

**FINANCIAL ACCOUNTING
FOR
NEW JERSEY SCHOOL DISTRICTS**

THE AUDIT PROGRAM

2005-06

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

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SIGNIFICANT CHANGES FOR 2005-06

Travel Expense and Reimbursement Policy

P.L. 2005, c.132 (the 2006 Appropriations Act) provided that the Commissioner of Education may reduce State aid payments to any district by any amounts found to be in violation of restrictions placed on travel expenditures in accordance with regulations adopted by the commissioner. *N.J.A.C. 6A:23B-1.2(a)*, Travel and Related Expense Reimbursement, adopted in October 2005 and department guidance issued November 7, 2005 requires that each district board of education adopt a formal policy and procedures pertaining to travel and expense reimbursement for its employees and board members by December 31, 2005. Abbott school districts are required to comply with *N.J.A.C. 6A:10A-8.3*, which was adopted September 22, 2005 and department guidance issued November 10, 2005. Both guidance memos are posted on the department website <http://www.nj.gov/njded/finance/fp/af/travel.pdf>. Auditors are asked to review the minutes of the board of education and determine that a policy was adopted by December 31, 2005.

CAFR Reporting – Statistical Section

Guidance on the revisions required by Governmental Accounting Standards Board Statement 44 *Economic Condition Reporting: The Statistical Section* (GASB 44), an amendment of NCGA Statement 1, *Governmental Accounting and Financial Reporting Principles* is found in the Introduction, a revised statistical section in the Outline of the CAFR, and in Section III Chapter 3, “Note Disclosures and Statistical Section”. Sample statistical schedules have been prepared and will be available for download from the DOE website at <http://www.nj.gov/njded/finance/fp/cafr/>. The sample schedules meet the minimum requirements of GASB 44 issued May, 2004 and effective for the year ending June 30, 2006. The statement is available from the GASB website at www.gasb.org.

OTHER CHANGES / UPDATES FOR 2005-06

The following is a summary of changes / updates highlighted throughout the document:

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

Section II-60

- Child Nutrition memo titles and dates

Section II-SA

- Federal CFDA and State aid numbers
- School lunch rates

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

Section I-2

- Travel and expense reimbursement policy added to list of items that should be included in the BOE minutes

Section I-3

- ASSA date October 14, 2005
- Bilingual program plans 3 year cycle began July 1 and ends in 2008
- SEMI - Effective 10/1/05 districts began documenting services via Easy Trac web base application

Section I -5

- P.L. 2005, c.271 (Pay to Play) law noted and reference made to Division of Community Affairs website for guidance
- Notice of revision or addenda to advertisements for bids for certain contracts changed to 7 days
- Change in threshold for transportation contracts from \$12,800 to \$15,000

Section I-6

- Delete reference to identifying inefficiencies in 2004-05 budget and the update text on submitting budgets within admin limits

Section I-8

- References to PL 2006, c.97 (last state aid payment) changed to NJSA 18A:44-2

Section II-10

- Noted existing code on summer payment plans – interest must go to employee
- Extraordinary aid –specific account code 10-3131
- Tuition reserve cannot be increased by interest earnings
- Emphasize the tuition reserve lines for each year in audsum
- Code reference for unexpended funds at completion of project– 2nd bullet (update)
- Excess surplus – deleted line and text for S1701 adjustment no longer applicable

Section II-30

- Added code reference to interest earnings in capital projects fund
- Deleted word GAAP in relation to recording of SCC grant

- Clarifications on capital project schedules
- Capital project schedules revised and moved to website

Section II-60

- Revisions to Household Application for free lunches, verification process, testing by auditors

Section II-SA

- OMB March 2006 Compliance Supplement issued by federal agency
- Change NJ Circular letter # from 89-19 to 05-12 for grant close out procedures – no change in procedure wording

Section III-1

- 5 copies of CAFR and other audit related documents to be submitted to NJDOE by Abbott districts

Section III-2

- New website for AICPA sample auditor reports
- Auditor reports language should have “and other aggregated funds”; other minor wording changes in almost all reports

Section III-3

- Noted recent GASB statements on disclosures
- Added guidance on Statistical Section (GASB 44)
- Inserted revised Outline for Statistical Section with references to pre-GASB 44 outline

Section III-4

- Revised section of school nutrition findings
- Clarification of meals claimed/tested in Schedule of Meal Count Activity

Section III-6

- Remove “Authorization for Advertisement of Bids NJS 18A:18A-21” from BA checklist
- Included the Administrative Classifications Questionnaire that districts are to have available for audit
- Updated checklist of documents district should have available to include travel policy
- Eliminated references to mid-yr DEOA (Abbott districts)
- Updated Auditor Checklist to include BOE Travel Policy
- SEMI for smaller districts – need contact person, not necessarily a coordinator
- Q20 – add “NJ Chart of Accounts” after department guidance on administrative classifications

OVERVIEW

Financial Accounting for New Jersey School Districts (The Audit Program) is updated annually and includes instructions for both district 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:23-2*) require school districts to follow GAAP. These principles are augmented with the release of statements from the Governmental Accounting Standards Board (GASB). The Outline for Comprehensive Annual Financial Report section at the end of this introduction provides additional information on the CAFR.

Reference Materials

Reference materials published by outside organizations are available to provide guidance in report preparation. The Government Finance Officers Association (GFOA) publishes *Governmental Accounting, Auditing and Financial Reporting*, commonly known as the "blue book" that is used nationwide as a reference tool for CAFR preparation. A revised publication which is updated for GASB Statements is available through the GFOA. 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:23-2.2 (i) requires the issuance of a CAFR by every school district, along with interim financial statements to facilitate management control of financial operations. Financial statements are the responsibility of the board of education's management and are its representation of the financial position at a given point in time and the operations of the district during a period of time.

Government Auditing Standards, commonly referred to as the "Yellow Book", are applicable to organizations that expend \$500,000 or more in federal financial assistance. As required by NJ Circular Letter 04-04-OMB, New Jersey school districts that expend \$500,000 or more in State and/or federal financial assistance in their fiscal year must also follow the Yellow Book.

Effective for audit periods beginning on or after January 1, 2003, the General Accounting Office (GAO) revised the auditor independence requirements under *Government Auditing Standards*. The most significant change relates to the rules associated with nonaudit and consulting services performed by those who also plan, conduct and review audit work. "In all matters relating to the audit work, the audit organization and the individual auditor, whether government or public, should be free both in fact and appearance from personal, external, and organizational impairments to independence."(Section 3.03) The Department recommends that district management and auditors give careful consideration to this change in the independence standard and its impact on the auditors of the district financial statements. In addition, the GAO has released a 2003 edition of the *Government Auditing Standards*, effective for audits of periods ending on or after January 1, 2004. The 2003 Revision is available electronically at their web site www.gao.gov or it can be ordered from the Government Printing Office (202-512-6000). Included on their web site is a list of major changes since the issuance of the 1994 version.

Submission/Reporting Package

The Department of Education requires the submission of the reports described below on or before the statutory deadline. For 2005-2006 audits, the statutory submission date is the fifth day after four months after the end of the school fiscal year. Accordingly, the deadline for submission of 2005-2006 audits is Monday, November 6, 2006. The Commissioner does have statutory authority (*N.J.S.A.* 18A:23-6) to appoint auditors for districts 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.

1. The CAFR

The CAFR is the district's official annual report. It should include all funds of the district. It is organized into three primary sections: 1) an introductory section, 2) a financial section, and 3) statistical section. If a district 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 as well as any additional statements, schedules, and disclosures required under the circumstances of the district. The report must also include all applicable single audit opinion letters prepared by the local school district's auditor in the single audit section. Sample single audit letters are provided in Section III – Chapter 2 of *The Audit Program*.

Auditor's Note – Auditors should review the *Abbott Addendum to the Audit Program (The Abbott Addendum)* for items that specifically relate to Abbott districts. The Abbott Addendum is available on the web site <http://www.nj.gov/njded/finance/fp/audit/>.

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 Worksheet

The Audit Summary Worksheet (Audsum) diskette is to be completed by the auditor and given to the district board secretary/business administrator. The board secretary/business administrator is responsible for carefully reviewing the reports generated by the Audsum diskette and signing off on the transmittal letter as to the accuracy of the information. The board secretary/business administrator is responsible for the transmission of the Audsum data via the DOENET to the Department of Education by the same due date as the CAFR. 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.**

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 is required.

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, reportable conditions 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.

OUTLINE FOR COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR)

New Jersey statute (*N.J.S.A.18A:4-14*) requires that school districts 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 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. The department recommends that district management and auditors give careful consideration to the independence standard and its impact on the auditors of the district financial statements.

Districts 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 staff. Information on Management Discussion and Analysis (MD&A) requirements and other topics related to GASB Statement No. 34 financial reporting 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, after consultation with the NJASBO GASB 34 Taskforce and the NJSCPA, 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 CAFRs may be emailed to doecafr@doe.state.nj.us.

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

Auditor's Note – Auditors should review *The Abbott Addendum* for items that specifically relate to Abbott districts.

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

Introductory Section – Although not required by GASB 34, this section is still used by the GFOA “Blue Book” and is intended to familiarize the reader with the organizational structure of the school district and information useful to the reader to evaluate the district’s financial condition. It is important that the letter of transmittal avoid duplicating information already provided in detail elsewhere in the CAFR (GASB 34, fn 7).

Financial Section – this section includes the 1) independent auditor’s report, 2) MD&A, 3) basic financial statements including the district-wide statements (accrual basis for governmental and business-type activities), fund statements (modified accrual basis for governmental funds, accrual basis for proprietary funds and for fiduciary funds), and notes to financial statements, 4) Required Supplementary Information (RSI) other than MD&A including budgetary comparison schedules, 5) Other Supplementary Information including combining and individual fund statements, and additional schedules. Certain combining schedules may not be applicable. For example, if a 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 Abbott districts. 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 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, a crosswalk from the pre-GASB 44 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) and the Outline of the CAFR has been changed to reflect these revisions. Statistical information to assist districts and auditors in preparing this section is posted on that web site (click on Audit Information, and 2005-06 Audit Program).

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

OUTLINE OF CAFR

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INTRODUCTORY SECTION

- Letter of Transmittal
- Organizational Chart
- Roster of Officials
- Consultants and Advisors

FINANCIAL SECTION

Independent Auditor’s Report

**Required Supplementary Information – Part I
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Basic Financial Statements

- A. District-Wide Financial Statements:
 - A-1 Statement of Net Assets
 - A-2 Statement of Activities

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

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

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

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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-2 Budgetary Comparison Schedule – Special Revenue Fund

Notes to the Required Supplementary Information

C-3 Budget-to-GAAP Reconciliation

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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 Revenues and Expenditures Special Revenue Fund- Budgetary Basis

E-2 Demonstrably Effective Program Aid Schedule of Expenditures – Budgetary Basis

E-3 Early Childhood Program Aid Schedule of Expenditures – Budgetary Basis

E-4 Distance Learning Network Aid Schedule of Expenditures – Budgetary Basis

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F. Capital Projects Fund:

F-1 Summary Schedule of Project Expenditures

F-2 Summary Schedule of Revenues and Expenditures

F-2(x) Schedule(s) of Project Revenues and Expenditure

G. Proprietary Funds:**Enterprise Fund:**

G-1 Combining Statement of Net Assets

G-2 Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets

G-3 Combining Statement of Cash Flows

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H. Fiduciary Funds:

H-1 Combining Statement of Fiduciary Net Assets

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H-3 Student Activity Agency Fund Schedule of Receipts and Disbursements

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- I. Long-Term Debt:
- I-1 Schedule of Serial Bonds
 - I-2 Schedule of Obligations under Capital Leases
 - I-3 Debt Service Fund Budgetary Comparison Schedule

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Financial Trends

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- 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

- 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
- J-12 Direct and Overlapping Governmental Activities Debt
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Demographic and Economic Information

- J-14 Demographic and Economic Statistics
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Operating Information

- J-16 Full-time Equivalent District 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 Compliance and on Internal Control over Financial Reporting
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

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