for all discretionary grants.

Upon approval of the Final Expenditure Report by the NJDOE, any unexpended funds a grantee elects to carry over are identified as prior year carryover funds and are brought forward into a separate line in the Allocations tab of the subsequent year Grant Application in the Electronic Web Enabled Grant (EWEG) system. Auditors can view the approved carryover amounts and the final expenditures report through the public access option in EWEG. Once the grantee submits their final expenditure report and is approved, EWEG automatically calculates the four following scenarios:

- the **carryover amount** (unexpended balances to be added to subsequent year's grant allocation);
- the **overpayment** amount (that was reimbursed to grantee but not expended by end of program, and will be offset against subsequent year's allocation);

- the amount of any **refund** that the grantee must pay back to NJDOE (e.g. grantee may opt not to have an overpayment and submit refund check instead, or grantee may be *required* to refund funds for a disallowed expenditure(s) based on monitoring/audit, etc.); or
- any funds that must be **released** per statute because the funds were previously carried over from two years prior and thus have statutorily expired per the Tydings Amendment, which allows 27 months to obligate funds for most entitlement grants).

There is a line for each of these occurrences in EWEG in the Final Exp. Report's 'Expenditure Summary Tab'. 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 grantee must submit an Amendment Application to budget the prior year carryover and overpayment funds. Please note that this only applies to ESEA-NCLB and IDEA grants. It does not apply to the Perkins Secondary and Perkins Post-Secondary grants as the grants do not allow carryover of funds. For Perkins grants, any grant funds not expended by end of program year are forfeited by the grantee, and any overpayment of funds must be refunded by the grantee.

## 2. Unexpended Funds at Year End

When the grantee elects not to carry over the unexpended current year balance approved through the Final Expenditure Report, or the unexpended balance exceeds any carryover limitation (e.g. for NCLB Title I, carryover is limited to 15% of the total allocation), **and** this balance of funds was not paid to the grantee, the balance is considered "released" by the grantee 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 grantee. The amount of funds released by the grantee (not expended by the grantee 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 grantee, this balance is recorded/reported in the Final Expenditure Report as a refund due from the grantee 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 grantee but are no longer available for expenditure by the grantee 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."

3. If a grantee submits for reimbursement of current year (2015-16) expenditures and has carryover from the prior year (2014-15) 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 grantee submits for reimbursement 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.
4. Liquidation period for federal grants is ninety (90) calendar days after the end date of the period of performance as specified in the terms and conditions of the federal award (section 200.343). For FYE 2016, a ninety day liquidation period is in effect and is defined by the Office of Grants Management as ending on September 30, 2016.

**Example – June 30, 2016**

An NCLB award for the period July 1, 2015 to June 30, 2016 must have been obligated by June 30, 2016 and liquidated by September 30, 2016. Grant funds awarded to the grantee and received by the grantee that remained unencumbered or unexpended at June 30, 2016, should have been reported as deferred revenue in the June 30, 2016 Schedule of Expenditures of Federal Awards. Funds encumbered but unexpended at June 30, 2016 (the end of the grant obligations period), are considered carryover funds in EWEG. Carryover funds (for which payments were received by the grantee) that have not been reported as expended by the September 30, 2016 date are reported as overpayment funds in EWEG. Upon DOE approval of the Final Expenditure Report for the 2015-16 grant period any carryover and/or overpayment funds were made available for budgeting in the current year (2016-17) project period. The grantee 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 EWEG 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 grantee has not obligated the full amount of prior year carryover (2014-15) by June 30, 2016 and does not liquidate the full amount of the prior year carryover (2014-15 grant) by September 30, 2016, the amounts not so obligated and liquidated are automatically calculated in EWEG in the final expenditure report's Expenditure Summary tab and indicated on the 'Amount to be Released' line. . At June 30, 2016, any amounts received by the grantee but not as yet remitted back to the NJDOE should be reported in the June 30, 2016 *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 2, Subtitle A, Chapter II, Part 200 Subpart D, 200.343 (2 CFR 200.343) Closeout

(d) The non-Federal entity must promptly refund any balances of unobligated cash that the Federal awarding agency or pass-through entity paid in advance or paid and that are not authorized to be retained by the non-Federal entity for use in other projects. See OMB Circular A-129 and see §200.345 Collection of amounts due, for requirements regarding unreturned amounts that become delinquent debts.

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 FYE 2016 ESEA-NCLB Consolidated Formula Subgrant(s) is available on the OGM website at <http://www.state.nj.us/education/grants/entitlement/>.

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 2013-2014 and 2014-2015 school years.

Auditors are encouraged to consult the 2016 and 2015 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>

<http://www2.ed.gov/policy/eseaflex/secretary-letters/nj2ltr.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/renaissance school projects will be recorded in Fund 20, not Fund 15. This applies to all schools with an approved Title I schoolwide program in the 2015-16 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/renaissance school projects 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](http://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, Grant-back 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/renaissance school project 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 funds. 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 schoolwide 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.

Fund 15 - GAAP Basis Expenditure Testing (Not applicable to charter schools/renaissance school projects)

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/renaissance school projects):

A school **must** be operating an approved Title I schoolwide program in order to blend federal funds. If a school implementing school-based budgeting does not have approved Title I 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/renaissance school project's approved FY 2015 NCLB Consolidated Application (Application) to determine which schools within the district have Title I 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 /renaissance school project'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/renaissance school project'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 (not applicable to charter schools or to renaissance school projects)

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/renaissance school project'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/renaissance school project'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 Grantor

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 Office of School 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.”

Program Notes to Auditors Relative to the Expenditure Schedules:

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 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. Grantee should expend available carry-over funds first during the fiscal year before expending current year IDEA-B funds. A portion of the IDEA-B funding may be available for expenditure on behalf of public school students with disabilities (public aid) and a portion of the IDEA funding may be available for expenditure on behalf of parentally-placed nonpublic school students with disabilities (nonpublic aid). Charter Schools, Vocational Schools and Renaissance Projects do not have a nonpublic responsibility. The portion of IDEA-B 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 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 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 can provide an assurance that the district has consulted with the representatives of parentally-placed private school students with disabilities, the unexpended two-year-old nonpublic IDEA-B 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 fiscal year. The resultant increase to unexpended and available public school aid may be used to increase the current public school aid grant.
- IDEA-B funds may be provided for Coordinated Early Intervening Services (CEIS). School districts/charter schools /renaissance school projects 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 the combined amount of the Basic plus Preschool awards. School districts /charter schools/renaissance school projects 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” grantee, current year funds available for CEIS are equal to 15 percent of the current year grant plus the carryover of unexpended prior year CEIS funds. If a CEIS “required” grantee has not expended the carryover CEIS funds by the end of the second year, the grantee must return/release the unexpended funds to the department. School districts /charter schools/renaissance school projects 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/renaissance school projects are capped at 15 percent each year.

**Schedule of Questioned Costs (section 200.515(d) and Audit Findings (sections 200.5 and 200.516)**

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.

Auditors should be aware that effective June 30, 2016 the State policy for reporting questioned costs has been revised from \$10,000 to coincide with the federal threshold of \$25,000 provided in section 200.516.

**Office of Fiscal Accountability and Compliance Requirements Regarding the Schedule of Questioned Costs:**

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. If the finding is not also determined to be a current finding under the single audit section, the auditor is required to report the status of the OFAC finding in the Auditor's Management Report.

**Compliance and Refunds of Grant Awards and the Schedule of Findings and Questioned Costs:**

The Auditor's Management Report and the Schedule of Findings and Questioned Costs must indicate when the district/charter school /renaissance school project has failed to comply with federal and state regulations in a timely manner. Departures resulting in grant refunds are to be submitted with the Final Expenditure Reports. Discretionary grant refunds must be returned to 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 grantee 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 Plan (sections 200.508; 200.511);**

The auditee is responsible for follow-up and corrective action on all single audit findings. As part of this responsibility, the auditee must prepare a summary schedule of prior audit findings and a corrective action plan for current year audit findings. In accordance with section 200.516, the auditor must report upon the findings in sufficient detail and clarity to enable the auditee to prepare a corrective action plan and take corrective action. Corrective Action Plans filed by the grantee with the grantor indicate noncompliance issues. Auditors should review the school district's/charter school's/renaissance school project'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/renaissance school project, the auditor must consider the impact of the potential noncompliance with the grant terms on the financial statements (CAFR).

Note: A grantee 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  
CATALOG OF FEDERAL DOMESTIC ASSISTANCE  
FEDERAL AWARD IDENTIFICATION NUMBER  
(List Not All Inclusive)**

CFDA #	FAIN #	Award Name
10.553	16161NJ304N1099	School Breakfast Program
10.555	16161NJ304N1099	National School Lunch Program
10.556	16161NJ304N1099	Special Milk Program for Children
10.558	16161NJ304N1099	Child and Adult Care Food Program
10.558	16161NJ304N2020	Child and Adult Care Food Program-Admin
10.559	16161NJ304N1099	Summer Food Service Program for Children
10.579	15151NJ354N8103	School Meals Equipment
10.582	16161NJ304L1603	Fresh Fruits and Vegetable Program
84.010A	S010A150030	Title I Part A Grants to Local Educational Agencies
84.011A	S011A150030	Title I, Part C Education of Migrant Children
84.013A	S013A150030	Title I, Part D Neglected, Delinquent Children or Children At-risk of Dropping Out
84.027	H027A150100	Individuals with Disabilities - States Grant
84.048A	V048A140030	Career and Technical Education - Basic Grants (Perkins)
84.144F	S144F150030	MEP Consortium Incentive
84.173	H173A150114	Preschool Grants for Children with Disabilities
84.184Q	S184Q140005	Safer Schools for a Better Tomorrow
84.196	S196A150031	Education for Homeless Children and Youth
84.282	U282A120015	Public Charter Schools
84.287C	S287C150030	21st Century Community Learning Centers
84.330	S330B140029	Advanced Placement Fee Program
84.358B	S358B150030	Rural & Low-Income Education (Title VI, Part B)

84.365A	S365A150030	English Language Acquisition (Title III)
84.366B	S366B150031	Mathematics & Science Partnerships
84.367A	S367A150029	Improving Teacher Quality State Grants (Title II Part A) SEA
84.367B	S367B150027	Improving Teacher Quality State Grants (Title II Part A) Higher Ed
84.369A	S369A150031	State Assessment Program (Title VI, Part A)
84.372A	R372A120025	State Longitudinal Data Systems
84.377A	S377A130031	School Improvement Grants
84.412A	S412A130049	ARRA- Race To The Top- Early Learning Challenge
84.413A	B413A120008	Race To The Top Phase 3 (RTT3)
84.419B	S419B150020	ARRA- Race To The Top- Preschool Development Grants-Expansion
84.CON	See grant award	National Assessment of Ed Programs (NAEP)
93.079	See grant award	Cooperative Agreements to Promote Adolescent Health through School-Based HIV/STD Prevention and School-Based Surveillance
93.600	See grant award	Head Start Collaboration
93.778	1605NJ5MAP	Medical Assistance Program (SEMI)
93.778	1605NJ5MAP	ARRA - Medical Assistance Program (SEMI)

**STATE AID AND STATE GRANT  
STATE ACCOUNT NUMBERS**

**GENERAL FUND**

16 495-034-5120 -078	Equalization Aid
16 495-034-5120 -083	Education Adequacy Aid
16 495-034-5120 -089	Special Education Categorical Aid
16 495-034-5120 -044	Extraordinary Aid
16 495-034-5120 -084	Security Aid
16 495-034-5120 -085	Adjustment Aid
16 495-034-5120 -085	Additional Adjustment Aid
16 495-034-5120 -068	School Choice Aid
16 495-034-5120 -014	Transportation Aid
16 100-034-5120 -510	Adult and Post-Graduate Program Aid
16 495-034-5120 -100	Family Crisis Transportation Aid
16 495-034-5120 -005	Payment for Institutionalized Children- Unknown District of Residence
16 495-034-5094 -001	Teachers' Pension and Annuity Fund – Post Retirement Medical
16 495-034-5094 -003	Social Security Tax
16 495-034-5094 -002	Teachers' Pension and Annuity Fund
16 495-034-5094 -004	Teachers' Pension & Annuity Fund – Non-contributory Insurance
16 495-034-5120 -071	Charter School Aid
16 495-034-5120 -094	Supplemental Enrollment Growth Aid
16 495-034-5120 -096	Under Adequacy Aid
16 495-034-5120 -097	Per Pupil Growth Aid
16 495-034-5120 -098	PARCC Readiness

**SPECIAL REVENUE FUND**

16 495-034-5120 -086	Preschool Education Aid
16 100-034-5120 -064	N.J. Nonpublic Textbook Aid
16 100-034-5120 -066	N.J. Nonpublic Handicapped Aid
16 100-034-5120 -067	N.J. Nonpublic Auxiliary Services Aid
16 100-034-5120 -068	N.J. Nonpublic Auxiliary/Handicapped Transportation Aid
16 100-034-5120 -070	N.J. Nonpublic Nursing Services
16 100-034-5120 -373	N.J. Nonpublic Technology Initiative
16 100-034-5062 -032	Vocational Aid

**DEBT SERVICE FUND**

16 495-034-5120 -017	School Building Aid
16 495-034-5120 -075	School Construction Debt Service Aid

**ENTERPRISE FUND**

16 100-010-3350 -023	State School Lunch Program
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INSERT *SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS*  
SCHEDULE A/ EXHIBIT K-3

Schedule of Expenditure of Federal Awards

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

[SchSA-A 2015-16.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

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

[SchSA-B 2015-16.xls](#)

Selecting print will produce page II-SA.22 of The Audit Program.

Department of Education Broadcast Notification information for the following Grant awards:

FY 2016 Entitlement Subgrant Applications - Planning Information  
FY 2016 Consolidated Planning Letter.pdf

Individuals with Disabilities Education Act-Part B (IDEA-B) SFY 2016 Entitlement Allocations and Electronic Application Information  
FY 2016 IDEA Allocations and Application Information.pdf

General Federal Entitlement Grant Guidance  
Entitlement Grant and UGG Guidance.pdf

Notice of Intent to Operate a Title I Schoolwide Program  
schoolwide -2016-2017 Intent Application.docx  
Title I Schoolwide Program.pdf

**SCHOOL DISTRICT/CHARTER SCHOOL/RENAISSANCE SCHOL PROJECT  
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 .516 and .518 of *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards.*]

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 2 CFR 200 section .516(a) of ?                    \_\_\_\_\_ yes                    \_\_\_\_\_ no

Identification of major programs:

<u>CFDA Number(s)</u>	<u>FEIN Number(s)</u>	<u>Name of Federal Program or Cluster</u>
_____	_____	_____
_____	_____	_____
_____	_____	_____

Dollar threshold used to distinguish between type A and type B programs:[518] \$ \_\_\_\_\_

Auditee qualified as low-risk auditee?                    \_\_\_\_\_ yes                    \_\_\_\_\_ no



**SCHOOL DISTRICT/CHARTER SCHOOL/RENAISSANCE SCHOL PROJECT  
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 XXXX-XXX**

**Criteria or specific requirement:**

**Condition:**

**Context:**

**Effect:**

**Cause:**

**Recommendation:**

**Views of responsible officials and planned corrective actions:**

**SCHOOL DISTRICT/CHARTER SCHOOL/RENAISSANCE SCHOL PROJECT  
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 2 CFR 200 section .516of the *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. and NJOMB Circular Letter 15-08, as applicable.]

**(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 Single Audits*)**

**FEDERAL AWARDS**

**Finding XXXX-XXX**

**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/RENAISSANCE SCHOL PROJECT  
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 XXXX-XXX**

**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 (NJCFPS 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 .516(a)(3) and .516(a)(4) of 2 CFR 200 and NJOMB Circular Letter 15-08, as applicable.
- (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 Single Audits.

## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Districts/charter schools/renaissance school projects which are required to have a federal and/or state single audit conducted in accordance with USOMB *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. and/or NJOMB 15-08, as applicable, 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/renaissance school projects should refer to 2 CFR 200.511 for guidance on preparing these schedules.

As reference, the following excerpts from *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* are provided:

- *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*., 514(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 ¶ 511(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 must perform audit follow-up procedures regardless of whether a prior audit finding relates to a major program in the current year.”
- *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*., 511 (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.”
- *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*., 511 (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.”
- *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*., 511 (b)(3) When the auditee believes the audit findings are no longer valid or do not warrant further action, the reasons for this position must be described in the summary schedule.

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

**SCHOOL DISTRICT/CHARTER SCHOOL/RENAISSANCE SCHOOL PROJECT  
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 *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. (¶.511 (a)(b)) and NJOMB's Circular 04-04 and/or 15-08, as applicable.]

**[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**  
**(Chapter 1 is applicable to school districts, charter schools, and renaissance school projects)**

### **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/renaissance school projects 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 NJ OMB Circular Letter 98-07 including any amendments or revisions thereto [NJ OMB Circular Letter 15-08], a district board of education or 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/renaissance school project 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/renaissance school project 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/renaissance school project 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" (Monday, December 5, 2016). No provision is made for the issuance of extensions beyond the statutory due date. If a school district /charter school/renaissance school project 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/renaissance school project. The cost of conducting such an audit would be paid out of the funds of the school district/charter school/renaissance school project.

### **Audit Reporting Package**

- The Audit Reporting Package for all districts/charter schools/renaissance school projects consists of two separate and required audit reports; the Comprehensive Annual Financial Report (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.
  - The responsibility of the district/charter school/renaissance school project personnel is to access the OFAC CAFR Repository (<https://education.state.nj.us/doefs16/?prj=cafr>) and upload the entire Audit Reporting Package prior to the corresponding statutory deadlines. Districts/charter schools/renaissance school projects can access the OFAC CAFR Repository via the DOE Homeroom page at <http://homeroom.state.nj.us/>.
  - Auditors must refer to the "Instructions for Completion of the FY2016 Single Audit Summary" at <http://www.state.nj.us/education/business/audit.htm> for a list of electronic files that must be transmitted to the CAFR Repository. These files are prepared by the auditor for the district/charter school/renaissance school project to upload to the OFAC CAFR Repository. School district/charter school/renaissance school projects are to refer to the "FY2016 Single Audit Summary" and related instructions for the number of hard copies of the CAFR, AMR and other files required for submission (Section B- Audit Items Submitted – Number of Copies), and electronic files, file naming protocols and file formatting protocols (Instructions to Section C).
  - Auditors are reminded to use the exact file naming conventions when preparing electronic files for transmission to the OFAC CAFR Repository. Refer to the Instructional Guide tab of the FY2016 Single Audit Summary which presents a table detailing the file extensions. Note that transmission to the CAFR Repository is to be completed by the district/charter school/renaissance school project. File names must conform to exact naming convention (file format) that must be followed when preparing all electronic files. Files cannot be password protected and must be text-searchable, unlocked, and unencrypted.
  - The district/charter school/renaissance school project is responsible 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. The OFAC CAFR Repository is designed to automatically append the district/charter

school/renaissance school project 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. Updated pages of such revisions must be sent to the respective offices as well.
- Cover Letter (on CPA firm letterhead)
- Current Peer Review Report

Single Audit Summary Report “FY 2016 Single Audit Summary” is located at <http://www.state.nj.us/education/business/audit.htm>. Note that sections A, B, E, and F apply to all districts/charter schools/renaissance school projects and section C applies to those districts/charter schools /renaissance school projects 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 certified 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/board of trustees. Subsequently, the auditor provides the certified SF-SAC to the district which transmits electronically via the CAFR Repository. Please do not forward hard copies of the SF-SAC to the New Jersey Department of Education.

Additional reports/worksheets submitted to the Department via CAFR repository:

- Audit Synopsis
- Board Resolution (accepting the audit synopsis and corrective action plan)
- Corrective Action Plan (CAP)
- Certificate of Implementation (COI)
- Data Collection Form (if applicable; see Single Audit section III-1.6)
- Audit Questionnaire (only for districts required to use School Based Budgets)

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/renaissance school project 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 school/renaissance school project. It must be signed by the auditor, maintained in the auditor’s workpaper files, and available to the department upon request.

**FEDERAL AUDIT CLEARINGHOUSE SUBMISSIONS**  
**Due Date:** within 30 days after the receipt of the auditor's report.

**AUDIT DOCUMENTS**

Federal Audit Clearinghouse

<https://harvester.census.gov/facweb/default.aspx/>

Federal Package\*\*

\*\*see Single Audit Report Submission Requirements on page III-1.6

Bureau of the Census

Federal Data Collection Form

(Must use federal IDES to submit SF-SAC and Single Audit reporting package electronically to the Federal Audit Clearinghouse)\*\*

(Only required for districts/charter schools/renaissance school projects expending \$750,000 or more in federal awards)

See instructions on page III-1.7 of this Audit Program for SF-SAC Form submission.

**STATE SINGLE AUDIT REQUIREMENTS-  
SCHOOL DISTRICTS, CHARTER SCHOOLS AND RENAISSANCE SCHOOL PROJECTS**  
**Due date:** Monday, December 5, 2016

Submit required data electronically to the NJDOE Homeroom through the CAFR Repository portal:

<http://homeroom.state.nj.us/>

**AUDIT DOCUMENTS**

**Audit Reporting Package:**

**Hard copy and electronic file:**

- Comprehensive Annual Financial Report (CAFR) (2 copies)\*\*
- Auditor's Management Report (AMR) (2 copies)\*\*
- Cover letter (on CPA firm letterhead)
- Current Peer Review report
- Single Audit Summary accessed through the following link :  
<http://www.state.nj.us/education/business/audit.htm>

➤ **Electronic submission by SBA only (no hard copy) via the CAFR Repository**

- Audit Synopsis – includes Schedules B-1, B-2 and Audit Recommendation Summary (see section III-7 for template)
- Board Resolution (accepting the Audit Synopsis and Corrective Action Plan)
- Corrective Action Plan (CAP) – only if there were FINDINGS in the CAFR and/or AMR (see section III-7 for template)
- Certification of Implementation (COI) – only required if CAP was SUBMITTED (see section III-7 for template)
- Data Collection Form (submit if Federal Single Audit Required)
- Audit Questionnaire – only for districts required to use school-based budgets

\*\* Districts that use **school-based budget** need to submit three copies of the CAFR and the AMR, and two copies of the Audit Questionnaire.

**MAILING ADDRESS**

**Commissioner  
Department of Education  
Office of Fiscal Accountability & Compliance  
Special Audits Unit  
PO Box 500  
100 Riverview Plaza  
Trenton, NJ 08625-0500**

<u>School District Contact Person:</u>  Vince Mastrocola Vincent.mastrocola@doe.state.nj.us Telephone 609-777-3544	<u>Charter School Contact Person:</u>  Kathy Ambrosio Kathleen.ambrosio@doe.state.nj.us Telephone 609-341-5298	<u>Renaissance School Project Contact:</u> Julie McAloon Julie.mcaloon@doe.state.nj.us Telephone 609-341-3067
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**NEW JERSEY DEPARTMENT OF AGRICULTURE  
SCHOOL DISTRICTS, CHARTER SCHOOLS AND RENAISSANCE SCHOOL PROJECTS  
Due date: Monday, December 5, 2016**

Contact person: Cindy Pampinella: [cindy.pampinella@ag.state.nj.us](mailto:cindy.pampinella@ag.state.nj.us)

**\*\*IMPORTANT NOTE: 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 State Child Nutrition Programs and/or USDA Foods**

**Audit Reporting Package– Due Date:** Monday, December 5, 2016

-Corrective Action Plan (CAP) – **emailed by SBA** to: [cindy.pampinella@ag.state.nj.us](mailto:cindy.pampinella@ag.state.nj.us).

NJ DOA will have access to the CAFR/AMR from the DOE website.

Mail addresses are provided for informational purposes only.

<u>Via regular Mail:</u> NJ Department of Agriculture Bureau of Child Nutrition Programs P.O. Box 334 Trenton, NJ 08625-0334 Attn: Fiscal/Audit	<u>Via delivery service:</u> NJ Department of Agriculture Bureau of Child Nutrition Programs 22 South Clinton Avenue Building 4, 3rd Floor Trenton, NJ 08625-0334 Attn: Fiscal/Audit
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**EXECUTIVE COUNTY SUPERINTENDENT OF SCHOOLS**

**Due date:** Monday, December 5, 2016

**Audit Reporting Package–**

One hard copy of

- CAFR
- AMR

Audit Questionnaire

Mailed to:

Executive County Superintendent of Schools  
(see county directory for address)

**NOTIFICATION OF ANY CORRECTIONS OR UPDATES TO THE CAFR OR AMR DISCOVERED AFTER SUBMISSION MUST BE MADE VIA RE-UPLOAD OF FILE TO THE REPOSITORY AND RE-SUBMISSION OF RESPECTIVE PAGES TO THOSE WHO RECEIVED A HARD COPY OF THE REPORT.**

**Applicable to school districts, charter schools and renaissance school projects – Single Audit Summary:**

The Special Audits 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 through F with D being optional completed (all questions must be answered). Shaded areas are automatically calculated.

**Single Audit Report Submission Requirements**

***Federal Single Audit Requirements***

For districts/charter schools/renaissance school projects subject to the Single Audit Act pursuant to the *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* At 2 CFR 200, 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 Audit Clearinghouse within 30 days after receipt of the auditor's report(s).
- Beginning with fiscal year ending June 30, 2015 audits submitted to the Federal Audit Clearinghouse will require all PDF uploads of the reporting package be text-searchable, unlocked, and unencrypted. For additional information, please refer to the website: [https://harvester.census.gov/facides/\(S\(cigvvszczvhmmnzlam2t4ie0\)\)/docs/create\\_pdf.pdf](https://harvester.census.gov/facides/(S(cigvvszczvhmmnzlam2t4ie0))/docs/create_pdf.pdf)
- Based on the statutory deadline for filing the annual audit report for New Jersey School Districts/Charter Schools/Renaissance School Projects (December 5, 2016 for fiscal year ended June 30, 2016), submissions to the Federal Clearinghouse must occur within 30 days after the school district, charter school, or renaissance school project's receipt of the auditor's report(s); no later than January 4, 2017.

- The submission to the Federal Audit Clearinghouse of any incomplete 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 §\_\_.512.

#### *Data Collection Form (SF-SAC)*

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: <https://harvester.census.gov/facweb/>. Auditors should refer to the instructions at:

<https://harvester.census.gov/facweb/Default.aspx> . For the Form SF-SAC and A-133 submission questions contact the Federal Audit Clearinghouse <https://harvester.census.gov/facweb/SAContacts.aspx> by email (email inquiry box located on the webpage) 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 2 C.F.R. Part 200, ¶\_\_.510(a))
- Schedule of Expenditures of Federal Awards (¶\_\_.510(b))
- Summary schedule of prior audit findings (¶\_\_.511(b))
- Auditor's reports (¶\_\_.512)
- Corrective action plan (¶\_\_.511(c))

#### *Corrective action plan (CAP) (¶\_\_.511(c))*

A correct action plan must be prepared to address each audit finding included in the current year auditor's reports. The corrective action plan must provide the name(s) of the contact person(s) responsible for corrective action, the corrective action planned, and the anticipated completion date. If the auditee does not agree with the audit findings or believes corrective action is not required, then the corrective action plan must include an explanation and specific reasons.

#### *Submission of Federal Reports to State Departments*

In addition to the required submissions to the Federal Audit Clearinghouse, the auditee must submit one copy of the Federal Audit 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 Federal Audit Reporting Package will be accessed by the NJ Department of Agriculture if the LEA received total combined funding in excess of \$100,000 from the State Child Nutrition Programs and/or USDA Foods. Corrective Action Plans shall be emailed by the school business administrator or business manager directly to the Department of Agriculture.

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 200.511.

### *State Single Audit Requirements*

School districts, charter schools, and renaissance school projects may be subject to New Jersey State single audit requirements as established by NJ OMB Treasury Circular Letter 15-08 which state 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 (AMR) 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, in addition to findings reported in the federal corrective action plan, may include findings that the auditor deemed 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 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 school district, charter school, or renaissance school project’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 school district, or charter school, or renaissance school project’s Corrective Action Plan.

#### *Schedule of Findings and Questioned Costs (Single Audit - Federal and State)*

In accordance with the Single Audit Act, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* - 2 C.F.R. 200, and NJOMB Circular Letter 15-08-OMB, 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 school district, or charter school, or renaissance school project's CAFR if they meet the criteria for reporting audit findings as detailed in 2 C.F.R. 200 (Section .516). 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. The AICPA Audit Guide *Government Auditing Standards and Single Audits* (February 1, 2015) provides Example 13-7, Schedule of Findings and Questioned Costs, on page 366.

The 2015 and 2016 editions of the *Guide* are available 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](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 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**  
**(Chapter 2 is applicable to school districts, charter schools, and renaissance school projects)**

### **Directives for Auditor’s Reports**

The Federal Office of Management and Budget *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Grant Guidance) released on December 26, 2013 increased the Single Audit threshold to \$750,000 beginning with fiscal year ending June 30, 2016.

The State of New Jersey Office of Management and Budget (NJOMB) Circular Letter 15-08, supersedes NJ OMB Circular Letter 04-04, *Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid*. The federal Uniform Grant Guidance Requirements (see above), states that the policy regarding audits of grant recipients for the year ended June 30, 2016 matches the State Single Audit threshold to require those recipients that expend \$750,000 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, Uniform Grant Guidance (2 C.F.R. 200) 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 auditee requirement to comply with the *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* began with new funding received after December 26, 2014. In order for the audit requirements to be implemented similarly with the change in grants management, the first single audits to be completed under *Uniform Guidance - Subpart F* will be for the single audit for the fiscal year end June 30, 2016. Pursuant to the FAQ issued by the US Department of Education, Q II-2 found at: <https://www2.ed.gov/policy/fund/guid/uniform-guidance/faq62515.pdf>, it has been determined by the Office of Grants Management that any grant funds which are considered a 2014-15 carry-forwarded (forward funded formula grant program ) shall be audited under the new uniform grant guidance.

The AICPA Audit Guide *Government Auditing Standards and Single Audits* 2015 and 2016 editions are available through the AICPA website and incorporate the AICPA auditing standards and Governmental Auditing Standards for the fiscal year ending June 30, 2016.

[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](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)

### **Component Units**

Government Accounting Standards Board Statement (GASBS) 14 as amended by GASBS 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/renaissance school project, 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/renaissance school project staff and auditors should refer to the aforementioned GASB statements and GASBS 37 for additional information on component units.

## Independent Auditor Reports

### **Uniform Guidance Report Illustrations (To be used for reports for single audits of entities with fiscal years ending on or after December 26, 2015)**

These illustrative reports are excerpts from Appendix A of chapter 23 of the AICPA Audit Guide, *Government Auditing Standards and Single Audits* (GAS-SA Guide). They have been reviewed by members of the AICPA Auditing Standards Board, the Government Accountability Office, and various federal agency representatives.

The illustrations include a sampling of various example reports contained in the GAS-SA Guide to meet the reporting requirements of the Uniform Guidance for compliance for each major program and internal control over compliance. Auditors may reference the 2016 edition of the GAS-SA Guide to access the full set of examples.

- Access illustrative Uniform Guidance reports
- Access illustrative Uniform Guidance program-specific audit reports

#### *Example*

<i>No.</i>	<i>Title</i>
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 *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*, refer to the illustrative auditor’s reports 23-1 through 23-6 issued by the AICPA. Expand the title of the paragraph (as illustrated) “Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance” to include “and State Financial Assistance” and the content of the paragraph to include the phrase, “*and New Jersey OMB’s Circular(s) 15-08, 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 <i>Government Auditing Standards (No Material Weaknesses No Significant Deficiencies Identified, No Reportable Instances of Noncompliance or Other Matters)</i>
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#### **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 4-9 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 2016 edition of the AICPA Audit Guide, *Government Auditing Standards and Single Audits* is available for purchase from the AICPA website. The AICPA posted select illustrative auditor's reports from the Audit Guide to the AICPA GAQC webpage. Available at the link below:

[http://www.aicpastore.com/AST/Main/CPA2BIZ\\_Primary/Accounting/IndustryspecificGuidance/NotforProfit/PRDOVR~PC-012743/PC-012743.jsp](http://www.aicpastore.com/AST/Main/CPA2BIZ_Primary/Accounting/IndustryspecificGuidance/NotforProfit/PRDOVR~PC-012743/PC-012743.jsp)

Expansion of the auditor's reports to include reference to New Jersey specific requirements is necessary. For example:

<i>Example No.</i>	<i>Title</i>
23-1	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 <i>Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)</i> , (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 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 Uniform Guidance 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 Circulars 15-08, 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.

23-6	Schedule of Findings and Questioned Costs
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The illustrative audit reports listed above are based on the assumption that no modification of opinion is required. Reports 23-2 through 23-8 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 (23-1) is available on the AICPA website at:  
<http://www.aicpa.org/InterestAreas/GovernmentalAuditQuality/Resources/IllustrativeAuditorsReports/DownloadableDocuments/IllustrativeUniformGuidanceReports2015.pdf>

**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 15-08*” 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**  
*(Chapter 3 is applicable to school districts, charter schools, and renaissance school projects unless otherwise noted)*

### 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 Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* 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 *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* 2 CFR 200.510. 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/renaissance school projects. They are not intended to be a boilerplate and should be included **only** if they apply to that district's/charter school's/renaissance school project'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/renaissance school project) Notes to Schedules of  
Expenditures of Awards and Financial Assistance  
June 30, 200X**

**NOTE 1. 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/renaissance school project. The Board of Education/Board of Trustees is defined in Note 1 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 2 CFR 200-Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards. 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*

**SAMPLE NOTES FOR SCHEDULES OF EXPENDITURES OF AWARDS  
AND FINANCIAL ASSISTANCE**

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:

**Anytown School District/charter school/renaissance school project  
Notes to Schedules of Expenditures of Awards and Financial Assistance (Cont'd.)  
June 30, 200X**

**NOTE 3. RELATIONSHIP TO BASIC FINANCIAL STATEMENTS (CONT'D.)**

	<i>Federal</i>	<i>State</i>	<i>Total</i>
<b>General Fund</b>	\$	\$	\$
<b>Special Revenue Fund</b>			
<b>Debt Service Fund</b>			
<b>Food Service Fund</b>	_____	_____	_____
<b>Total Awards &amp; Financial Assistance</b>	\$ _____	\$ _____	\$ _____

**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/renaissance school project had the following loan balances outstanding at June 30, 200X:

<u>Loan Program Title</u>	<u>Federal CFDA /FAIN Number</u>	<u>Amount Outstanding</u>
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/renaissance school project 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 – (applicable to school districts only)**

School 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 school district.

Program	Total
Title I, Part A: <i>Grants to Local Educational Agencies</i>	\$ 615,764
Title I, Part D: <i>Neglected &amp; Delinquent Children or Children At-risk of Dropping Out</i>	150,319
Title I, Part C: <i>Education of Migratory Children</i>	497,682
Title II, Part D: <i>Enhancing Education Through Technology</i>	112,071
Title III: <i>Language Instruction for Limited English Proficient and Immigrant Students</i>	170,987
Total	<u>\$1,546,823</u>

## **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/renaissance school project 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 GASBS 34 and GASBS 38 are indicated below with the paragraph of the GASB Statement noted. Illustrative disclosures are reflected in both GASB Statements. GASBS 68 paragraph 122 amends GASBS 38 paragraph 13 and requires the amount of payables to a defined benefit pension plan outstanding at the end of the reporting period, significant terms related to the payables, and a description of what gave rise to the payables be included in the notes to the financial statements. Sample disclosures for 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 – GASBS 34, par.115 amended by GASBS 62, par. 4 ; GASBS 38, 6-8**

**Violations of Finance- related Legal or Contractual Provisions – GASBS 38, par.9**

**Capital Assets – GASBS 34, par.116-118 amended by GASBS 63, par. 8; Capital Asset Impairment - GASBS 42, par. 17 amended by GASBS 62, par. 45-49 and GASBS 63, par. 8**

**Long-term Liabilities – GASBS 34, par.116, 119 amended by GASBS 63, par. 8 and GASBS 68 paragraphs 46, 47, 81, and 82**

**Cost-Sharing Employers Pension (TPAF & PERS) – Notes to the financial statements GASBS 68 par. 74 through par. 80**

**Defined Contribution Plan (DCRP) Notes to the financial statements GASBS 68 par. 126**

**Debt and Lease Obligations –GASBS 38, par. 10-11**

**Short-term Debt – GASBS 38, par. 12**

**Disaggregation of Receivable and Payable Balances – GASBS 38, par.13 amended by GASBS 63 par. 8 and GASBS 68 par. 122**

**Interfund Balances and Transfers – GASBS 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** (Delayed payment of State Aid disclosures are not applicable to charter schools and renaissance school projects)

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 GASBS 34 and GASBS 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 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 Policy for Revenue Recognition

The department recommends that the district'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

GASBS 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 GASBS 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/renaissance school projects.

**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.

*Public Employees Retirement System (PERS)*

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the PERS and additions to/deductions from PERS fiduciary net position have been determined on the same basis as they are reported by PERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

*Note X*

For the year ended June 30, 2016, the District recognized pension expense of \$\_\_\_\_\_ At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to PERS from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$	\$
Changes of assumptions		
Net difference between projected and actual earnings on pension plan investments		
Changes in proportion and differences between District contributions and proportionate share of contributions		
District contributions subsequent to the measurement date		
Total	\$	\$

\$\_\_\_\_\_ reported as deferred outflows of resources related to pensions resulting from school district, charter school, or renaissance school project contributions subsequent to the measurement date (i.e. for the school year ending June 30, 2016, the plan measurement date is June 30, 2015) will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

**Additional Information**

Collective balances at December 31, 2014 and 2015 are as follows:

	12/31/20X1	12/31/20X2
Collective deferred outflows of resources	\$	\$
Collective deferred inflows of resources	\$	\$
Collective net pension liability	\$	\$
District's Proportion	%	%

Teachers Pensions and Annuity Fund (TPAF)

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Teachers Pension and Annuity Fund (TPAF) and additions to/deductions from the TPAF’s fiduciary net position have been determined on the same basis as they are reported by the TPAF. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**Note X**

For the year ended June 30, 2016, the District recognized pension expense of \$\_\_\_\_\_ and revenue of \$\_\_\_\_\_ for support provided by the State. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$	\$
Changes of assumptions		
Net difference between projected and actual earnings on pension plan investments		
Changes in proportion and differences between District contributions and proportionate share of contributions		
District contributions subsequent to the measurement date		
<b>Total</b>	<b>\$</b>	<b>\$</b>

\$\_\_\_\_\_reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<b>Year ended June 30:</b>	
<b>20Y0</b>	<b>\$</b>
<b>20Y1</b>	<b>\$</b>
<b>20Y2</b>	<b>\$</b>
<b>20Y3</b>	<b>\$</b>
<b>20Y4</b>	<b>\$</b>
<b>Thereafter</b>	

*Auditor’s Note* – The following POST-RETIREMENT BENEFITS information is statewide data and should be utilized in the 2015-16 district/charter school/renaissance school project CAFR.

**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, 2015, there were 107,314 retirees receiving post-retirement medical benefits, and the State contributed \$1.25 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 (APB) who retired from a board of education or county college with 25 years of service. The State paid \$214.1 million toward Chapter 126 benefits for 19,056 eligible retired members in Fiscal Year 2015.

(GASB Cod. Sec. 2300.106(g))

The School Employees Health Benefits Program (SEHBP) Act is found in New Jersey Statutes Annotated, Title 52, Article 17.25 et seq. Rules governing the operation and administration of the program are found in Title 17, Chapter 9 of the New Jersey Administrative Code. The State of New Jersey Division of Pensions and Benefits issues a publicly available financial report that includes financial statements and required supplementary information for SEHBP. That report may be obtained from the Treasury website at:

<http://www.nj.gov/treasury/pensions/pdf/financial/2015divisioncombined.pdf>

**NOTE X. COMPENSATED ABSENCES**

The district/charter school/renaissance school accounts for compensated absences (e.g., unused vacation, sick leave) as directed by Governmental Accounting Standards Board Statement No. 16 (GASBS 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/renaissance school project employees are granted varying amounts of vacation and sick leave in accordance with the district's/charter school's/renaissance school project's personnel policy. Upon termination, employees are paid for accrued vacation. The district's/charter school's/renaissance school project'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/renaissance school project for the unused sick leave in accordance with the district's/charter school's/renaissance school project's agreements with the various employee unions.

In the district/school-wide *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.

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**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 [Not applicable to charter schools and renaissance school projects]**

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. 2300.106(1))

**NOTE X. TRANSFERS FROM CAPITAL RESERVE TO CAPITAL OUTLAY [Not applicable to charter schools and renaissance school projects]**

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. Federal Impact Aid Reserve**

As permitted by P.L.2015, c.46 which amended N.J.S.A. 18A:7F-41 a federal impact reserve account was established by the \_\_\_\_\_ of \_\_\_\_\_ Board of Education by transfer of \$\_\_\_\_\_ on \_\_\_\_\_, 200X by board resolution for the amount of federal impact aid funds – capital – received during the current fiscal year for use as capital outlay expenditures or for transfer to capital projects fund in subsequent fiscal years. The federal impact aid – capital reserve account is maintained in the general fund and its activity is included in the general fund annual budget.

As permitted by P.L.2015, c.46 which amended N.J.S.A. 18A:7F-41 a federal impact reserve account was established by the \_\_\_\_\_ of \_\_\_\_\_ Board of Education by transfer of \$\_\_\_\_\_ on \_\_\_\_\_, 200X by board resolution for the amount of federal impact aid funds – general fund – received during the current fiscal year for use as general fund expenditures in subsequent fiscal years. The federal impact aid – general reserve account is maintained in the general fund and its activity is included in the general fund annual budget.

**NOTE X. RISK MANAGEMENT**

The district/charter school/ renaissance school project 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/ renaissance school project 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/ renaissance school project has elected to fund its New Jersey Unemployment Compensation Insurance under the "Benefit Reimbursement Method." Under this plan, the district/charter school/ renaissance school project 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/ renaissance school project is billed quarterly for amounts due to the state. The table on the following page is a summary of district/charter school/ renaissance school project contributions, employee contributions, reimbursements to the state for benefits paid and the ending balance of the district's/charter school's/renaissance school project's trust fund for the current and previous two years:

<u>Fiscal Year</u>	<u>District/ charter school/ renaissance school project Contributions</u>	<u>Employee Contributions</u>	<u>Amount Reimbursed</u>	<u>Ending Balance</u>
2015 – 2016	\$	\$	\$	\$
2014 – 2015				
2013 – 2014				

(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/renaissance school project 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 GASBS 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** [Not applicable to charter schools and renaissance school projects]

The District has a deficit fund balance of \$\_\_\_\_\_ in the General Fund and \$\_\_\_\_\_ in the Special Revenue Fund as of June 30, 201X 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** [Not applicable to charter schools and renaissance school projects]

**General Fund [Exhibit B-1]** - Of the \$\_\_\_\_\_ General Fund fund balance at June 30, 201X, \$\_\_\_\_\_ is reserved for encumbrances; \$\_\_\_\_\_ has been legally restricted in accordance with *N.J.A.C.* 6A:23A-8.5(j) as the 2015-2016 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, 201X); \$\_\_\_\_\_ has been reserved in the Capital Reserve Account [OR STATE OTHER APPLICABLE RESERVE ACCOUNT E.G., MAINTENANCE OR CURRENT EXPENSE EMERGENCY RESERVE, IMPACT AID-GENERAL FUND RESERVE IMPACT AID CAPITAL FUND RESERVE]; \$\_\_\_\_\_ has been appropriated and included as anticipated revenue for the year ending June 30, 201X; 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, 201X, \$\_\_\_\_\_ is reserved in accordance with *N.J.S.A.* 7F-41c(2) and \$\_\_\_\_\_ is unreserved and undesignated.  
(GASB Cod. Sec. 2300.107(k))

**NOTE X. FUND BALANCE APPROPRIATED** [Only applicable to charter schools and renaissance school projects]

**General Fund [Exhibit B-1]** - Of the \$\_\_\_\_\_ General Fund balance at June 30, 201X, \$\_\_\_\_\_ is reserved for encumbrances; \$\_\_\_\_\_ is unreserved and undesignated.  
(GASB Cod. Sec. 2300.107(k))

**NOTE X. CALCULATION OF EXCESS SURPLUS**

The designation for Reserved Fund Balance – Excess Surplus is a required calculation pursuant to *N.J.S.A.* 18A:7F-7. 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, 2016 is \$\_\_\_\_\_.  
(NJ Department of Education & GASB Cod. Sec. 2300.107(k))

**NOTE X. FEMA Community Disaster Loan (CDL)** [Not applicable to charter schools and renaissance school projects]

**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. The cumulative amount of principal and interest accrued through June 30, 2016 is \$ \_\_\_\_\_ and \$ \_\_\_\_\_ respectively. This loan is subject to FEMA review in the fall of 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)** [Not applicable to charter schools and renaissance school projects]

**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 2015-16. 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(k))

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

**GASBS 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
<b>Sources/inflows of resources</b>		
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)
	<hr/>	<hr/>
Total revenues as reported on the statement of revenues, expenditures and changes in fund balances – governmental funds.	\$ 23,103,523	\$ 8,066,740
	<hr/>	<hr/>
<b>Uses/outflows of resources</b>		
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)
Pension expense recognized for GAAP but not for budgetary purposes.	<u>\$ 9,664</u>	
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.	<u></u>	<u>(2,668,125)</u>
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances – governmental funds.	<u>\$ 24,200,000</u>	<u>\$ 5,294,195</u>

## 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 (GASBS 44) revises the current statistical section of the Comprehensive Annual Financial Report (CAFR). New Jersey school districts/charter schools first implemented GASBS 44 for year end June 30, 2006.

GASBS 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, GASBS 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 GASBS 34 into the entity’s statistical section.

### Illustrations

The department is providing samples of the statistical tables that use the format of illustrations in GASBS 44. The samples are intended to meet the requirements of GASBS 44 as applied to New Jersey school districts/charter schools/renaissance school projects. 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/renaissance school projects. Districts/charter schools/renaissance school projects may elect to present additional relevant statistical data, but for purposes of comparability between districts/charter schools/renaissance school projects, 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

GASBS 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/school-wide financial data (Exhibits NJ J-1 through NJ J-2) but are encouraged to report this information starting with the year they implemented GASBS 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/renaissance school projects 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/ renaissance school project is retroactively reporting to the year GASBS 34 was implemented, 2002-03 for illustration purposes, and ten years for data that would be available where applicable.

<b>OUTLINE OF NJ DOE STATISTICAL TABLES SECTION (GASBS 44)</b>	
<b>Revised NJ Exhibit #</b>	<b>Category/New Title</b>
* = 10 years data should be reported unless not available	
<b>Financial Trends Information/Schedules</b>	
<b>J-1</b>	* Net Assets by Component
<b>J-2</b>	* Changes in Net Assets
<b>J-3</b>	* Fund Balances-Governmental Funds
<b>J-4</b>	* Changes in Fund Balances, Governmental Funds
<b>J-5</b>	* General Fund Other Local Revenue by Source (NJ)
<b>Revenue Capacity Information</b>	
<b>J-6</b>	*Assessed Value and Estimated Actual Value of Taxable Property [N/A to Charter Schools/Renaissance School Projects]
<b>J-7</b>	*Direct and Overlapping Property Tax Rates [N/A to Charter Schools/ Renaissance School Projects]
<b>J-8</b>	Principal Property Taxpayers (Current Yr and Nine Years Ago) [N/A to Charter Schools/ Renaissance School Projects]
<b>J-9</b>	*Property Tax Levies and Collections [N/A to Charter Schools/ Renaissance School Projects ]
<b>Debt Capacity Information</b>	
<b>J-10</b>	* Ratios or Outstanding Debt by Type
<b>J-11</b>	*Ratios of General Bonded Debt Outstanding [N/A to Charter Schools/ Renaissance School Projects]
<b>J-12</b>	Direct and Overlapping Governmental Activities Debt [N/A to Charter Schools/ Renaissance School Projects]
<b>J-13</b>	*Legal Debt Margin Information [N/A to Charter Schools/ Renaissance School Projects]
<b>Demographic and Economic Information</b>	

<b>J-14</b>	*Demographic and Economic Statistics
<b>J-15</b>	Principal Employers, Current and Nine Yrs Ago
<b>OUTLINE OF NJ DOE STATISTICAL TABLES SECTION (GASBS 44) (continued)</b>	
<b>Revised NJ Exhibit #</b>	<b>Category/Title</b>
* = 10 years data should be reported unless not available	
<b>Operating Information</b>	
<b>J-16</b>	* Full-time Equivalent District/charter school/ renaissance school project Employees by Function/Program
<b>J-17</b>	* Operating Statistics
<b>J-18</b>	* School Building Information
<b>J-19</b>	*Schedule of Allowable Maintenance Expenditures by School Facility (NJ) [N/A to Charter Schools/ Renaissance School Projects]
<b>J-20</b>	Insurance Schedule (NJ)
<b>J-21</b>	Charter School Framework, Financial Performance, Fiscal Ratios <a href="#">Charter Performance Indicators.xlsx</a> or Renaissance School Project Performance Framework, Financial Performance, Fiscal Ratios <a href="#">Renaissance Performance Indicators.xlsx</a> Refer questions to : charterfinance@doe.state.nj.us

Note to charter school business offices/ charter school/renaissance school project auditors:

The Financial Performance Framework, Financial Performance, and Fiscal Ratios section was initially designed as a starting point for the NJDOE to assess the financial health and viability of charter schools in New Jersey. This framework will also be utilized to assess the financial health and viability of renaissance school projects. The Framework, containing both near term and sustainability indicators, is a monitoring tool that provides the NJDOE with key data that summarizes a 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 school Statistical Tables section.

Indicators and Measures:

1. Near-Term Indicators

- a. Total Margin
- b. Debt to Asset
- 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

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**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, 2016. Beginning with the year ended June 30, 2015 AMRs will be available to the public on the DOE CAFR website page at:

<http://www.state.nj.us/education/finance/fp/cafr/search/>

*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, charter school and renaissance school project 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/charter schools/renaissance school projects unless specifically identified as applicable/not applicable to either school districts/charter schools/renaissance school projects. The section provides a sample of the Auditor’s Management Reports and auditors are cautioned to tailor the report language to the school district/charter school/renaissance school projects 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/renaissance school project 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 school district or charter school or renaissance school project CAFR. Such items should be numbered sequentially (e.g. 2016 -xxx) and if the finding is also included in the CAFR, a cross reference notation to the CAFR finding should be included. Repeat audit findings should be cross-referenced to the current year finding (2016-xxx). The comments and recommendations must be specific under the following applicable headings:

- Administrative Practices and Procedures
- Financial Planning, Accounting and Reporting
- School Purchasing Programs
- School Food Service
- Student Body Activities
- Application for State School Aid (Not applicable to charter schools or renaissance school projects)
- Charter School Enrollment System/Charter School Aid/Renaissance Enrollment Report (Not applicable to school districts)
- Pupil Transportation (Not applicable to charter schools or renaissance school projects)
- Facilities and Capital Assets
- Miscellaneous
- 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/renaissance school project's Corrective Action Plan.

Where a non-compliance issue is discovered by the auditor and has been corrected by the school district/charter school/renaissance school project 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/renaissance school project 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. (Not applicable to charter schools or renaissance school projects)
- 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/renaissance school project 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/renaissance school project has timely and 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. (PSCL is not applicable to renaissance school projects)
- Limitation of Principal Amount of Bonds 18A:24-19. (Not applicable to charter schools or renaissance school projects)
- 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/renaissance school project 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/renaissance school project 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 [ScheduleofMealCountActivity.xlsx](#) 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/renaissance school project. 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 2 C.F.R 200 Uniform Administrative Requirements, Cost Principles, And Audit Requirements For Federal Awards.**
- 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 which summarize the school register(s) 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 renaissance school projects, the Schedule of Audited Enrollments provides a summary of the results of the audit testing of the Renaissance Enrollment Report, NJ School Register and submission of enrollment counts to the renaissance school district and/or to the Department. It documents the information reported on the submission to the renaissance school district in comparison to the renaissance school project workpapers and compares the information in the renaissance school project's workpapers to the underlying supporting data, quantifying any errors noted. A finding and a recommendation should be included for any differences noted.
- H. 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 and renaissance school projects are not subject to the audited 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 2 CFR Part 200 *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Section .516 Audit Findings) 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/renaissance school project is required. At the time of publication of this Audit Program, the most recently issued 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*. It is recommended that school auditors check the AICPA website for revised illustrative reports in relation to the *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*.

At the time of publication of this Audit Program, the most recently issued Governmental Accounting Quality Control (GAQC) illustrative reports posted to the AICPA website are 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. It is recommended that school auditors check the AICPA website for revised illustrative reports in relation to the *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*.

When repeating the CAFR (Single Audit) 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/renaissance school project does not maintain the treasurer's position, records and reports prepared and maintained by other district/charter school/renaissance school project 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/Renaissance School Project  
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/Renaissance School Project 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/renaissance school project 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 school district or charter school or renaissance school project CAFR.

Official Bonds (N.J.S.A. 18A:17-26, 18A:17-32,18A:13-13)

<u>Name</u>	<u>Position</u>	<u>Amount</u>
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 (Not applicable to charter schools or renaissance school projects)

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.

**Financial Planning, Accounting and Reporting (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/renaissance school project 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/renaissance school project 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 201X-xxx (CAFR Finding 201X-xxx):***

The required certification (E-CERT1) [not applicable to charter schools/renaissance school projects] 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 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 201X-xxx (CAFR Finding 201X-xxx):***

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/renaissance school project 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/renaissance school project should also send corrected reporting to the applicable tax authority.

***Finding 201X-xxx (CAFR Finding 201X-xxx):***

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.

***Finding 201X-xxx (CAFR Finding 201X-xxx):*** (Not applicable to charter schools or renaissance school projects)

The board of education made a merit bonus payment without prior confirmation from the Executive County Superintendent that a quantitative merit criterion or a qualitative merit criterion had been satisfied and without prior approval by the district board of education and Executive County Superintendent, as required by N.J.A.C.6A:23A-3.1(e)10.iv.

**Financial Planning, Accounting and Reporting (continued)**

***Recommendation:***

The board of education business office should establish internal controls over payroll to ensure that employee merit bonus payments are made only after having obtained: 1) board approval, and 2) receipt of confirmation of the satisfaction of that criterion from the Executive County Superintendent pursuant to having submitted a board of education resolution to the Executive County Superintendent certifying that a quantitative merit criterion or a qualitative merit criterion has been satisfied.

**Employee Position Control Roster**

***Finding 201X-xxx (CAFR Finding 201X-xxx):***

An inquiry and subsequent review of the Position Control Roster found inconsistencies between the payroll records, employee benefit records (e.g. pension reports and health benefit coverage reports), the general ledger accounts to where wages are posted (administrative versus instruction), and the Position Control Roster.

***Recommendation:***

The board should establish internal control procedures to ensure that an annual or more frequent review of the Position Control Roster is performed to ensure proper and consistent financial reporting and that employee benefits are offered only to current employees and their eligible relations.

**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 201X-xxx (CAFR Finding 201X-xxx):***

District/charter school/renaissance school project 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 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 201X-xxx (CAFR Finding 201X-xxx):***

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).

## **Financial Planning, Accounting and Reporting (continued)**

### **Travel**

#### ***Finding 201X-xxx (CAFR Finding 201X-xxx):***

The district/charter school/renaissance school project 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/renaissance school project 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 201X-xxx (CAFR Finding 201X-xxxx):***

The district/charter school/renaissance school project 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 board of education/board of trustees should adopt a travel policy that complies with *N.J.S.A. 18A:11-12*.

#### ***Finding 201X-xxx (CAFR Finding 201X-xxx)***

Payment for travel by an employee was approved after completion of the travel event.

#### ***Recommendation:***

The 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 201X-xxx (CAFR Finding 201X-xxx):***

During our test of transactions it was noted that the district/charter school/renaissance school project 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/renaissance school projects should reference *The Uniform Minimum Chart of Accounts for New Jersey Public Schools, 2008 Edition* and other available reference materials, such as the

**Financial Planning, Accounting and Reporting (continued)**

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 201X-xxx (CAFR Finding 201X-xxx):***

During our test of transactions it was noted that the district/charter school/renaissance school project misclassified and misbudgeted expenditures for home instruction. In several instances, salaries and/or contracted payments for home instruction were improperly classified as salaries for regular education instruction.

***Recommendation:***

Districts/charter schools/renaissance school projects 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 201X-xxx (CAFR Finding 201X-xxx):***

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 201X-xxx (CAFR Finding 201X-xxx):***

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 201X-xxx (CAFR Finding 201X-xxx):***

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 201X-xxx (CAFR Finding 201X-xxx):***

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.

## **Financial Planning, Accounting and Reporting (continued)**

### ***Recommendation:***

Districts/charter schools/renaissance school projects 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 201X-xxx (CAFR Finding 201X-xxx):***

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/renaissance school project's regular curriculum.

### ***Recommendation:***

See recommendation below.

### ***Finding 201X-xxx (CAFR Finding 201X-xxx):***

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/renaissance school project'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 201X-xxx (CAFR Finding 201X-xxx): (N/A to charter schools/renaissance school projects)***

A district with an assigned state-appointed monitor failed to report the salary expense of the state monitor on the proper appropriation line.

### ***Recommendation: (N/A to charter schools/renaissance school projects)***

Salaries for State Monitors shall be charged to line 11-000-230-180, General Administrative Salaries-State Monitor.

### ***Finding 201X-xxx (CAFR Finding 201X-xxx):***

During our test of transactions it was noted that many of the district's/charter school's/renaissance school project's responses to the required completion of the school district/charter school/renaissance school project questionnaire were incomplete.

### ***Recommendation:***

The district/charter school/renaissance school project should compare the completed school district/charter school/renaissance school project 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/renaissance school project questionnaire.

## **Board Secretary's Records**

Our review of the financial and accounting records maintained by the board secretary disclosed the following items.

### ***Finding 201X-xxx (CAFR Finding 201X-xxx): Not applicable to renaissance school projects***

Bids received were not summarized in the minutes (*N.J.S.A. 18A:18A-21*).

**Financial Planning, Accounting and Reporting (continued)**

***Recommendation:***

Bids received should be summarized in the minutes of the Board Secretary.

***Finding 201X-xxx (CAFR Finding 201X-xxx):***

Acknowledgment of the board's receipt (non-receipt) of the Board Secretary's and Treasurer's [where the district/charter school/renaissance school project 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/renaissance school project maintains the position] monthly reports.

***Finding 201X-xxx (CAFR Finding 201X-xxx):***

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 201X-xxx (CAFR Finding 201X-xxx):***

Payments to vendors were made prior to the receipt of goods.

***Recommendation:***

Payment should not be made until the receipt of goods.

***Finding 201X-xxx (CAFR Finding 201X-xxx):***

The capital asset records were not updated for the additions and disposals of capital assets made during the year.

***Recommendation:***

The district/charter school/renaissance school project should have adequate internal control procedures over its capital assets, including periodic update of the general ledger for additions and disposals.

***Finding 201X-xxx (CAFR Finding 201X-xxx):***

The district/charter school/renaissance school project 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/renaissance school project should establish procedures to ensure that it maximizes its efforts under SEMI for obtaining federal reimbursement for special education services.

**Financial Planning, Accounting and Reporting (continued)**

***Finding 201X-xxx (CAFR Finding 201X-xxx): (N/A to charter schools/renaissance school projects)***

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/renaissance school projects)***

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.

***Finding 201X-xxx (CAFR Finding 201X-xxx): (N/A to charter schools/renaissance school projects)***

The district, having an assigned state-appointed monitor, made a transfer from an advertised appropriation account without seeking and obtaining prior approval of the state monitor (*N.J.S.A. 18A:7A-55*).

***Recommendation: (N/A to charter schools/renaissance school projects)***

The district should design and implement internal controls over budget transfers to endure that, while the district is assigned a state-appointed monitor, line item transfers from an advertised appropriation account are made only after having received the approval of the state monitor.

***Finding 201X-xxx (CAFR Finding 201X-xxx): (N/A to charter schools/renaissance school projects)***

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/renaissance school project)*** 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 201X-xxx (CAFR Finding 201X-xxx): (N/A to charter schools/renaissance school projects)***

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 school/renaissance school projects s)***

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 201X-xxx (CAFR Finding 201X-xxx): (N/A to charter schools/renaissance school projects)***

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/renaissance school projects)***

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.

**Financial Planning, Accounting and Reporting (continued)**

***Finding 201X-xxx (CAFR Finding 201X-xxx): (N/A to charter schools/renaissance school projects)***

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/renaissance school projects)***

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 201X-xxx (CAFR Finding 201X-xxx): (N/A to charter schools/renaissance school projects)***

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/renaissance school projects)***

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.

***Finding 201X-xxx (CAFR Finding 201X-xxx): (N/A to charter schools/renaissance school projects)***

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/renaissance school projects)***

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 201X-xxx (CAFR Finding 201X-xxx):***

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.

***Finding 201X-xxx (CAFR Finding 201X-xxx):***

The district did not record the potential liability or disclose the loss contingency related to the ongoing labor contract negotiations as required by GASBI 6 and GASBS 62.

***Recommendation:*** Potential liabilities and/or loss contingencies related to ongoing labor contract negotiations must be accrued and reported.

**Treasurer's Records** (because the treasurer’s position is an optional position, required records & reports may be prepared and maintained by other board designated personnel)

**Financial Planning, Accounting and Reporting (continued)**

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 201X-xxx (CAFR Finding 201X-xxx):***

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 201X-xxx (CAFR Finding 201X-xxx):***

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 201X-xxx (CAFR Finding 201X-xxx):***

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.

***Finding 201X-xxx (CAFR Finding 201X-xxx):***

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/renaissance school projects)**

Our audit procedures included a test of on roll status reported in the 2015-16 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.

**Pupil Transportation (N/A to charter schools/renaissance school projects)(continued)**

***Finding 201X-xxx (CAFR Finding 201X-xxx):***

An examination of the school district's aid-in-lieu payment records revealed that aid-in lieu payments for transportation of students were made directly to the school of attendance, and not sent and made directly to the parent or legal guardian as required by regulations.

***Recommendation:***

The district board of education should adopt internal controls designed to ensure that Aid-in-lieu payments for transportation of students should only be remitted and distributed directly to the parent or legal guardian of the student in accordance with N.J.A.C. 6A:27-2.3 (d).

**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 2014-15 and 2015-16 school years.

The study of compliance for E.S.E.A. indicated the following areas of noncompliance and/or questionable costs.

***Finding 201X-xxx (CAFR Finding 201X-xxx):***

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 201X-xxx (CAFR Finding 201X-xxx):***

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.

***Recommendation:***

Only those costs associated with the federal/state grants should be charged to the grant.

***Findings 201X-xxx (CAFR Finding 201X-xxx):***

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/renaissance school project'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 201X-xxx (CAFR Finding 201X-xxx):***

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 201X-xxx (CAFR Finding 201X-xxx):***

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/renaissance school projects can print out the DOENET screen for an auditor) filed with the Department of Education for district/charter school/renaissance school project employees who are members of the Teachers Pension and Annuity Fund. No exceptions were noted.

#### **TPAF Reimbursement to the State for Federal Salary Expenditures**

The amount of the expenditure charged to the current year's Final Report(s) for all federal awards for the school district (or charter school or renaissance school project) to reimburse the State for the TPAF/FICA payments made by the State on-behalf of the school district (or charter school or renaissance school project) for those employees whose salaries are identified as being paid from federal funds was made prior to the end of the 90 day grant liquidation period required by the Office of Grants Management. The expenditure was reviewed subsequent to the reimbursement and {comment on any errors in the calculation} no exceptions were noted.

#### **Or**

**TPAF Reimbursement to the State for Federal Salary Expenditures**

The reimbursement to the State for the amount of the expenditure charged to the current year's Final Report(s) for all federal awards for the school district (or charter school or renaissance school project) to reimburse the State for the TPAF/FICA payments made by the State on-behalf of the school district (or charter school or renaissance school project) for those employees whose salaries are identified as being paid from federal funds was made subsequent to the end of the 90 day grant liquidation period, but prior to the 90 days required by *N.J.S.A. 18A:66-90*. Accordingly, the expenditure was made in accordance with State law (90 days) and properly reported as obligated and not expended and as an unliquidated balance in the current year's Final Report(s) for all federal awards.

**Or**

**TPAF Reimbursement to the State for Federal Salary Expenditures**

*Finding 201X-xxx (CAFR Finding 201X-xxx):*

**T.P.A.F. Reimbursement (continued)**

The reimbursement to the State for the amount of the expenditure charged to the current year's Final Report(s) for all federal awards for the school district (or charter school or renaissance school project) to reimburse the State for the TPAF/FICA payments made by the State on-behalf of the school district (or charter school or renaissance school project) for those employees whose salaries are identified as being paid from federal funds was made subsequent to the end of the 60 day grant liquidation period required by the Office of Grants Management and also subsequent to the 90 days required by *N.J.S.A. 18A:66-90*. Accordingly, the expenditure was not in accordance with State law (90 days). The expenditure was also improperly reflected in the current year's Final Report(s) for all federal awards. (Note to auditor – modify this condition as circumstances dictate.)

**Recommendation:**

The district should adopt internal control procedures designed to ensure that reimbursement(s) of TPAF/FICA paid by the State on-behalf of TPAF employees charged to federal grants are properly reported in the current year's Final Report(s) for all federal awards and are encouraged to remit payment within the 60 day grant liquidation period and/or certainly within the statutory 90 day liquidation period.

**Nonpublic State Aid (N/A to charter schools/renaissance school projects)**

*Finding 201X-xxx (CAFR Finding 201X-xxx):*

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 (Note to auditors: Public Schools Contracts Law doesn't apply to renaissance school projects)**

**Contracts and Agreements Requiring Advertisement for Bids (N/A to renaissance school projects)**

*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:

**School Purchasing Programs (continued)**

**(Note to auditors: Public Schools Contracts Law doesn't apply to renaissance school projects)**

<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](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 \$40,000 (with a Qualified Purchasing Agent) and \$29,000 (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 \$18,800 for 2015-16.

The district board of education/charter school 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.

Resolutions were adopted authorizing the awarding of contracts or agreements for "Professional Services" per *N.J.S.A.* 18A:18A-5.

***Finding 201X-xxx (CAFR Finding 201X-xxx): (N/A to renaissance school projects)***

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)

***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 201X-xxx (CAFR Finding 201X-xxx): (N/A to renaissance school projects)***

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.

**School Purchasing Programs (continued)**

**(Note to auditors: Public Schools Contracts Law doesn't apply to renaissance school projects)**

***Finding 201X-xxx (CAFR Finding 201X-xxx): (N/A to renaissance school projects)***

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 201X-xxx (CAFR Finding 201X-xxx): (N/A to renaissance school projects)***

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).

***Recommendation:***

All bids should be unsealed and announced publicly in the presence of the parties bidding or their agents.

***Finding 201X-xxx (CAFR Finding 201X-xxx): (N/A to renaissance school projects)***

The board awarded a contract for insurance coverage and (or) consultant services with reference in the awarding resolution to extraordinary unspecifiable services as provided by N.J.S.A. 18A:18A-5 (10). However, upon examination, we found that the procurement process did not comply with N.J.A.C 5:34-2.3. Specifically, the process failed to include the requirements at N.J.A.C. 5:34-2.3(b) for the awarding of contracts under the EUS provisions which exceed the bid threshold and at N.J.A.C. 5:34-2.3 (c) for placement of a notice of the action in an official newspaper.

***Recommendation:***

The board of education/board of trustees should adopt internal control procedures designed to ensure compliance with the Extraordinary Unspecified Services provisions of public school contracts law.

**Charter Schools Only**

***Finding 201X-xxx (CAFR Finding 201X-xxx):***

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**

Required Comments for a School Food Service Program that has NOT Been Audited as a Major Program, but has Expended \$100,000 or more in Federal and/or State Support:

The school food service program was not selected as a major federal and/or State program. However, the program expenditures exceeded \$100,000 in federal and/or State support. Accordingly, we inquired of school management, or appropriate school food service personnel, as to whether the SFA had any Child Nutrition Program reimbursement overclaims or underclaims. No exceptions were noted.

**School Food Service (continued)**

The school food service program was not selected as a major federal and/or State program. However, the program expenditures exceeded \$100,000 in federal and/or State support. Accordingly, we inquired of school management, or appropriate school food service personnel, as to whether the SFA's expenditures of school food service revenues were limited to allowable direct and indirect costs. No exceptions were noted.

Note to Auditor: The Schedule of Meal Count Activity is not a required presentation where the School Food Service Program has not been audited as a major program.

Required Comments for a School Food Service Program that has been audited as a major program:

[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/renaissance school project 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.

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.

**School Food Service (continued)**

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.

The school district/charter school/ renaissance school project maintains the detailed revenue and expenditure information necessary in order to execute the USDA mandated Non-Program Food Revenue Tool at least annually.

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 the *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (200.502 (g))*; define 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/renaissance school projects 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 201X-xxx (CAFR Finding 201X-xxx):***

Food service accounting records maintained by the district's/charter school's/renaissance school project's central administration office did not agree with the records maintained by the food service director.

***Recommendation:***

The district /charter school/renaissance school project should establish procedures that will reconcile the food service director's records and the food service records maintained by the central administration office.

***Finding 201X-xxx (CAFR Finding 201X-xxx):***

The district's/charter school's/renaissance school project'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/renaissance school project's food service receipts should be deposited promptly and intact. Amounts deposited should reconcile to the supporting documentation.

***Finding 201X-xxx (CAFR Finding 201X-xxx):***

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.

**School Food Service (continued)**

***Finding 201X-xxx (CAFR Finding 201X-xxx):***

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 or Household Information Surveys should be properly completed as required and available for audit. Incomplete or missing applications should be included in the paid (denied) category.

***Finding 201X-xxx (CAFR Finding 201X-xxx):***

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 or Household Information Surveys should be reviewed by district/charter school/renaissance school project personnel and properly classified as free or free equivalent, reduced price or reduced price equivalent, or paid.

***Finding 201X-xxx (CAFR Finding 201X-xxx):***

The school district/charter school/ renaissance school project did not maintain the detailed revenue and expenditure information necessary in order to execute the USDA mandated Non-Program Food Revenue Tool at least annually.

***Recommendation:***

The school district/charter school/ renaissance school project should establish an allocation system to ensure that the maintenance of the detailed revenue and expenditure information necessary in order to execute the USDA mandated Non-Program Food Revenue Tool at least annually.

***Finding 201X-xxx (CAFR Finding 201X-xxx):***

The salary of the designated determining and/or the confirming official in the Community Eligibility Provision School was charged to the food service fund.

***Recommendation:***

The school district/charter school/renaissance school district should charge the salary of the designated determining and the confirming official in the Community Eligibility Provision school to the general fund.

***Finding 201X-xxx (CAFR Finding 201X-xxx):***

The Community Eligibility School (CEP) used the Federal Application for Free or Reduced Price Meals for the determination of student's low-income status for ASSA reporting.

***Recommendation:***

The CEP school, school district, charter school, or renaissance school project may not use the Federal Application for Free or Reduced Price Meals for purposes of determining income status. CEP schools must utilize the State of New Jersey Household Information Survey for CEP Schools to determine a students' low-income status for ASSA reporting.

**Student Body Activities**

During our review of the student activity funds, the following items were noted.

***Finding 201X-xxx (CAFR Finding 201X-xxx):***

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 201X-xxx (CAFR Finding 201X-xxx):***

Not all cash receipts were promptly deposited. (*N.J.A.C. 6A:23A-16.12*)

***Recommendation:***

All cash receipts should be promptly deposited.

***Finding 201X-xxx (CAFR Finding 201X-xxx):***

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) (Not applicable to charter schools or renaissance school projects)**

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 included as part of 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/RENAISSANCE SCHOOL PROJECTS ONLY**  
**(Enrollment counts and related submissions to the Department or by the renaissance school project to the renaissance school district)**

Our audit procedures included a test of enrollment information on October 15, 2015 and the last day (if applicable) of school for on-roll, special education, bilingual and low-income.

***Finding 201X-xxx (CAFR Finding 201X-xxx):***

The charter school/renaissance school project had no written procedures for the proper maintenance and recording of student enrollment data.

***Recommendation:***

We recommend that the charter school/renaissance school project 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

**FOR CHARTER SCHOOLS/RENAISSANCE SCHOOL PROJECTS ONLY (continued)**  
**(Enrollment counts and related submissions to the Department or by the renaissance school project to the renaissance school district)**

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/renaissance school project maintained written procedures appear to be adequate for the recording of student enrollment data.

***Finding 201X-xxx (CAFR Finding 201X-xxx):***

The charter school/renaissance school project had documentation on file for Free and Reduced Lunch or a Household Information Survey but never forwarded copies to the resident/renaissance school district.

***Recommendation:***

All documentation, for which state aid is based, must be forwarded to the resident/renaissance school district.

***Finding 201X-xxx (CAFR Finding 201X-xxx):***

There were two instances where a student enrolled in the charter school/renaissance school project was not in attendance for 10 days and was not dropped from the charter school's/renaissance school project's register until 20 days after the last known day of attendance. According to the Department's school register instructions, the charter school's/renaissance school project'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/renaissance school project must immediately notify the district of residence/renaissance school district in writing of this condition on the 10<sup>th</sup> day.

***Recommendation:***

The charter school/renaissance school project must make a concerted effort to notify the resident district of school dropouts in a timely manner in accordance with school register instructions.

***Finding 201X-xxx (CAFR Finding 201X-xxx):***

The charter school reported a student on the Charter School Enrollment System/Renaissance Enrollment Report and subsequently received 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/renaissance school project.

***Recommendation:***

The charter school/renaissance school project must establish and implement procedures to ensure that any student attending a private school for the disabled is "dropped" from the charter school/renaissance school project reporting to ensure that the district of residence/renaissance school district is not double-billed for the student.

***Finding 201X-xxx (CAFR Finding 201X-xxx):***

The charter school/renaissance school project reported full Average Daily Enrollment for a student on the Charter School Enrollment System (CHE)/Renaissance Enrollment Report and subsequently received 100% of eligible charter school/renaissance school aid for student who is attending a county vocational program. County vocational schools are funded directly by the state for all enrolled students.

**FOR CHARTER SCHOOLS/RENAISSANCE SCHOOL PROJECTS ONLY (continued)**  
**(Enrollment counts and related submissions to the Department or by the renaissance school project to the renaissance school district)**

***Recommendation:***

The charter school/renaissance enrollment must establish and implement procedures to ensure that the enrolled days of any student attending a county vocational program are reduced in the CHE/Renaissance Enrollment Report to reflect that the student is only enrolled at the charter school/renaissance school project part-time so as to ensure that the charter school/renaissance school project is not receiving overpayment from the district of residence/renaissance school district.

***Finding 201X-xxx (CAFR Finding 201X-xxx):***

The charter school/renaissance school project reported special education classification on the Charter School Enrollment System/Renaissance Enrollment Report for a student who was identified and began receiving related services subsequent to October 15<sup>th</sup>. Students identified after October 15<sup>th</sup> must be reported in the subsequent year.

***Recommendation:***

The charter school/renaissance school project 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 15<sup>th</sup> ASSA reporting deadline.

**Miscellaneous**

***Finding 201X-xxx (CAFR Finding 201X-xxx):*** (Not applicable to charter schools or renaissance school projects)

The school district did not comply with continuing disclosure agreements made in relation to prior year(s) bond issuances.

***Recommendation:***

In accordance with Local Finance Notice 2014-9, the school district must take appropriate action to identify continuing disclosure contractual obligations with respect to past issuances of debt while that debt remains outstanding. These obligations generally include filing audit reports, budgets, and certain operating data with various depositories.

**Follow-up on Prior Year Findings**

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 "2016-XXX:"

Approved budgetary line accounts should not be over expended. (2016-XXX)

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 /charter school/renaissance school project costs, the district/charter school/renaissance school project did not ensure that costs were submitted in accordance with EXAID directions published by the Division of Finance. (2016-XXX)

To clarify, when a prior OFAC finding is determined not to be a finding under the single audit section, the independent auditor is only required to report the status of the finding in the AMR, and not in the CAFR.

[If there were no prior year findings and no OFAC audit report findings, indicate “Not Applicable” in this section. Do not omit the section.]

**Acknowledgment**

We received the complete cooperation of all the officials of the school district/charter school/renaissance school project and I greatly appreciate the courtesies extended to the members of the audit team.

**SCHEDULE OF MEAL COUNT ACTIVITY**

**ANYTOWN SCHOOL DISTRICT/CHARTER SCHOOL/RENAISSANCE SCHOOL PROJECT**

**FOOD SERVICE FUND**

**NUMBER OF MEALS SERVED AND (OVER) UNDERCLAIM**

**ENTERPRISE FUND**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

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/Renaissance School Project**  
**Application for State School Aid Summary**  
**Enrollment as of October 15, 2015**

**School Districts Only**

To link to the 3 page sample Schedule of Audited Enrollments, click on the link below:

[6 30 15 ASSA.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 Charter School Schedule of Audited Enrollments, click on the following link:

[CharterSchSchedOfAuditEnroll.xlsx](#)

To select the Schedule of Audited Enrollments, as of October 15<sup>th</sup>, select the tab entitled “October 15”

To select the Schedule of Audited Enrollments, as of the last day of school, select the tab entitled “Last Day of School”

**Renaissance School Projects Only**

To link to the sample Renaissance School Project Schedule of Audited Enrollments, click on the following link:

[RenSchSchedOfAuditEnroll.xlsx](#)

To select the Schedule of Audited Enrollments, as of October 15<sup>th</sup>, select the tab entitled “October 15”

To select the Schedule of Audited Enrollments, as of the last day of school, 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/renaissance school projects, 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-4.34 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/renaissance school projects 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 and renaissance school projects are not subject to the excess surplus limitations. Charter school auditors only 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 not an allowable adjustment (increase) to total general fund expenditures.

### **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-4.33 – 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 Audsum lines 90028 (Bus Advertising Revenue Reserved for Fuel Costs – Current Year Adjustment), and Audsum 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-4.34 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 (Audsum line 90029) was budgeted in the subsequent year's budget (2016-17) and the current year balance in this reserve (Audsum line 90028) must be budgeted in the 2<sup>nd</sup> subsequent year's budget (2017-18). 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 2017-18 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/RENAISSANCE SCHOOL PROJECT

SECTION 1

**A. 2% Calculation of Excess Surplus**

2015-16 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 2015-16 General Fund Expenditures [(B)+(B1s)-(B2s)] \$\_\_\_\_\_ (B3)

2% of Adjusted 2015-16 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 @ 6/30/2016	
(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, 2016**

Reserved Excess Surplus – Designated for Subsequent Year’s Expenditures **	\$ _____ (C3)
Reserved Excess Surplus ***[(E)]	\$ _____ (E)
Total Excess Surplus [(C3) + (E)]	\$ _____ (D)

**Footnotes:**

\*Allowable adjustment to expenditures on line K must be detailed as follows. This adjustment line (as detailed below) is to be utilized when applicable for:

- (H) Federal Impact Aid. The passage of P.L.2015, c.46 amended N.J.S.A. 18A:7F-41 to permit a board of education to appropriate federal impact aid funds to establish or supplement a federal impact aid legal reserve in the general fund. Accordingly, effective for the year ending June 30, 2016 the Federal Impact Aid adjustment to expenditures is limited to the portion of Federal Impact Aid Section 8002 and Section 8003 received during the fiscal year and recognized as revenue on the General Fund Budgetary Comparison Schedule, but not transferred to the Federal Impact Aid Reserve – General (8002 or 8003) by board resolution during June 1 to June 30 of the fiscal year under audit. Amounts transferred to the reserve are captured on line (C4);
- (I) Sale and Lease-back (Refer to the Audit Program Section II, Chapter 10);
- (J1) Extraordinary Aid;
- (J2) Additional Nonpublic School Transportation Aid;
- (J3) Recognized current year School Bus Advertising Revenue; and
- (J4) Family Crisis Transportation Aid.

Notes to auditor: Refer to the Audit Program Section II, Chapter 10 for restrictions on the inclusion of Extraordinary Aid, Family Crisis Transportation 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)
Family Crisis Transportation Aid	\$ _____ (J4)
Total Adjustments [(H)+(I)+(J1)+(J2)+(J3)+(J4)]	\$ _____ (K)

\*\* This amount represents the June 30, 2016 Excess Surplus (C3 above) and must be included in the Audit Summary Line 90031.

\*\*\* Amounts must agree to the June 30, 2016 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	\$ _____
Impact Aid General Fund Reserve (Sections 8002 and 8003)	\$ _____
Impact Aid Capital Fund Reserve (Sections 8007 and 8008)	\$ _____
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 2015-16 and recognized \$1,000 of School Bus Advertising Revenue during 2015-16. In the June 30, 2016 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 2014-15 additional spending proposal required to be designated/appropriated in the 2016-17 budget; \$55,000 reserved June 30, 2015 excess surplus required to be designated/appropriated in the 2016-17 budget reported in the “Restricted” fund balance category (GASBS 54); \$100,000 unreserved and designated in the 2016-17 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, 2016 excess surplus.

2015-16 Total General Fund Expenditures			\$7,500,000	(a)
Increased by Applicable Operating transfers:	\$60,000	(b)		
Transfer from Capital Outlay to Capital Projects	12,000	(b)		
Transfer from Capital Reserve to Capital Projects	10,000	(b)		
Trans. from General Fund to SRF for Preschool (Regular)	5,000	(b)		
Trans. from General Fund to SRF for Preschool (Inclusion)				
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 2015-16 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, 2016)			\$ 563,000	
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, 2016)			\$ 142,000	(e)
<b>Recapitulation of Excess Surplus as of June 30, 2016</b>				
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 2016 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 2015-16 General Fund budget.
- (e) If this amount is negative enter zero (-0-).
- (f) Represents surplus generated in 6/30/15, and budgeted in 2016-17.
- (g) Represents surplus generated in 6/30/16 (required to be budgeted in 2017-18).

**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.

2015-16 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)	
2015-16 Adjusted General Fund & Other State Expenditures [(A)+(A1a)-(A1b)]			\$ _____ (A2)
Decreased by:			
On-Behalf TPAF Pension & Social Security Assets Acquired Under Capital Leases:			\$ _____ (A3)
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)

2015-16 General Fund Expenditures [(A2)-(A3)-(A8)]	\$ _____	(A9)
2 percent of Adjusted 2015-16 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, 2016 (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 2015-16 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)
Family Crisis Transportation Aid	\$ _____	(J4)
Total Adjustments [(H)+(I)+(J1)+(J2)+(J3)(J4)]	\$ =====	(K)

Detail of Allowable Adjustments

Line

- (H) Line H represents the amount of Impact Aid received by the district during 2015-16. 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). This amount is reported net of any amount transferred to Impact Aid general fund reserve or Impact Aid capital fund reserve.
- (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 2015-16. 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 2015-16 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 2015-16. This amount is only excluded from the excess surplus calculation if the district can document that they did not budget the additional aid during 2015-16.

- (J3) This line is used for School Bus Advertising Revenue recognized during 2015-16. This amount is excluded from the current year excess surplus calculation as required by *N.J.S.A. 18a:7F-7.1*
- (J4) This line is used for Family Crisis Transportation Aid received after June 30, but recorded in 2015-16. This amount is excluded from the excess surplus.
- (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, 2016	\$_____	(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, 2016 (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, 2016 (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 2016-17 general fund budget.
- (C3) The June 30, 2015 excess surplus amount. This amount must be included in the Audit Summary Worksheet Line 90031, and appropriated in the 2016-17 general fund budget.
- (C4) Other reserved fund balances. (Such as Adult Ed. Programs, maintenance reserve, Impact Aid

general fund reserve or Impact Aid capital fund 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 2016-17 general fund budget.

(U) The total Unassigned fund balance at June 30, 2016. 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, 2016.

\*\* This amount represents the **June 30, 2015** 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 Commissioner - Field Services prior to September 30.

- (N-1) Capital reserve at June 30, 2016.
- (N-2) Maintenance reserve minimum required under EFCFA.
- (N-3) Tuition reserve at June 30, 2016.
- (N-4) Emergency reserve at June 30, 2016.
- (N-5) School bus fuel offset reserve – current year – June 30, 2016
- (N-6) School bus fuel offset reserve – prior year – June 30, 2016
- (N-7) Impact Aid general fund reserve at June 30, 2016
- (N-8) Impact Aid capital fund reserve at June 30, 2016

**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)	\$ _____
Impact Aid General Fund Reserve (Sections 8002 and 8003) (N-7)	\$ _____
Impact Aid Capital Fund Reserve (Sections 8007 and 8008) (N-8)	\$ _____
	\$ _____

**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, 2016

Line

(C3) Line (C3) represents excess surplus generated at June 30, 2015 and should be included on the 2015-16 Audit Summary Worksheet Line 90031. This amount was to be appropriated in the 2016-17 general fund budget.

(E) This line represents the excess surplus generated at June 30, 2016 and must agree with the June 30, 2016 CAFR and be reported in the 2015-16 Audit Summary Worksheet Line 90030.

(D) Line (D) represents the sum of the June 30, 2015 and June 30, 2016 excess surplus (lines (C3) + (E)).

\*\*\*See (E) above. The amount entered must agree with the **June 30, 2016** 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 2016-17 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, 2016 CAFR and appropriated in the 2017-18 budget. The amount which has been included in the 2016-17 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 2016-17 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 2016-17 original certified budget.

**EXCESS SURPLUS CALCULATION-  
COUNTY VOCATIONAL DISTRICTS**

**SECTION 1**

**A. 6% Calculation of Excess Surplus (2015-16 expenditures of \$100 million or less)**

2015-16 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 2015-16 General Fund Expenditures [(B)+(B1s)-(B2s)]	\$ _____	(B3)
6% of Adjusted 2015-16 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 (2015-16 expenditures greater than \$100 million)**

2015-16 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 2015-16 General Fund Expenditures [(B)+(B1s)-(B2s)]	\$ _____	(B3)
2015-16 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 @ 6/30/2016 (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, 2016**

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)
Family Crisis Transportation Aid	\$ _____ (J4)
Total Adjustments [(H)+(I)+(J1)+(J2)+(J3)+(J4)]	\$ _____ (K)

\*\* This amount represents the June 30, 2015 Excess Surplus (C3 above) and must be included in the Audit Summary Worksheet Line 90031.

\*\*\* Amount must agree to the June 30, 2016 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	\$ _____
Impact Aid general fund reserve	\$ _____
Impact Aid capital fund reserve	\$ _____

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.

**SECTION III – ELECTRONIC REPORTING**  
**CHAPTER 5 – AUDIT SUMMARY**

All school districts, charter schools and renaissance school projects are required to have their auditor complete the Audit Summary (Audsum) and the CAFR and the district/charter schools/renaissance school projects 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 school district. District 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 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/renaissance school projects 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.

School districts, charter schools and renaissance school projects will no longer have to complete the Indirect Cost Rate Tab prior to certifying Audsum to the Department of Education. The detail for the calculation of the Indirect Cost Rate is captured within the chart of account line items and reported in Audsum accordingly. This financial information will be used to calculate the Unrestricted and Restricted Indirect Cost Rates for use with the 2017-18 federal grants

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/renaissance school projects certified with dates for each) for each of their client districts on the CPA User Links to District(s), Charter School and Renaissance School Projects 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 in accordance with Governmental Accounting Standards Board Statement No. 54 (GASBS No. 54). 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).

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 2014-15 tuition year. The balance in this account must be budgeted for payment in 2016-17.
- Prior Year Beginning Balance (line 51) represents the 2013-14 tuition year. The balance in this account was budgeted for payment in 2015-16.

The following list is to be followed for the classification of ending fund balance – general fund: Unspendable/Restricted/Committed/Assigned Fund Balance. Please note that the values entered in this section will impact the Recap of Balance section of the following year budget software screen. Many beginning balance errors for the following year budget preparation are due to erroneous entries on this screen. Selected lines are highlighted in the table below:

<b>Title</b>	<b>Audsum line #</b>
Legal Reserves	90025
Tuition Reserve – Current Adjustment (2012-2013 Balance)	90050
Tuition Reserve – Prior Year Adjustment	90051
Year End Encumbrances (Reserved for Encumbrances) – Committed & Assigned	90010
*Year End/Reserved for Encumbrances – State & Local Deferred Revenue Fund 15	90015
*Year End/Reserved for Encumbrances – Federal Deferred Revenue Fund 15	90016
<b>Current year</b> excess surplus	90030
<b>Prior year</b> excess surplus designated for subsequent year's expenditure	90031
Waiver Offset Reserve – Designed for Subsequent Yr	90027 (not available 6/30/14)
Year End Encumbrances (Reserved for encumbrances) – Capital Projects Funds	90020
Fifty Percent of School Bus Advertising Revenue Recognized – Current Year; 50% Fuel Offset	90028
Fifty Percent of School Bus Advertising Revenue Recognized – Prior Year; 50% Fuel Offset	90029
Reserved for adult education	90040
Capital reserve account	90035
Maintenance reserve account	90045
Emergency Reserve	90055
Impact Aid General Fund Reserve	90032
Impact Aid Capital Fund Reserve	90033
Debt Service Reserve	90060
ARRA SEMI Reserve	90081
Total – Reserves and Encumbrances	90065
Unassigned General Fund Balance	90075
Assigned Fund Balance - Designated for Subsequent Year's Expenditure	90080

\*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. 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 2015-16 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 and renaissance school projects)**

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 (school districts) or the Commissioner, (charter schools and renaissance school projects) 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 6/30/15 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 2015-16 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 and renaissance school projects)

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* 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**  
**(Chapter 6 is applicable to school districts, charter schools, and renaissance school projects with certain exceptions detailed within the text of the chapter)**

**TO BE COMPLETED BY BOARD SECRETARY/BUSINESS ADMINISTRATOR**

Questionnaire

The Questionnaire is to be completed annually by the school district/charter school/renaissance school project 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/renaissance school project’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/renaissance school projects 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):

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

**FOR CHARTER SCHOOLS AND RENAISSANCE SCHOOL PROJECTS ONLY-**

d. Were all administrative expenditures recorded and reported on the Board Secretary Report, on the Budgetary Comparison Schedules reported in the CAFR, and reported in Audsum in sufficient detail to comply with the New Jersey Chart of Accounts?

Yes \_\_\_\_\_ No \_\_\_\_\_

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):

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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):

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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):

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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):

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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):

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7. Were there any other line-item transfers or additional appropriations of surplus or unbudgeted revenue to an administrative function?

Yes \_\_\_\_\_ No \_\_\_\_\_

ADMINISTRATIVE QUESTION No. 8 IS NOT APPLICABLE TO CHARTER SCHOOLS/RENAISSANCE SCHOOL PROJECTS:

8. Did the school district (regular and county vocational) receive a “Warning” edit (#308) produced with the 2015-16 final budget certified for taxes stating that the 2014-15 budgeted per pupil legal costs, revised as of February 1, 2015 is greater than 130% of the state average per pupil legal costs (\$51 per pupil for the 14-15 original budget)? Yes \_\_\_\_\_ No \_\_\_\_\_

8a. Enter the June 30, 2015 (2014-15 actual costs - per pupil amount) for your district from indicator 8A of the *2016 Taxpayer Guide for Education Spending* – Legal Svc. (Actual cost per pupil):

\$ \_\_\_\_\_ (8a.)

<http://www.state.nj.us/education/guide/2015/ind.shtml>

8b. 130% of the audited statewide average for year ending 6/30/15 per the *2016 Taxpayer’s Guide to Education Spending* (released spring 2016): (\$46\*1.30%) \$ 60 (8b.)

8c. *N.J.A.C. 6A:23A-5.2(a)(3)* requires that where the district’s audited (pre-audit year, 6/30/15) 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 2016 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 2015-16**

- ( ) 1. Copy of complete budget approved by the executive county superintendent, including supporting documents and statements and any attachments. For charter schools/renaissance school project, 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, 2016.
  - 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, 2016.
- ( ) 4. Trial balance reflecting adjusting and closing entries as of June 30, 2016, 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 2015-16
  - b. Special Purpose Journals for FY 2015-16
  - c. General Ledgers for FY 2015-16
  - d. Revenue Subsidiary Ledgers for FY 2015-16
  - e. Expenditure Subsidiary Ledgers for FY 2015-16
  - f. Chart of Accounts for FY 2015-16
- ( ) 6. All purchase orders for the year.
  - a. Analyses of open purchase orders at June 30, 2016.
  - b. Separate lists must be prepared for those orders representing accounts payable at June 30<sup>th</sup> 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 30<sup>th</sup> 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, 2015 through July 31, 2016.
- ( ) 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, 2016.
- ( ) 10. List of investments, if any, outstanding as of June 30, 2016.

- ( ) 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/renaissance school project had designated an employee who is responsible for the coordination of the district's/charter school's/renaissance school project's SEMI program, and evidence that the identified staff and other identified responsible district/charter school/renaissance school project 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/renaissance school projects)
- ( ) 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*

Board resolutions with two-thirds affirmative vote for transfers (if applicable)

*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: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/renaissance school projects)

R.S. 54:4-75 (Forms T-1 & T-2) (N/A to charter schools/renaissance school projects)

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/renaissance school  
projects)  
*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/renaissance  
school projects)  
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)  
Report of Contracts to be Renewed, Awarded or to Expire  
During the School Year.  
*N.J.S.A.* 18A:18A-42.2

### **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/renaissance school projects)

*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 school/renaissance school projects)

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*).

Electronic Communications Between School Employees and Students

*N.J.S.A. 18A:36-40*

- ( ) 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/renaissance school project must be available for review by the school district/charter school/renaissance school project auditor. Charter schools must provide copies of contracts with an Educational Management Organization (EMO). Renaissance school projects must provide copies of contract(s) between the project and the renaissance school district.
- ( ) 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*.
- ( ) 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/renaissance school projects)
- ( ) 26. The Treasurer of School Moneys (if the district/charter school/renaissance school project 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/renaissance school projects)
- ( ) 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/renaissance school projects)
- ( ) 30. School Development Authority (SDA) grant agreement (signed). (N/A to charter schools/renaissance school projects)
- ( ) 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, 2015 ASSA, Charter School Enrollment System (CHE) or Renaissance Enrollment Report with supporting workpapers, documentation of internal procedures, school registers, applications for free and reduced meals, State of NJ Household Information Survey Forms (CEP schools), private school tuition contracts and student's individualized education program (IEP).
- ( ) 34. Approved Preschool Program Operational Plan, the 2015-16 Budget Statement Supporting Documentation Items 15 (Preschool Program Aid) which represent the approved plan, approved Carryover Funds forms and approved Transfer Notification Forms.
- ( ) 35. Schedule of the amounts reimbursed by the state for the current year FICA employer contribution for its TPAF members on an accrual basis.
- ( ) 35a. 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, 2016 (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 2015-16. (N/A to charter schools/renaissance school projects)
- ( ) 38a. For charter schools only: Projected 2015-16, 10/15/15 and Final 2015-16 Charter School Aid Notices.
- ( ) 38b. For renaissance school projects only: Projected 2015-16, 10/15/15 and Final 2015-16 (if applicable) Renaissance Aid Notice.
- ( ) 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 2014-15 District Report of Transported Resident Students (DRTRS) Eligibility Summary Report produced by the department and the 2015-16 DRTRS Eligibility Summary Report produced by the DRTRS data collection software. (N/A to charter schools/renaissance school projects)
- ( ) 41. Summary Schedule of Prior Audit Findings prepared in accordance with the *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards 2 CFR 200* section .511, if applicable;
  - a. Corrective Action Plan which was submitted to the executive county superintendent;
  - b. Copy of district/charter school/renaissance school projects 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 a health related 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/renaissance school projects)

- ( ) 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/renaissance school projects)
- ( ) 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/renaissance school projects)
- ( ) 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/renaissance school projects)
  - ( ) a. 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).
  - ( ) b. 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.
  - ( ) c. 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 2015-16 District Budget Planning Worksheet” and supporting documentation items 15a and 15b from their approved 2015-16 district budget. Other former ECPA districts and all ELLI districts should have available including supporting documentation items 15a and 15b from the approved 2014-15 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/renaissance school projects)
  - ( ) a. School-based budgets
  - ( ) b. Fiscal year 2016 NCLB Consolidated Application.
  - ( ) c. June 30, 2015 (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 2015-16 DISTRICT BUDGET PLANNING WORKSHEET and supporting documentation items 15a and 15b from the approved 2015-16 district budget.

**Items required for District/School Wide financial statement**

- ( ) 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/renaissance school projects may refer to the standard useful life table on page III-6.12 for guidance on useful life of each asset. LEAs/charter schools/renaissance school projects are not required to utilize the standard useful lives suggested but should develop a policy appropriate for the district/charter school/renaissance school project use.
  - 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 GASBS 34 financial reporting.”

**Figure 4.1**

<b>Asset Class</b>	<b>Examples</b>	<b>Est. Useful Life in Years</b>
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

“This chart originally appeared in the book GASBS Statement No. 34 Implementation Recommendations for School Districts and is reprinted with permission of the Association of School Business Officials International: [www.asbointl.org](http://www.asbointl.org)”.

**CHECKLIST FOR ANNUAL AUDIT  
STUDENT ACTIVITY FUND**

---

(NAME OF SCHOOL)

**SCHOOL YEAR 2015-16**

- ( ) 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, 2015 through July 31, 2016.
- ( ) 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, 2015 through July 31, 2016.
- ( ) 8. Copy of Annual Cumulative Report of Cash Receipts, Cash Disbursements and Balances at June 30, including completion of bank reconciliation at June 30, 2016.
- ( ) 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**

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(NAME OF SCHOOL)

SCHOOL YEAR 2015-16

- ( ) 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, 2015 through July 31, 2016.
- ( ) 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, 2015 through July 31, 2016 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   2015-16**  
**(To Be Completed by the Public School/Charter School/Renaissance School Project Auditor)**

SCHOOL DISTRICT/CHARTER SCHOOL/RENAISSANCE SCHOOL PROJECT COUNTY \_\_\_\_\_

The Audit Questionnaire is a checklist of items specific to New Jersey school districts/charter schools/renaissance school projects which auditors should include as part of the audit workpapers to support the auditor’s opinion on the district’s/charter school’s/renaissance school project’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/renaissance school project 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?

	<u>Yes</u>	<u>No</u>	<u>Not Applicable</u>
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, 2016 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 – <b>Refer to Section II-20 for detailed information.</b> (N.J.S.A.18A:66-90)	_____	_____	_____
Vocational Education.	_____	_____	_____

3. Were the following Cash Reconciliations prepared monthly? If no, explain.

	<u>Monthly</u>		
	<u>Yes</u>	<u>No</u>	<u>N/A</u>
General Operating Fund	_____	_____	_____
Capital Projects Fund (N/A to charter schools/renaissance school projects)	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
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/renaissance school project)	_____	_____	_____

4. (A) Was the following information verified utilizing the bookkeeping records, maintained in accordance with Governmental GAAP?

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
Tuition Billings (N/A to charter schools/renaissance school project)	_____	_____	_____
Tuition Accounts Receivable (N/A to charter schools/renaissance school project)	_____	_____	_____
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?

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
Restricted State Aid (NET) (N/A to charter schools/renaissance school projects)	_____	_____	_____
Debt Service Aid (DS9, DS10) (N/A to charter schools/renaissance school projects)	_____	_____	_____
Nonpublic School State Aid (N/A to charter schools/renaissance school projects)	_____	_____	_____
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/renaissance school projects)  
 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?

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
Full spread of the adopted detailed budget <i>N.J.S.A.</i> 18A:22-8	_____	_____	_____
Full detail of Budget Transfers <i>N.J.S.A.</i> 18A:22-8.1	_____	_____	_____
Organization Meeting <i>N.J.S.A.</i> 18A:10-5	_____	_____	_____
Establishment of Petty Cash Fund <i>N.J.S.A.</i> 18A:19-13, <i>N.J.A.C.</i> 6A:23-2.9	_____	_____	_____
Official Depositories <i>N.J.S.A.</i> 18A:17-34	_____	_____	_____
Official Newspaper Designated <i>N.J.S.A.</i> 18A:18A-21	_____	_____	_____
Bill or Voucher List <i>N.J.S.A.</i> 18A:19-4	_____	_____	_____
Request for Local Property Taxes (N/A to charter schools/renaissance school projects) <i>R.S.</i> 54:4-75	_____	_____	_____
Change Orders on Awarded Contracts <i>N.J.A.C.</i> 6A:23-7.1	_____	_____	_____
Authorizations for Advertisement of Bids <i>N.J.S.A.</i> 18A:18A-21	_____	_____	_____
Summary of Bids Received <i>N.J.S.A.</i> 18A:18A-21	_____	_____	_____
Award of Contracts Bid <i>N.J.S.A.</i> 18A:18A-36, 37 and <i>N.J.S.A.</i> 18A:18A-3, 4,	_____	_____	_____
Designation of EUS <i>N.J.S.A.</i> 18A:18A-5 and <i>N.J.S.A.</i> 18A:18A-37	_____	_____	_____
Designation of Qualified Purchasing Agent <i>N.J.S.A.</i> 18A:18A-3	_____	_____	_____
Authorization of Competitive Contracting Process <i>N.J.S.A.</i> 18A:18A-4.1, 4.3, 4.4, 4.5	_____	_____	_____
Payment of Emergency Contracts <i>N.J.S.A.</i> 18A:18A-7	_____	_____	_____
Capital Improvement Authorizations, Proposals and/or Adoptions (N/A to charter schools/renaissance school projects) <i>N.J.S.A.</i> 18A:22-18 and <i>N.J.S.A.</i> 18A:22-39	_____	_____	_____
Monthly Financial Report of the Treasurer of School Moneys (if applicable) (Form A-149) <i>N.J.S.A.</i> 18A:17-36	_____	_____	_____
Monthly Financial Report of the Secretary (Form A-148) <i>N.J.S.A.</i> 18A:17-9	_____	_____	_____
Investments-Authorization, Purchase and Recording <i>N.J.S.A.</i> 18A:20-37 and <i>N.J.S.A.</i> 18A:20-38	_____	_____	_____
Reading and discussion of recommendations of the Annual Report of Audit <i>N.J.S.A.</i> 18A:23-5	_____	_____	_____

	Yes	<u>No</u>	<u>N/A</u>
Applicable Resolutions of Cancellations	_____	_____	_____
Establishment of Capital Reserve Fund <i>N.J.S.A.18A:7G-31</i>	_____	_____	_____
Establishment of Emergency Reserve Fund <i>N.J.S.A. 18A:7F-41(c)1</i> (if applicable)	_____	_____	_____
Board acknowledgment of audit firm peer review report <i>N.J.A.C. 6A:23A-16.2(i)2</i>	_____	_____	_____
Report of Contracts to be Renewed, Awarded or to Expire During the School Year. <i>N.J.S.A.18A:18A-42.2</i>	_____	_____	_____

**Required Board of Education/Board of Trustees Policies**

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
Travel and Expense Reimbursement Policy <i>N.J.S.A. 18A:11-12,</i> <i>N.J.A.C.6A:23A-6.13, 7.2</i>	_____	_____	_____
Public Relations and Professional Services Policy <i>N.J.A.C. 6A:23A-5.2; 22.6</i>	_____	_____	_____
Policy on SEMI Reimbursement <i>N.J.A.C. 6A:23A-5.3(e)1</i>	_____	_____	_____
Nepotism Policy <i>N.J.A.C. 6A:23A-6.2; 22.10</i>	_____	_____	_____
Contributions & Contract Awards Policy <i>N.J.A.C. 6A:23A-6.3; 22.11</i>	_____	_____	_____
Policy on Exceeding Purchase Order Amounts <i>N.J.A.C. 6A:23A-6.10; 22.15</i>	_____	_____	_____
Vehicle Tracking and Use Policy <i>N.J.A.C. 6A:23A-6.11</i>	_____	_____	_____
Harassment, Intimidation or Bullying Policy <i>N.J.S.A. 18A:37-15</i>	_____	_____	_____
Electronic Communications Between School Employees and Students <i>N.J.S.A. 18A:36-40</i>	_____	_____	_____

8. Type I District Minutes. (N/A to charter schools/renaissance school projects)
  - (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.

	<u>Satisfactory</u>	<u>Unsatisfactory</u>
Treasurer (if applicable)-General	_____	_____
Secretary-General	_____	_____
Capital Projects (N/A to charter schools/renaissance school projects)	_____	_____
Food Service	_____	_____
Payroll	_____	_____
Permanent Fund	_____	_____
Trust Fund	_____	_____
Athletic Funds	_____	_____
Student Activity Funds	_____	_____
Bond and Coupon (N/A to charter schools/renaissance school projects)	_____	_____
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 \_\_\_\_\_
- (E) Was a review of the position control roster performed to ensure that only active and eligible employees are included in pension and benefits reports? Yes \_\_\_\_\_ No \_\_\_\_\_
- (F) For districts with an assigned state-appointed monitor, was the salary of the monitor properly reported on line 230-180, General Administrative Salaries-State Monitor? Yes \_\_\_\_\_ No \_\_\_\_\_ N/A- \_\_\_\_\_
- (G) Was prior confirmation from the Executive County Superintendent that a quantitative or qualitative merit criterion had been met prior to payment of a merit bonus payment? Yes \_\_\_\_\_ No \_\_\_\_\_ N/A- \_\_\_\_\_
12. (A) Is there a requisition system operative in the district/charter school/renaissance school project? Yes \_\_\_\_\_ No \_\_\_\_\_
- (B) Is there a sequential purchase order system operative in the district/charter school/renaissance school project? 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/renaissance school projects) 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/renaissance school project 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/renaissance school project appointed a SEMI Coordinator or contact person? Yes \_\_\_\_\_ No \_\_\_\_\_

(B) Has the district/charter school /renaissance school project 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/renaissance school project 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/renaissance school project 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/renaissance school project have a process for identifying new students eligible for the SEMI Program? Yes \_\_\_\_\_ No \_\_\_\_\_

(F) Does the district/charter school/renaissance school project 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/renaissance school project 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/renaissance school project been updating service data in a timely manner? Yes \_\_\_\_\_ No \_\_\_\_\_
- (J) Are annual reviews, with a health related component 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/charter school's/renaissance school project's staff pool list responding in a timely manner to the Random Moment Time Study (RMTS)? Yes \_\_\_\_\_ No \_\_\_\_\_
- (N) Has the district/charter school/renaissance school project 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/charter school/renaissance school project 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/renaissance school project file its annual report required by *N.J.S.A. 18A:17-10* by August 1, 2016? Yes \_\_\_\_\_ No \_\_\_\_\_
23. Is the school district/charter school/renaissance school project 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/renaissance school project 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/renaissance school project participate in the following cost savings programs during 2015-16? (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/renaissance school project participate?

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

- (B) Alliance for Competitive Telecommunications (ACT) Yes\_\_\_\_\_No\_\_\_\_\_

If no, why didn't the district/charter school/renaissance school project 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/renaissance school project participate?

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

- (D) New Jersey State Health Benefits Plan Yes\_\_\_\_\_No\_\_\_\_\_

If no, why didn't the district/charter school/renaissance school project 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? (n/a charter schools/renaissance school projects)

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/renaissance school projects)

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/renaissance school projects)

- 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/renaissance school projects)

30. Does the district's/charter school's/renaissance school project's actual audited per pupil /charter schools/renaissance school projects cost for the year ended June 30, 2015 exceed 130% of the 2014-15 audit statewide average legal cost per pupil published in the 2016 *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 2016 *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/renaissance school projects)**

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 \_\_\_\_\_

**QUESTION 34 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 \_\_\_\_\_

**QUESTION 35 THROUGH 41 APPLICABLE ONLY TO CHARTER SCHOOLS/ RENAISSANCE SCHOOL PROJECTS**

35. Does the charter school/renaissance school project have a fully composed and functioning board of trustees? \_\_\_\_\_ Yes \_\_\_\_\_ No \_\_\_\_\_

36. Is the charter school/renaissance school project 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. For Renaissance School Projects only, is there evidence of the non-profit status of the school operator in accordance with *N.J.S.A. 18A:36C-4*? Yes \_\_\_\_\_ No \_\_\_\_\_

40. For Charter Schools Only, did the charter school establish and maintain an Escrow Account of at least \$75,000 pursuant to N.J.A.C. 6A:11-1.2. Yes \_\_\_\_\_ No \_\_\_\_\_

41. If a violation in any of the above areas was noted, does the auditor's management report include findings and corresponding recommendations? Yes \_\_\_\_\_ No \_\_\_\_\_

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**SECTION III – REPORTING**  
**CHAPTER 7 – AUDIT SYNOPSIS, CORRECTIVE ACTION PLAN AND CERTIFICATION OF**  
**IMPLEMENTATION OF PRIOR YEAR’S CORRECTIVE ACTION PLAN**  
**(Chapter 7 is applicable to school districts, charter schools and renaissance school projects)**

**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-4.2: (see template below)
  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. Status of Prior Year Findings
- d. A copy of the Audit Synopsis, Corrective Action Plan and Board Resolutions are submitted via the CAFR Repository at <http://homerom.state.nj.us/> within 30 days of board approval. The executive county superintendent will review accordingly. A completed Corrective Action Plan should be signed and dated by the chief school administrator and the board secretary/school business administrator.
- e. The Corrective Action Plan must address all findings contained in the Comprehensive Annual Financial Report (CAFR) and the Auditor’s Management Report (AMR) with appropriate subheadings.
- f. The school business administrator must submit a certification of implementation when all corrective actions for the fiscal year ended June 30, 2016 have been fully implemented (see template below and the sample format on page III-7.3), no later than June 30th of the subsequent fiscal year.

For printable forms for submission to the Special Audits Unit, please see below:

**\*Please do not submit a CAP or COI if there are no findings in the CAFR and/or AMR.**

[TEMPLATE Audit Recommendations Summary](#)

[TEMPLATE Corrective Action Plan](#)

[TEMPLATE Certification of Implementation of Corrective Action Plan](#)

SAMPLE ABC DISTRICT  
AUDIT RECOMMENDATIONS SUMMARY  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

Recommendations:

1. Administrative Practices and Procedures

None

2. Financial Planning, Accounting and Reporting

None

3. School Purchasing Programs

None

4. School Food Service

None

5. Student Body Activities

None

6. Application for State School Aid

None

7. Pupil Transportation

None

8. Facilities and Capital Assets

None

9. Miscellaneous

None

10. Status of Prior Year Audit Findings/Recommendations

A review was performed on the prior year recommendations and corrective action was taken on all prior year findings.

**(SAMPLE) CORRECTIVE ACTION PLAN**  
**For the Fiscal Year Ended June 30, 2016**

Please do not submit if there are no findings in the CAFR and/or the AMR.

SCHOOL DISTRICT/CHARTER/RENAISSANCE SCHOOL PROJECT \_\_\_\_\_  
COUNTY \_\_\_\_\_  
CONTACT PERSON \_\_\_\_\_  
TYPE OF AUDIT \_\_\_\_\_  
TELEPHONE NUMBER \_\_\_\_\_  
DATE OF BOARD MEETING \_\_\_\_\_

RECOMMENDATION NUMBER	CORRECTIVE ACTION REQUIRED 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, 2016

Please do not submit if there are no findings in the CAFR and/or the AMR.

School District/Charter School /Renaissance School Project \_\_\_\_\_  
County \_\_\_\_\_

I hereby certify that all corrective actions listed on the district's /charter school's/renaissance school project's Corrective Action Plan (CAP) for the fiscal year indicated above have been fully implemented with the following exceptions:

CAP  
Recommendation  
Number

	[Comments]
	[Comments]
	[Comments]
	[Comments]

\_\_\_\_\_  
Board Secretary/Business Administrator Date

\_\_\_\_\_  
Chief School Administrator Date  
Charter/Renaissance School Leader

**For fiscal year ended June 30, 2016 submit no later than June 30, 2017 via upload to the CAFR repository at <http://homerom.state.nj.us/>**

**SECTION III – REPORTING**  
**CHAPTER 8 –QUALITY ASSESSMENT REVIEW CHECKLIST**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

**(Chapter 8 is applicable to school districts, charter schools, and renaissance school projects with certain exceptions noted)**

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 Special Audits Unit personnel in assuring compliance with Federal and State audit requirements.

**QUALITY ASSESSMENT REVIEW**

Local Educational Agency/Charter School/  
Renaissance School Project: \_\_\_\_\_

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/Renaissance School Projects - The Audit Program, and should strictly adhere to the prescribed sectioning of the report and numbering of exhibits as shown on pages **xvi to xxi** of The Audit Program. If a section or exhibit is not applicable to the school district/charter school/renaissance school project, 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 2015-16 Audit Program included? Yes\_\_\_\_ No\_\_\_\_

If "No", describe deficiencies:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

- 2. Are sections properly designated? (If "No", make corrections in the CAFR and describe below.) Yes\_\_\_\_ No\_\_\_\_

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

- 3. Are exhibits properly numbered? (If "No", make corrections in the CAFR and describe below.) Yes\_\_\_\_ No\_\_\_\_

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

- 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?

- 4a. 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\_\_\_\_

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\_\_\_\_

- |     |  |        |       |        |
|-----|--|--------|-------|--------|
| 6   | 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___ |
| 6a. | Does the <i>Statement of Net Position</i> include a balance for Net investment in capital assets conforming to the requirements of GASBS 63?   | Yes___ | No___ | N/A___ |
| 6b. | Does the <i>Statement of Net Position</i> include two lines for Noncurrent liabilities – Due within one year and Due in more than one year?  | Yes___ | No___ | N/A___ |
| 6c. | Does the <i>Statement of Net Position</i> include a balance for deferred outflows related to Pension contributions conforming to the requirements of GASBS 68?   | 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? Did the district's/charter school/renaissance school project'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___ | N/A___ |

- (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, less any amount that was transferred to the Impact Aid general fund reserve or Impact Aid capital fund reserve accounts?  
(If no, a note to the auditor must be included in the QAR letter.) Yes\_\_\_\_ No\_\_\_\_ N/A\_\_\_\_
  - (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 codification §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\_\_\_\_ N/A\_\_\_\_  
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\_\_\_\_ N/A\_\_\_\_
11. If the district/charter school/renaissance school project is self-insured for workmen's compensation, have they properly accounted for the activity in accordance with GASBS 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/renaissance school project 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 (GASBS 34, ¶477)? If no, answer (a) below. Yes\_\_\_\_ No\_\_\_\_ N/A\_\_\_\_

- (a) Does the independent auditor's report contain the associated qualification of opinion? Yes\_\_\_\_ No\_\_\_\_ N/A\_\_\_\_
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

1. 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, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the (entity name) as of and for the year ended June 30, 20X1, and the related notes to the financial statements, which collectively comprise the (entity name)'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 management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error. Yes\_\_\_\_ No\_\_\_\_

- (d) 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?  
 Under the heading “Auditor’s Responsibility,” a statement that the audit was conducted in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States and audit requirements prescribed by the New Jersey Department of Education, Office of School Finance.
- 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. In making those risk assessments, the auditor considers internal control relevant to the district/charter school/renaissance school project’s preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control and a statement that accordingly they express no opinion.  
 Yes\_\_\_\_ No\_\_\_\_
- iv. Evaluating the appropriateness of accounting policies used and reasonableness of significant accounting estimates made by management?  
 Yes\_\_\_\_ No\_\_\_\_
- v. Evaluating the overall financial statement presentations?  
 Yes\_\_\_\_ No\_\_\_\_
- (g) Under the heading “Auditor’s Responsibility,” a statement that the auditor believes that the audit evidence obtained is sufficient and appropriate to provide a 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, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information as of the balance sheet date and the respective changes in financial position and, where applicable, cash flows thereof, 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 Matters,” “Required Supplementary Information”, a statement that accounting principles generally accepted in the United States of America require that the (identification of the accompanying required supplementary information, such as management’s discussion and analysis and budgetary comparison schedules) be presented to supplement the basic financial statements.

- a. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context.

Yes\_\_\_\_ No\_\_\_\_

- b. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements.

Yes\_\_\_\_ No\_\_\_\_

- c. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Yes\_\_\_\_ No\_\_\_\_

(j) Under the heading “Other Matters,” – “Other Information”, a statement that our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the district’s/charter school’s/renaissance school project’s basic financial statements. The [identify accompanying supplementary information such as combining and individual nonmajor fund financial statements and schedule of expenditures of federal awards Office of Management and Budget *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, Audits of States, Local Governments, and Non-Profit Organizations and schedule of State Financial Assistance as required by the State of New Jersey Circular 15-08 OMB, Single Audit Policy for Recipients of Federal Grants, State Grants, and State Aid] and the other information such as the [introductory and statistical section] are presented for purposes of additional analysis and are not a required part of the basic financial statements.

a. The [identify accompanying supplementary information e.g. combining statements and related major fund supporting statements and schedules and Schedules of Expenditures of Federal Awards and State Financial Assistance] is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements.

Yes\_\_\_\_ No\_\_\_\_ N/A\_\_\_\_

b. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America.

Yes\_\_\_\_ No\_\_\_\_ N/A\_\_\_\_

c. In our opinion, the [identify accompanying supplementary information e.g. accompanying combining statements and related major fund supporting statements and schedules and Schedules of Expenditures of Federal Awards and State Financial Assistance] is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Yes\_\_\_\_ No\_\_\_\_ N/A\_\_\_\_

Briefly describe any qualifications:

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d. The [identify accompanying other information e.g. introductory and statistical section] has not been subjected to the auditing procedures applied in the audit of basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

(k) 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/renaissance school project’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*.

(l) Under the heading “Other Reporting required by *Government Auditing Standards*” a statement that the auditor also issued a report (dated) on his consideration of the (entity name)’s internal control over financial reporting and on the auditor’ tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters.

Yes \_\_\_\_ No \_\_\_\_

a. The purpose of that report is to describe the scope of our 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.

Yes \_\_\_\_ No \_\_\_\_

b. That the report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering (entity name)’s internal control over financial reporting and compliance.

c. Signature of the public accountant who performed the audit?  
(The audit 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)

Yes \_\_\_\_ No \_\_\_\_

- d. Auditor's City and State? Yes \_\_\_\_\_ No \_\_\_\_\_
- e. The Date of the Auditor's Report? Yes \_\_\_\_\_ No \_\_\_\_\_

The illustrative reports included here represent a sampling of the report examples included in chapter 23 of the AICPA's Audit Guide, *Government Auditing Standards and Single Audits (GAS-SA Guide)*. The appendix contains examples of the reports on compliance with requirements that could have a direct and material effect on each major federal program and on internal control over compliance issued under the audit requirements of 2 C.F.R. 200. Auditors may adapt the samples to other situations not specifically addressed in this guide.

2. Are the following reports included?

Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal/State Awards Required by Uniform Guidance?

Yes \_\_\_\_\_ No \_\_\_\_\_

Schedule of Findings and Questioned Costs?

Yes \_\_\_\_\_ No \_\_\_\_\_

3. Does the Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal/State Awards Required by Uniform Guidance contain the following elements:

(a) A statement that the auditor has audited the compliance with the prescribed requirements described in the OMB Compliance Supplement that could have a direct and material effect on each major federal program for the year ended June 30, 20X1? The school district's/charter school's/renaissance school project's major federal programs are 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 Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs?

Yes \_\_\_\_\_ No \_\_\_\_\_

(c) (i) Under the heading "Auditor's Responsibility", A statement that the auditor's responsibility is to express an opinion on compliance for each of school district's/charter school's/renaissance school project's major federal programs based on our audit of the types of compliance requirements referred to above?

Yes \_\_\_\_\_ No \_\_\_\_\_

(ii) A statement that the audit of compliance was conducted in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in , *Government Auditing Standards* issued by the Comptroller General of the United States, Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance) and the audit requirements prescribed by the Office of School Finance, Department of Education, State of New Jersey?

(iii) A statement that those standards and the Uniform Guidance require that the audit was planned and performed to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above could have a direct and material effect on a major federal program occurred.

Yes\_\_\_\_ No\_\_\_\_

A statement that an audit includes examining, on a test basis, evidence about the school district/charter school/renaissance school project’s compliance with those requirements and performing such other procedures as considered necessary in the circumstances.

Yes\_\_\_\_ No\_\_\_\_

(iv) A statement that the auditor believes that the audit provides a reasonable basis for their opinion on compliance for each major federal program. However, the audit does not provide a legal determination of school district/charter school/renaissance school project’s compliance.

Yes\_\_\_\_ No\_\_\_\_

(d) Under the heading “Opinion on Each Major Federal Program”, is there a statement that, in the auditor’s opinion, the school district/charter school/renaissance school project complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 20X1?

Yes\_\_\_\_ No\_\_\_\_

(e) (i) Under the heading “Other Matters”, a statement that the results of the auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items [list the reference numbers of the related findings, for example, 20X1-001 and 20X1-002]. The opinion on each major federal program is not modified with respect to these matters?

Yes\_\_\_\_ No\_\_\_\_

(ii) A statement regarding the school district/charter school/renaissance school project response to the noncompliance findings identified in their audit are described in the accompanying [insert name of document containing management’s response to the auditor’s findings; for example, schedule of findings and questioned costs and/or corrective action plan]. The school district/charter school/renaissance school project response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response?

Yes\_\_\_\_ No\_\_\_\_

- (f) (i) Under the heading “Report on Internal Control Over Compliance”, a statement that the management of school district/charter school/renaissance school project is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, the auditor considered the school district/charter school/renaissance school project’s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Example Entity’s internal control over compliance? Yes\_\_\_\_\_ No\_\_\_\_\_
- (ii) Under the heading “Report on Internal Control Over Compliance”, A statement that:  
A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis? Yes\_\_\_\_\_ No\_\_\_\_\_
- (iii) A *material weakness* in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis? Yes\_\_\_\_\_ No\_\_\_\_\_
- (iv) A *significant deficiency* in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance? Yes\_\_\_\_\_ No\_\_\_\_\_
- (v) Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies? Yes\_\_\_\_\_ No\_\_\_\_\_

(vi) We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose?

Yes\_\_\_\_ No\_\_\_\_

(g) Under the heading “Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance” a statement:

that the auditor has audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of school district/charter school/renaissance school project as of and for the year ended June 30, 20X1, and the related notes to the financial statements, which collectively comprise the school district/charter school/renaissance school project as of and for the year ended June 30, 20X1, and have issued our report thereon dated {December 5, 20X1}, which contained an unmodified opinion on those financial statements.

Yes\_\_\_\_ No\_\_\_\_

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statements.

Yes\_\_\_\_ No\_\_\_\_

(h) Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statements.

Yes\_\_\_\_ No\_\_\_\_

(i) Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statements.

Yes\_\_\_\_ No\_\_\_\_

(j) Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America.

Yes\_\_\_\_ No\_\_\_\_

(k)	In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.	Yes____	No____
(l)	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____
(m)	The signature of the public accountant who performed the audit? (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.)	Yes____	No____
(n)	Auditor's city and state?	Yes____	No____
(o)	The date of the auditor's report?	Yes____	No____

4. 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____
(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____
(e)	Unique matters necessary to understand the amounts presented for any individual program?	Yes____	No____
(f)	Other matters considered necessary to ensure the schedule is not misleading?	Yes____	No____

5. 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____
	For state financial assistance?	Yes____	No____
v.	The type (unmodified, modified, adverse, or disclaimer) of report the auditor issued on compliance for major programs:		
	For federal awards?	Yes____	No____
	For state financial assistance?	Yes____	No____

- vi. A statement as to whether the audit disclosed any audit findings which the auditor is required to report:
    - For federal awards? Yes\_\_\_ No\_\_\_
    - For state financial assistance? Yes\_\_\_ No\_\_\_
  - vii. An identification of major programs:
    - For federal awards (CFDA)? Yes\_\_\_ No\_\_\_
    - For state financial assistance? Yes\_\_\_ No\_\_\_
  - 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\_\_\_
      - For state awards?
        - CPA FIRM DOE Calculation Yes\_\_\_ No\_\_\_
  - ix. A statement as to whether the auditee qualified as a low-risk auditee:
    - For federal awards? Yes\_\_\_ No\_\_\_
    - For state financial assistance? Yes\_\_\_ No\_\_\_
  - 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 C items # 22 and #26
    - :For federal awards and the SF-SAC? Yes\_\_\_ No\_\_\_
    - :For state financial assistance? Yes\_\_\_ No\_\_\_
    - If No, has the program been audited in either of the two preceding years?
      - For federal awards? Yes\_\_\_ No\_\_\_
      - For state financial assistance? Yes\_\_\_ No\_\_\_
  - (b) Financial Statement Findings relating to the financial statements which are required to be reported in accordance with GAGAS? Yes\_\_\_ No\_\_\_
  - (c) Findings and questioned costs for Federal awards as per *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards e* (Sec. 711)? Yes\_\_\_ No\_\_\_
  - (d) Findings and questioned costs for State financial assistance? Yes\_\_\_ No\_\_\_
6. 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\_\_\_
  - (b) For repeat audit findings, the cross-reference to the current year audit finding number? Yes\_\_\_ No\_\_\_

- (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\_\_\_\_
- (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\_\_\_\_
  - 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\_\_\_\_
  - 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\_\_\_\_
  - 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\_\_\_\_
- 7. Has an acceptable Corrective Action Plan been submitted to the department with the Audit Synopsis through the county office of education? Yes\_\_\_\_ No\_\_\_\_
- 8. Has a copy of the Federal Data Collection Form as per USOMB *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* been received by the department if auditee expended over \$750,000 in federal financial assistance? Yes\_\_\_\_ No\_\_\_\_

**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\_\_\_\_ N/A\_\_\_\_
- 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\_\_\_\_