

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

THE AUDIT PROGRAM

2012-2013

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

**Christopher D. Cerf, Commissioner
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**THE AUDIT PROGRAM
TABLE OF CONTENTS**

	PAGE
Introduction	
Significant Changes.....	i
Other Changes/Updates for 2012-2013	ii
Overview	xii
Outline for Comprehensive Annual Financial Report (CAFR).....	xvi
Section I: General Compliance	
Chapter 1 – Appointment, Scope and Declaration	I-1.1
Chapter 2 – Meetings and Minutes	I-2.1
Chapter 3 – ASSA, Charter School Aid, SEMI & DRTRS	I-3.1
Chapter 4 – Budget & Transfers.....	I-4.1
Chapter 5 – Bids & Contracts/Purchasing.....	I-5.1
Chapter 6 – Chart of Accounts / Expenditure Classification	I-6.1
Chapter 7 – Reserved.....	I-7.1
Chapter 8 – Year End Procedures – Closing Out for GAAP.....	I-8.1
Section II: Specific Compliance	II-i
Governmental Funds	
Fund 10 (General Fund):	
➤ Board Secretary and Treasurer Reports.....	II-10.1
➤ Cash Reconciliation.....	II-10.2
➤ Petty Cash Funds	II-10.2
➤ Summer Payment Plans.....	II-10.2
➤ SSAE No. 16 Reports	II-10.2
➤ Third Party Disbursements	II-10.3
➤ Investments.....	II-10.3
➤ Revenues and Receipts	II-10.5
➤ Insurance Recoveries.....	II-10.5
➤ Community Disaster Loans (CDL).....	II-10.6
➤ Other Reimbursements.....	II-10.6
➤ Extraordinary Aid.....	II-10.7
➤ District Taxes	II-10.7
➤ Tuition (<i>N.J.A.C. 6A:23A-17</i>).....	II-10.8
➤ Reporting On-Behalf Payments.....	II-10.9
➤ Compensation Reporting	II-10.10
➤ Pensionable Wages.....	II-10.10
➤ Refunds.....	II-10.11
➤ Telecommunications Act of 1996 (E-rate)	II-10.11
➤ Cancellations	II-10.12
➤ Travel Expenditures	II-10.12
➤ Health Insurance Policies	II-10.12
➤ Sale and Lease-back Contracts.....	II-10.14
➤ Required Maintenance.....	II-10.14
➤ Restricted Appropriations/Balances	II-10.15
➤ Capital Reserve Account – General Fund	II-10.16
➤ Excess Surplus.....	II-10.19
➤ Fund Balance Classifications	II-10.21
➤ Deficit Due to Delay of One or More June State Aid Payments.....	II-10.28

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

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

Section II: Specific Compliance (Cont'd)

Fund 90 (Agency Fund)	
➤ Payroll Funds.....	II-90.1
➤ Health Insurance Withholding.....	II-90.1
➤ Section 125 Flexible Spending Accounts.....	II-90.2
➤ Student Activity.....	II-90.2
➤ Organizations Under the Auspices of the School.....	II-90.2
➤ Fund Raising in Schools by Outside Organizations.....	II-90.3
➤ Funds of Teacher Organizations and Parent/Teacher Organizations.....	II-90.3
➤ Funds Collected by Teachers from Pupils for Immediate Purchase of Items.....	II-90.4
Capital Assets	
➤ Overview.....	II-CA.1
➤ Reporting Capital Assets.....	II-CA.1
➤ Capital Leases.....	II-CA.2
➤ Construction in Progress.....	II-CA.3
➤ Reporting Capital Assets Acquired Through Non-cash Grants.....	II-CA.3
➤ Sample Format – Capital Asset Subsidiary Ledger.....	II-CA.3
➤ Depreciation Expense.....	II-CA.3
Long-Term Liabilities	
➤ Overview.....	II-LT.1
➤ Compensated Absences.....	II-LT.1
➤ Other Postemployment Benefits (OPEB).....	II-LT.2
➤ Early Retirement Incentive Program.....	II-LT.2
➤ Termination Benefits.....	II-LT.3
➤ Arbitrage Requirements.....	II-LT.3
Single Audit:	
➤ Federal Audit Requirements.....	II-SA.1
➤ State Audit Requirements.....	II-SA.3
➤ AICPA Single Audit Guidance.....	II-SA.3
➤ Risk Based Approach.....	II-SA.3
➤ Schedules of Expenditures of Federal Awards and State Financial Assistance.....	II-SA.5
➤ Federal Awards: Carryover/Deferred Revenue/Due Back to Granter.....	II-SA.5
➤ Title I-Schoolwide and Blended Resource Requirements.....	II-SA.7
➤ Fund 15 – GAAP Basis Expenditure Testing.....	II-SA.8
➤ Fund 15 – Blended Resource Testing.....	II-SA.8
➤ Fund 15 – Budgetary Basis Encumbrance Testing.....	II-SA.9
➤ State Awards: Carryover/Deferred Revenue/Due Back to Granter.....	II-SA.10
➤ Preparing the Schedules of Expenditures of Federal Awards and State Financial Assistance.....	II-SA.11
➤ Federal (CFDA) Numbers.....	II-SA.17
➤ State Grant Account Numbers.....	II-SA.20
➤ Sample Schedule A (Federal Award).....	II-SA.21
➤ Sample Schedule B (State Financial Assistance).....	II-SA.22
➤ Sample Schedules of Findings and Questioned Costs.....	II-SA.23

Single Audit (continued):

- Sample Summary Schedule of Prior Audit Findings..... II-SA.28
- Federal OMB Circular No. A-133 - Refer to Circular on web site
http://www.whitehouse.gov/sites/default/files/omb/assets/a133/a133_revised_2007.pdf
- State Circular Letter No. 04-04-OMB – Refer to Circular at the NJOMB web site: <http://www.state.nj.us/infobank/circular/circindx.htm>

Section III: Reporting

Chapter 1 --Audit Criterion and Submission	III-1.1
Chapter 2 – Sample Opinion Reports	
➤ Directives for Auditor’s Reports	III-2.1
➤ Component Units	III-2.1
➤ Independent Auditor’s Report	III-2.2
Chapter 3 –Note Disclosures and Statistical Section	
➤ Sample Notes for Schedules of Expenditures of Awards and Financial Assistance.....	III-3.2
➤ Financial Statement Disclosures – Overview and Sample Notes	III-3.4
➤ GASB 34 Model Illustration of Reconciliation - Notes to Required Supplementary Information.....	III-3.6
➤ Statistical Section.....	III-3.12
➤ Outline of NJ Statistical Section (GASB 44).....	III-3.13
Chapter 4 – Auditor’s Management Report (AMR).....	III-4.1
➤ Excess Surplus Calculation.....	III-4.25
Chapter 5 – Audit Summary Worksheet	III-5.1
Chapter 6 – District Admin. Questionnaire & Audit Prep. Checklist..... & Independent Auditor’s Questionnaire	III-6.1
Chapter 7 – Synopsis; Corrective Action Plan (CAP); Certification of Implementation of Prior Year’s CAP.....	III-7.1
Chapter 8 – Quality Assessment Review (QAR) Checklist	III-8.1

SIGNIFICANT CHANGES FOR 2012-13

- Beginning with 2012-13, a separate audit program for charter schools will no longer be published. This Audit Program is to be utilized for audits of all school districts and charter schools. Sections that are only applicable to either districts or charter schools are clearly noted.
- Super Storm Sandy.
 - ❖ Reporting of capital asset impairment losses, other losses, and insurance recoveries
 - ❖ Emergency Procurement
 - ❖ Reporting of Federal Emergency Management Agency (FEMA) reimbursements
 - ❖ Reporting of other storm related reimbursements (insurance)
- Beginning with school year 2012-13, the cutoff date for determining low-income eligible students for free or reduced price meals or free milk, has been moved from October 1 to the thirtieth operating day of the school year. Operating days are established by the school district's calendar, and are defined as days in which the school is open to students, even if no food service is provided on some of those days.
- Clarified that when the district is not subject to an A-133 audit, the auditor should address the status of the OFAC findings in the **Report on Other Legal and Regulatory Requirements** section of the Independent Auditor's report.
- Renamed the "Statement of Net Assets" and the "Statement of Changes in Net Assets" as the "Statement of Net Position" and the "Statement of Changes in Net Position" respectively (Government Auditing Standards Board Statement (GASB) number 63).
- Emphasized that the department performs a reconciliation of Preschool Education Aid (PEA) expenditures reported in the CAFR to the PEA expenditures reported in Audsum. Any differences between the CAFR and Audsum expenditures will be referred to the district for correction and resubmission of Audsum and/or the CAFR PEA schedule.
- Added that the US Department of Education approved New Jersey's request for an ESEA flexibility waiver that may affect compliance requirements that school districts would otherwise implement during the 2012-2013 and 2013-2014 school years. See Special Revenue Section II-20 of this Audit Program. Auditors are encouraged to consult the 2013 A-133 Compliance Supplement for a final listing of the waived requirements.
- Effective for periods ending after December 15, 2012, the American Institute of Certified Public Accountants (AICPA) Government Audit Quality Center (GAQC) issued updated illustrative auditor reports. Links to the GAQC Reports webpage have been incorporated into this Audit Program.

OTHER CHANGES / UPDATES FOR 2012-13

The following is a summary of changes / updates:

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

None

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

Introduction

- The deadline for submission of June 30, 2013 audits is Thursday, December 5, 2013.
- Emphasized that CPA Auditor User ID's and Passwords issued for June 30, 2012 may continue to be used by the auditor for the year end June 30, 2013.
- Audit firms must annually submit their current year audit client list to the Audsum email address requesting the assignment of a current year PIN number for each district listed.
- Added to the Statistical Section of the Outline for the Comprehensive Annual Financial Report (CAFR), the requirement for charter schools to calculate and report financial performance indicators.
- Clarified that the AMR must include all findings, including any items contained in the Schedule of Findings and Questioned Costs and the Legal or Regulatory Requirements section of the Auditor's Report.

Section I-1

- Referenced the December 2011 Revision of the *Government Auditing Standards (The Yellow Book)* effective for periods ending on or after December 15, 2012.
- Remaining Education Jobs Funds expended during fiscal year 2012-13 are subject to the same reporting requirements and allowable use restrictions as the previous fiscal year. Districts should continue to use fund 18.
- Continue to report Education Jobs Fund appropriations and expenditures using Exhibit C-1b.
- The AICPA's Auditing Standards Board (ASB) has issued Statements on Auditing Standards (SAS) numbers 122-125 (Clarity Standards) effective for periods ending on or after December 15, 2012. A link to the AICPA website for the clarity standards is provided.
- Link is provided to the 2013 *Taxpayer Guide to Education Spending* for purposes of gaining easy access to the Legal Services indicator 8A.

Section I-2

- No change

Section I-3

- Clarified that the number of current year free and reduced price applications on file as of October 1, 2012 should have been used by the school district to determine the number of applications to verify. Free and reduced price carryover applications are not included in the determination of the verification pool.
- Added that the cutoff date for eligibility carryover applications for classification as low-income has been moved from October 1 to the thirtieth operating day of the school year. Carryover eligibility is effective only through to the earliest date derived when comparing the district's thirtieth operating day to the date that a student's current year eligibility determination is made.
- Added that school districts and charter schools participating in School-based Medicaid Reimbursement Programs (SEMI) should have executed a Memorandum of Understanding with the New Jersey Department of the Treasury.
- Clarified that the State of New Jersey, Department of the Treasury requires each participating district to designate an employee responsible for the coordination of the district's SEMI program with the third party billing administrator.
- Clarified that the SEMI program third party administrator system is used to document related services, evaluation services, and specialized transportation.
- Clarified that SEMI reimbursement is related to IEP services; and not limited to IEP meetings.
- Clarified that SEMI eligible specialized transportation reimbursement is not included in SEMI revenue projections, but is recognized as SEMI revenue.
- Clarified that for newly participating districts, for the initial year of participation, the 90 percent parental consent benchmark for SEMI participation is reduced to 45 percent.
- The WIDA MODEL Test is no longer a Kindergarten only test. The WIDA MODEL is now offered for grades K-12.

Section I-4

- Clarified that where the district has moved to November elections, the final budget is that which is certified by the district board of education or board of school estimate and approved by the executive county superintendent (adjusted where there is an approved separate proposal in November).
- Noted that there should be no remaining balance in the waiver offset reserve at June 30, 2013.
- Renamed the "Statement of Net Assets" the "Statement of Net Position" (Governmental Accounting Standards Board (GASB) Statement No. 63).

Section I-5

- Added reference to LFN 2012-12 Electric and Natural Gas Supply Procurement Guidance which was issued by the DCA on July 16, 2012. 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

Section I-5 (continued)

purchased from the public utility under BPU-regulated tariffs. The LFN also addresses cooperative pricing and the “E-Procurement Pilot Program.”

- Added reference to P.L. 2012, c.55, which amends *N.J.S.A. 18A:18A-4.1 et.seq.* regarding energy savings contracts to permit, under certain circumstances, a board of education facility alteration required to properly implement other energy efficiency or energy conservation measures, or both, to be included as part of an energy savings services contract. Also permits an energy savings services contract to provide or perform goods or services to extend for a term of up to 15 years for energy efficiency projects and up to 20 years for a combined heat and power facility after construction completion
- Added reference to the August 2012 report issued by the NJ State Comptrollers’ Office regarding insurance contracts between the district and Third Party Administrators/Third Party Vendors.
- Emphasized that *N.J.S.A. 18A:18A-10* permits the use of state contracts. In order to facilitate the clean up necessitated by Super Storm Sandy, the State Division of Purchase and Property executed a state contract covering certain clean up services.
- Emphasized that *N.J.S.A. 18A:18A-7* addresses emergency contracts that exceed the bid threshold.
- Added that P.L. 2013, c.37, the “Integrity Monitor Act” is applicable to school districts and requires notification of the Department of the Treasury for any Super Storm Sandy federally funded contract, projects and programs related to the restoration and rebuilding of New Jersey that is in excess of \$2 million
- Added links to Local Finance Notice (LFN) 2011-38 and 2013-01 for guidance and 2012-2013 Table of Bid Holiday Acceptance Dates.
- Added reference to *N.J.S.A. 52:15C-10* which requires that notification must be provided to the Office of the State Comptroller of the award of a contract involving consideration or an expenditure of more than \$2,000,000 but less than \$10,000,000.
- Added reference to *N.J.S.A. 52:15C-10* which requires that notification must be provided upon the commencement of any procurement process involving consideration or an expenditure of \$10,000,000 or more; applicable to all procurement activities including the purchase, sale, or lease of real estate.

Section I-6

- Clarified that for purposes of the “Original Budget” column of the *General Fund Budgetary Comparison Schedule*, (Exhibit C-1) the Governmental Accounting Standards Board (GASB Statement No.34 paragraph 130a) specifies the use of the original budget certified for taxes adjusted for prior year encumbrances carried forward (adjusted for an approved November separate proposal when applicable).

Section I-7

- No changes.

Section I-8

- Renamed the “Statement of Net Assets” the “Statement of Net Position.”

Section II-10

- Updated reference to Government Auditing Standards to the 2011 edition.
- Incorporated financial reporting guidance provided by Governmental Accounting Standards Board (GASB) Statement No. 42 *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*.
- Added Executive Order 128 directed all eligible school districts to apply for FEMA Community Disaster Loans and related financial reporting guidance.
- Added financial reporting guidance for other FEMA reimbursements (e.g. Project SERV).
- Extraordinary Aid awards will be posted in the district's state aid folders.
- Added verification of the (pension) certifying officer's performance of an analysis in support of the classification of a professional service provider as an employee of the school district pursuant to OLS report on PERS eligibility.
- Travel Regulation Circular No. 12-14-OMB effective June 25, 2012 supersedes 11-05-OMB and includes a relaxation of the rules regarding rail travel in the Northeast Corridor. The provisions of 12-14-OMB are applicable for 2012-13.
- Emphasized that there should be no remaining balance in the waiver offset reserve.
- Noted 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.
- Added Local Contribution – Transfer to Special Revenue – Regular Preschool; and Local Contribution – Transfer to Special Revenue – Inclusion Preschool to the listing of general fund transfers to other funds that are not included in the total general fund expenditures presented in the *General Fund Budgetary Comparison Schedule* (Exhibit C-1), but may be added to expenditures for purposes of the excess surplus calculation.
- Added as a legal reserve, the 50% portion of School Bus Advertising Revenue recognized during the current year under audit that must be budgeted to offset fuel costs no later than the second subsequent year (*N.J.S.A. 18A:39-31*)
- Relocated illustrative excess surplus calculation examples to section III-4 "Auditor's Management Report" of this Audit Program.
- Renamed the "Statement of Net Assets" the "Statement of Net Position." (GASB Statement No. 63)

Section II-20

- Updated FICA wage limit for 2012 to \$110,100 and for 2013 to \$113,700.
- The preliminary State payment to the Teacher's Pension and Annuity Fund for FY 2012-2013 is 14.25%. The social security rate remains at 7.65%. Consequently, TPAF and FICA rates now total 21.90% and has been used for illustration purposes in the sample schedule accessible using the link on page II-20.3.
- Added FEMA special revenue fund reimbursement reporting

Section II-20 (continued)

- Deleted reference to SDA districts that received additional Preschool Education Aid (PEA) for 2011-2012. Additional PEA was not provided to SDA districts for 2012-13.
- Noted that for 2012-13, only one approval was granted to transfer Preschool Education Aid to the general fund to support kindergarten through grade 12.
- Emphasized that the department performs a reconciliation of PEA expenditures reported in the CAFR to the PEA expenditures reported in Audsum. Any differences between the CAFR and Audsum expenditures will be referred to the district for correction and resubmission.

Section II-30

- Added effective June 4, 2012, *N.J.A.C. 5:30-2.5* permits a school district meeting all of the conditions 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.
- Added that dedicated budget and accounting lines have been added for payments against energy savings improvement program appropriations/contracts:

Section II-40

- Added districts were instructed to record the SDA assessment as an expense in their 2012-13 budget on line 8323, account 12-000-400-896, entitled “Assessment for Debt Service on SDA Funding.”

Section II-50

- No Change.

Section II-60

- Changed the title of the *Statement of Net Assets* to the *Statement of Net Position* as required by Governmental Accounting Standards Board (GASB) Statement No. 63.
- Added guidance for the reporting of impairment losses and insurance recoveries in the proprietary (food service fund) funds financial statements.
- Emphasized that auditors must report (AMR) upon whether or not the district maintained net cash resources in the food service fund in excess of three months of expenditures and added link to a sample net cash resources calculation. Maintain the supporting calculation; however, don't submit the calculation to NJDOE/NJDOA.
- Noted that districts might receive an additional \$.06 reimbursement through the National School Lunch HHFKA Performance Based (PB) Program.
- Clarified that the low income meals “Verification Regulations” continue to use an October 1 cutoff. The eligibility application carryover for free and reduced price meals eligibility to the thirtieth operating day doesn't impact the LEA's sample size selection for verification of current year applications. The verification sample must be selected from “error prone” applications.
- Revised the income limits defining the term “error prone” application.

Section II-60 (continued)

- Added to the listing of compliance requirements for Food Service Management Company (FSMC) contracts, verification of whether the FSMC complied with the provisions of *N.J.A.C. 5:34-4.4(b)* prohibiting the combination of unrelated items, such as the provision of capital equipment, which must be procured separately from the FSMC contract.
- Included link to a sample Net Cash Resources calculation for auditor use.
- Updated CNP reimbursement rates and programs for 2012-13.

Section II-70

- No Change.

Section II-80

- Renamed the *Statement of Fiduciary Net Assets* the *Statement of Fiduciary Net Position* and the *Statement of Changes in Fiduciary Net Assets* the *Statement of Changes in Fiduciary Net Position* in accordance with GASBS 63. (Note: The department will revise our sample statements accordingly.)

Section II-90

- Clarified that *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.

Section II-CA

- Statement of Net Assets - Added that GASBS 63 is effective for June 30, 2013 audits and has changed the name, calculations, and presentation of the financial statement formerly known as the Statement of Net Assets to the Statement of Net Position.
- Statement of Net Assets - Added that GASBS 65 is effective for periods beginning after December 15, 2012 and may be implemented early (June 30, 2013). GASB 65 reclassifies as deferred inflows/outflows of resources certain items that were previously reported as assets and liabilities. 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. (NJDOE illustrative statements to be revised)

Section II-LT

- Renamed the "Statement of Net Assets" and the "Statement of Changes in Net Assets" as the "Statement of Net Position" and the "Statement of Changes in Net Position" respectively (Government Auditing Standards Board Statement (GASB) number 63).

Section II-SA

- Removed the link to the 2007 version of the Government Auditing Standards and replaced that link with a link to the 2011 revision to the Government Auditing Standards (Yellow Book). Effective for periods ending on or after December 15, 2012.
- Added that auditors should consult the 2013 OMB Circular A-133 Compliance Supplement for updates applicable to remaining ARRA funds.
- Removed the link to purchase the February 2012 AICPA audit guide, Government Auditing Standards and Circular A-133 Audits (Guide) and replaced that link with purchase information for the April 2013 AICPA audit guide, Government Auditing Standards and Circular A-133 Audits (Guide) 2013.
- Added that beginning with the FY 2012 NCLB grant year, districts/charter schools were given a forty-five day liquidation period until October 15, 2012, to liquidate all FY 2012 NCLB funds. This forty-five day liquidation period will be in effect for the FY 2013 NCLB grant year as well.
- Added the USDOE approved New Jersey's request for an ESEA flexibility waiver that may affect requirements that school districts would otherwise implement during the 2012-2013 and 2013-2014 school years. Auditors are encouraged to consult the 2013 OMB A-133 Compliance Supplement for a final listing of the waived requirements.
- Removed reference to the school's two-year report on instructional priorities and replaced with reference to the school's schoolwide plan.
- Deleted reference to revenue sources which are no longer applicable.
- Clarified that fiscal guidance on the FY 2013 NCLB Application can be found in the New Jersey NCLB FY 2011 Reference Manual Section IV "Fiscal Regulations and Responsibility". The 2011 Manual is applicable to FY 2013 NCLB applications.
- Clarified that returns of unexpended state aid for Chapters 192 and 193 will be only be accomplished through the reduction of state aid payments to the district in the year immediately following the current year under audit.
- Renamed the "Statement of Net Assets" the "Statement of Net Position" (Government Auditing Standards Board Statement (GASB) number 63).
- Deleted TPAF Wage Freeze Grant.
- Added that where the district is not subject to a federal or state single audit, the independent auditor should report upon OFAC findings in the Legal or Regulatory section of the Auditor's Report (in the absence of a Schedule of Findings and Questioned Costs required by OMB A-133.)

Section III-1

- Sections 3.82- 3.107 of the 2011 *Government Auditing Standards (Yellow Book)* for guidance on Quality Control and Assurance Standards.
- Revised filing requirements for the New Jersey Department of Agriculture (NJDOA) to include only one paper copy **or** CD including the Auditor's Management Report (AMR) and Corrective Action Plan (CAP) only. DOA filing requirements specify that the AMR and CAP must be filed only when the LEA received total combined funding equal to or in excess of \$100,000 from the State Child Nutrition Programs and/or USDA Foods.

Section III-1 (continued)

- Clarified that school districts and charter schools are to refer to the Single Audit Summary and related instructions for completion for the Fiscal Year Ended June 30, 2013 to determine the number of paper copies required (Section C), file names/formats required (Instructions to Section C), and the number of CD-ROM copies required (Section C). School districts required to use school-based budgets provide three paper copies (reduced from four) of the CAFR and AMR. Charter Schools and their audit firms are to refer to page III-1.6 of this Audit Program for additional filing requirements applicable to Charter Schools.
- Referenced the Governmental Accounting Quality Control (GAQC) posting to the American Institute of Certified Public Accountants (AICPA) website illustrative independent auditor's reports updated for the clarity auditing standards and the 2011 *Government Auditing Standards*.

Section III-2

- Added reference to updated illustrative auditor reports for audits performed under *Government Auditing Standards* (Yellow Book) issued February 5, 2013, and to the 2011 edition of *Government Auditing Standards* effective for financial audits of periods ending on or after December 15, 2012.
- Updated auditor report illustrations pursuant to the clarity auditing standards and the 2011 *Government Auditing Standards*.

Section III-3

- Added reference to Government Accounting Standards Board (GASB) Statement No. 42 for disclosure requirements for impaired capital assets
- For charter schools (only) added Performance Indicator ratios in the Statistical Section.

Section III-4

- The AICPA's Example 13-6 *Illustrative Schedule of Findings and Questioned Costs* has been revised for periods ending after December 20, 2012.
- The Governmental Accounting Quality Control (GAQC) has posted to the AICPA website illustrative reports 13-1 through 13-3 *Reports on Compliance for Each Major Federal Program; Reports on Internal Control Over Compliance; and Reports on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133* updated for the clarity auditing standards and the 2011 edition of *Government Auditing Standards*. These 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 2013 edition of the *Government Auditing Standards-A133 Guide*.
- Added a sample finding for failure to document adequate internal controls over employee/contractor decisions for professional service providers.
- Clarified that 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 deemed to have met the "voter approval" requirement of *N.J.A.C. 6A:23A-14.1 (c)(1)*.
- Added reference (in sample findings) to the E.S.E.A. flexibility waiver granted by the United States Department Of Education

Section III-4 (continued)

- Added sample finding for noncompliance with the provisions of *N.J.S.A. 52:15C-10* requiring notification of the Office of the State Comptroller within twenty business days after the award of a contract involving consideration or an expenditure of more than \$2,000,000.
- Illustrative excess surplus calculations for regular, school based budget, and vocational districts have been relocated to Section III-4 from section II-10.
- Added transfers from general fund to special revenue fund for regular and inclusion preschool to the excess surplus calculation (regular districts only) as an allowable increase to general fund expenditures.
- Added current year School Bus Advertising Revenue is recognized as an allowable adjustment to the maximum unassigned/undesignated-unreserved fund balance line of the excess surplus calculation for regular and vocational districts per *N.J.S.A. 18A:7F-7.1*.
- Deleted waiver offset reserve from the restricted fund balance portion of the illustrative excess surplus calculation.

Section III-5

- Auditors will be able to view the current Audsum certification status (CPA certified and district certified with dates for each) for each of their client districts on the CPA User Links to District(s) page.
- Added Audsum lines 90028 “Fifty Percent of School Bus Advertising Revenue Recognized – Current Year; 50% Fuel Offset” and 90029 “Fifty Percent of School Bus Advertising Revenue Recognized – Prior Year; 50% Fuel Offset.” Line 90029 is blocked for entry for year end June 30, 2013.
- Emphasized that fund 15 expenditures are not to be included in the District Data Entry tab for fund 11 (general fund) expenditures. Fund 15 expenditures should only be entered in the Data Entry (School Based) tab.

Section III-6

- Added to the Board Secretary/Business Administrator’s Administrative Questionnaire, information pertaining to the implementation of procedures to control legal costs required by *N.J.A.C. 6A:23A-5.2(a)(3)*.
- Emphasized by addition to the District’s Checklist for the Annual Audit, a 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, 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.
- Emphasized by addition to the District’s Checklist for the Annual Audit, and by addition to the Audit Questionnaire at item 19 (c) (SEMI), verification of the completion of a Memo of Understanding with the New Jersey Department of the Treasury.

Section III-6 (continued)

- Emphasized through addition to the Audit Questionnaire at item 19 (L1) (SEMI), verification that responsible district personnel are updating and certifying the quarterly staff pool list in a timely manner.
- Emphasized through addition to the Audit Questionnaire, items 19 (N) and (N1) (SEMI), that designated staff are responsible for the submission of the required quarterly and annual information on a timely basis.

Section III-7

- Emphasized that the Certification Of Implementation Of Corrective Action Plan (for year ended June 30, 2012 is to be emailed to eCAFR@doe.state.nj.us or mailed to the Single/Grants Audit unit at the address specified on the sample certification form.

Section III-8

- Renamed the “Statement of Net Assets” and the “Statement of Changes in Net Assets” as the “Statement of Net Position” and the “Statement of Changes in Net Position” respectively (Government Auditing Standards Board Statement (GASB) No. 63).
- Updated QAR for revisions to the audit reports effective for periods ending after December 15, 2012, as required by the American Institute of Certified Public Accountants (AICPA) Government Audit Quality Center (GAQC)

OVERVIEW

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

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

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

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

Reference Materials

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

Responsibility/Government Auditing Standards

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

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

Submission/Reporting Package

The Department of Education requires the submission of the reports described below on or before the statutory deadline. The statutory submission date is the fifth day after five months (*N.J.S.A. 18A:23-1*) after the end of the school fiscal year. Accordingly, the deadline for submission of June 30 audits is **Thursday, December 5, 2013**. The Commissioner has statutory authority (*N.J.S.A. 18A:23-6*) to appoint auditors for districts/charter schools failing to meet the statutory due date or invoke other administrative actions but the Commissioner does not have discretion to change a statutory requirement, such as the due date. *N.J.S.A. 18A:7A-55* includes late submission of the annual audit as one of the conditions for appointment of a state monitor.

1. The CAFR

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

district/charter school. The report must also include all applicable single audit opinion letters prepared by the local school district's/charter school's auditor in the single audit section. Links to sample single audit letters and New Jersey specific reference are provided in Section III – Chapter 2 of *The Audit Program*.

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

This separate report will serve as the auditor's report to management. This report must be submitted together with the CAFR to the Department of Education in order to comply with 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 (September 2013) to auditors through the DOE website at: <http://www.state.nj.us/education/finance/audsum/> and to schools through NJDOE Homeroom at: <http://homeroom.state.nj.us/>. First-time-user auditors must create a user name and password in order to complete their registration with the Audsum web application. For control purposes, the department recommends that each auditor/user within the audit firm obtain a unique user name and password. If you need to be sent a reminder, of your user name and/or password, or change your user name and/or password please send a request to the Audsum email at: audsum@doe.state.nj.us. User names and passwords will remain active until the auditor requests removal through an email request to audsum@doe.state.nj.us. School auditors must annually request a PIN for each of their school district audit clients by emailing a PIN request to: audsum@doe.state.nj.us. The auditor/user must then link the DOE assigned district PIN for the audit year to their user name and password in order to access Audsum screens for a client district. The auditor is responsible for the entry of data into electronic Audsum and the board secretary/business administrator is responsible for carefully reviewing the reports generated by Audsum. The school district auditor and the board secretary/business administrator are required to indicate their respective approval of the Audsum data through the electronic signature process available on the web application using the Data Finalize and Certify screen. The school district's board secretary/business administrator is responsible for the transmission of the Audsum data via the web application to the Department of Education no later than the CAFR due date (December 5, 2013). This information is used by the Department of Education for a variety of purposes, including downloading into the actual column of the budget software issued by the department. **It is very important that auditors and district personnel pay particular attention to the accuracy of the data to avoid having to resubmit the data. If data is resubmitted due to an error in the CAFR, revised pages of the CAFR must be sent.**

Transmission of the reporting package to the OFAC CAFR Repository is mandatory for year end June 30, 2013. The OFAC CAFR Repository may be accessed through NJDOE Homeroom at <http://homeroom.state.nj.us/>. The procedure for submission of the CAFR and the AMR was adopted by the Department of Education to conform to the common practice for CAFR presentation followed by other school districts throughout the country. The two reports have separate, distinct purposes. The CAFR is the financial report presented to the board for conformance with GAAP. The AMR is the auditor's report to the board of education of his/her findings and recommendations as a result of the audit. In accordance with OMB Circular A-133, the CAFR will also be submitted to the Federal Audit Clearinghouse as part of the reporting package along with the data collection form in cases where a federal single audit of the district/charter school is required. In conformity with the federal due date, the Federal Data

Collection Form (SF-SAC) may be submitted to the New Jersey Department of Education within 30 days after the audit report is filed with the district board of education/charter school board of trustees. Accordingly, CD-ROMs, associated audit items, and the upload of audit files transmitted to the OFAC CAFR Repository may be submitted on time without including the archived copy of the SF-SAC. When available, the archived copy of the SF-SAC must be submitted on a CD-ROM under separate cover, and also uploaded to the OFAC CAFR Repository.

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

OUTLINE FOR COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR)

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

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

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

The NJDOE requires that each governmental fund be treated as a major fund in the fund statements for GASB 34 presentation. Questions relating to the preparation of NJ school district/charter school CAFRs may be emailed to doecaf@doe.state.nj.us.

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

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

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

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

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

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

Statistical Section – This section is intended to provide CAFR users with a broader and complete understanding of the school district/charter school and its financial matters than is possible from the financial statements and supporting schedules included in the financial section. GASB Statement No. 44 (GASB 44) revised the statistical schedules effective for the June 30, 2006 CAFRs. Sample schedules and guidance for preparing the schedules can be found on the NJDOE web site www.state.nj.us/njded/finance/fp (click on CAFR). The Outline of the CAFR reflects these revisions. Statistical information to assist districts/charter schools and auditors in preparing this section is posted on that web site (click on Audit Information, and then 2012-13 Audit Program).

Beginning with the 2012-13 reporting year, charter schools are required to calculate and report financial performance indicators in the statistical data section of the CAFR (refer to page III-3.14 of this Audit Program). In July 2012, the New Jersey Department of Education (NJDOE) released the Performance Framework. This framework sets the academic, organizational and fiscal standards by which all New Jersey charter schools will be evaluated, informing the Department of Education and individual school officials about school performance and sustainability.

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

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

OUTLINE OF CAFR

Page

INTRODUCTORY SECTION

Letter of Transmittal
 Organizational Chart
 Roster of Officials
 Consultants and Advisors

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

- A. District/Charter School-Wide Financial Statements:
- A-1 Statement of Net **Position**
 - A-2 Statement of Activities
- B. Fund Financial Statements:
- Governmental Funds:
- B-1 Balance Sheet
 - B-2 Statement of Revenues, Expenditures, and Changes in Fund Balances
 - B-3 Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities
- Proprietary Funds:
- B-4 Statement of Net **Position**
 - B-5 Statement of Revenues, Expenses, and Changes in Fund Net Assets
 - B-6 Statement of Cash Flows
- Fiduciary Funds:
- B-7 Statement of Fiduciary Net **Position**
 - B-8 Statement of Changes in Fiduciary Net **Position**

Notes to the Financial Statements**Required Supplementary Information – Part II**

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

Notes to the Required Supplementary Information

- C-3 Budget-to-GAAP Reconciliation

Other Supplementary Information

- D. School Based Budget Schedules (**if applicable**):
- D-1 Combining Balance Sheet
 - D-2 Blended Resource Fund – Schedule of Expenditures Allocated by Resource Type – Actual
 - D-3 Blended Resource Fund – Schedule of Blended Expenditures – Budget and Actual
- E. Special Revenue Fund:
- E-1 Combining Schedule of Program Revenues and Expenditures – Budgetary Basis
 - E-2 Preschool Education Aid Schedule(s) of Expenditures – Budgetary Basis
- F. Capital Projects Fund:
- F-1 Summary Schedule of Project Expenditures
 - F-2 Summary Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budgetary Basis
 - F-2(x) Schedule(s) of Project Revenues, Expenditures, Project Balance, and Project Status – Budgetary Basis
- G. Proprietary Funds:
- Enterprise Fund:
- G-1 Combining Schedule of Net Position
 - G-2 Combining Schedule of Revenues, Expenses, and Changes in Fund Net Position
 - G-3 Combining Schedule of Cash Flows
- Internal Service Fund:
- G-4 Combining Schedule of Net Position
 - G-5 Combining Schedule of Revenues, Expenses, and Changes in Fund Net Position
 - G-6 Combining Schedule of Cash Flows
- H. Fiduciary Funds:
- H-1 Combining Statement of Fiduciary Net Position
 - H-2 Combining Statement of Changes in Fiduciary Net Position
 - H-3 Student Activity Agency Fund Schedule of Receipts and Disbursements
 - H-4 Payroll Agency Fund Schedule of Receipts and Disbursements
- I. Long-Term Debt:
- I-1 Schedule of Serial Bonds
 - I-2 Schedule of Obligations under Capital Leases
 - I-3 Debt Service Fund Budgetary Comparison Schedule

STATISTICAL SECTION (Unaudited)

Page

Introduction to the Statistical Section**Financial Trends**

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

Revenue Capacity–N/A to Charter Schools

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

Debt Capacity

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

Demographic and Economic Information

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

Operating Information

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

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

SINGLE AUDIT SECTION

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