SECTION II – SPECIFIC COMPLIANCE

SCHOOL DISTRICT 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 and is authorized to compel its use. (*N.J.S.A.* 18A:4-14 and *N.J.A.C.* 6A:23-2.1)

The Uniform Minimum Chart of Accounts for New Jersey Public School (2003 Edition) (COA) was originally published in 1992 with the latest update effective July 1, 2004. The revision incorporates updates made through annual revisions to the budget guidelines and in general accounting memos. The revision in part reflects the National Center for Education Statistics (NCES) reporting requirements and necessary changes for reporting under the GASB 34 financial reporting model and is available on the web site http://www.nj.gov/njded/finance/fp/af/coa/.

GASB 34 distinguishes between funds which benefit the district (Permanent funds) and those for which the district 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 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 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.

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)

SECTION II – SPECIFIC COMPLIANCE
FUND 10 –GENERAL FUND

Board Secretary and Treasurer Reports

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, and the amount for which warrants have been drawn against each account and the amounts of orders or contractual obligations incurred and chargeable against each account since the date of the last report. 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 county superintendent on or before August 1 of each year.

In accordance with *N.J.S.A.* 18A:17-36, the treasurer shall 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 county superintendent on or before August 1 of each year.

The monthly board secretary and treasurer reports are to be reconciled on a monthly basis.

Cash Reconciliation

The cash accounts must be reconciled. Reconciliation of payrolls and bond and interest accounts are to be made in all districts 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.

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

Petty Cash Funds

N.J.A.C. 6A:23-2.9 states "Pursuant to the provisions of *N.J.S.A.* 18A:19-13, a district board of education or charter school board of trustees may establish on July 1 of each year, or as needed, a cash fund or funds for the purpose of making immediate payments of comparatively small amounts".

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

Summer Payment Plans

N.J.S.A. 18A:29-3 authorizes a district board of education 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:23-2.10 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”.

SAS #70 Reports

Depending upon the nature of the services provided, AICPA Statement on Auditing Standards No. #70 (as amended by SAS #88) reports may be required from software vendors, payroll service vendors, and other service organizations. SAS #88 clarified SAS #70 by stating that SAS #70 is applicable if an entity obtains services from a service organization that are part of the entity's information system. SAS #88 explains what constitutes "part of the entity's information system". If SAS #70 is applicable, the service organization auditor will issue one of the following two types of reports, depending upon circumstances and requirements:

- Type I – Report on policies and procedures placed in operation. This report may be an effective and efficient way for the district 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 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 auditor.

Auditors are advised to review Chapter 4, Field Work Standards for Financial Audits, of the *Government Auditing Standards* available electronically at the web site http://www.gao.gov/index.html for further guidance on internal controls.

Third Party Disbursements

N.J.S.A. 52:27D-20.1 *Contracts for third-party disbursement services*, gives the Local Finance Board, in consultation with the Commissioner of Education, the authority to adopt regulations permitting district boards of education to contract with 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 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/lgs/rules/rulesmenu.shtml .

Investments

Several statutes govern permissible investment of school monies by New Jersey school districts. *N.J.S.A.* 18A:17-34 gives the treasurer of the school district the authority to deposit school moneys in any bank or banking institutions of this State designated as a depository of school monies. Under *N.J.S.A.* 17:9-41 et seq., the Governmental Unit Deposit Protection Act (GUDPA), a school district 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 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 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. The Division does not publish a listing of approved investments but districts 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 can utilize. Districts 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 web site http://www.state.nj.us/dobi/gudpa.htm. A school district 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 were required to implement GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools," effective for fiscal year end June 30, 1998. This 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. For government entities other than external investment pools, this statement establishes accounting and financial reporting standards for the following investments: participating interest-earning investment contracts, external investment pools, open-end mutual funds, debt securities, and equity securities, option contracts, stock warrants and stock rights that have readily determinable fair values.

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

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

> "…disclosures generally referred to as category 1 and 2 deposits and investments are eliminated. However, this Statement does not change the required disclosure of authorized investments and it maintains, with modification, the level-of-detail disclosure requirements of Statement 3." Statement 40 is designed to inform financial statement users about deposit and investment risks that could affect a government's ability to provide services and meet its obligations as they become due. The reduction of existing custodial credit risk disclosures follow from federal banking reforms adopted since the release of Statement 3.

District auditors should refer to the Statement for further understanding and for illustrations of disclosures.

Revenues and Receipts

Revenues accruing to the board of education 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 (2003 Edition). The auditor must comment in detail on any irregularity in the method of handling receipts and revenues as a result of audit tests performed.

Extraordinary Aid

Districts that received notification of their approval to receive 2006-07 Extraordinary Aid in accordance with CEIFA are directed to recognize the approved amount as Extraordinary Aid (10-3131) during the 2006-07 fiscal year and establish a corresponding receivable, as actual payment is not expected to occur until after June 30, 2007 (*N.J.S.A.* 18A:7F-7F-19(c)). This amount can be excluded from the June 30, 2007 excess surplus calculation only if the district can clearly document that they did not budget this additional aid during the 2006-07 fiscal year for which they filed an application. Audit procedures, similar to the ASSA, can be found at: http://www.nj.us/treasury/omb/publications/grant/pdf/educ.pdf in the *State Aid/Grants Compliance Supplement.* Extraordinary aid applications are made online, with the department's determination of aid based on the submitted application.

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 letter explaining the circumstances for the exclusion and if applicable, how it relates to the appearance of the excess surplus warning message on the Audit Summary (Audsum) Worksheet transmittal form.

The regulations (*N.J.A.C.* 6A:23-2.11(d)6) implementing P.L 2004, c.93 (S1701) provide 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

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 Treasurer of School Moneys, 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 30th (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 (*N.J.A.C.* 6A:23-3.1)

Tuition revenue is recorded in the general fund. The procedures for determining tuition rates are detailed in *N.J.A.C*. 6A:23-3.1. Because it is "measurable and available" the entire tuition charged for the school year is revenue of the year even though part of the charge is uncollected at year-end. Tuition or program fees should not be charged for accredited Adult Education programs operating for the purposes outlined in *N.J.S.A.* 18A:50-12, since pupils enrolled in such programs are included on the Application for State

School Aid. Fees collected for non-accredited Adult Education programs are miscellaneous general fund revenue, not tuition.

Local school district auditors must 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. The tuition adjustments made in 2006-07 would relate to the certification of 2003-04 rates for regular tuition. Consult *N.J.A.C.* 6A:23-3.1(e). Auditors should also consult NJ DOE Policy Bulletin 100-1 issued in December 1993 (Resource Room Tuition). Local school district auditors must consider *N.J.A.C.* 6A:23-3.3 for auditing tuition rates for county vocational schools; and *N.J.A.C.* 6A:23-3.4 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 third 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 a district board of education anticipates that a large tuition adjustment will be required in the third 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 legal reserve for tuition adjustments. The tuition reserve is available only for districts that have a sending/receiving relationship. Full appropriation shall be made in the third year and any remaining balance shall be reserved and designated in the subsequent year's budget. (*N.J.A.C.* 6A:23-3.1(f)(8)).

5. For the 2006-07 budget year districts were permitted and required to withdraw and budget 2003-04 funds reserved in the tuition reserve account for the actual 2003-04 certified tuition rate adjustments. The money was reserved in 2003-04 based on an estimated tuition adjustment in 2006-07.

6. A district may have at June 30, 2007 a reserve for each applicable year 2004-05, 2005-06 and 2006-07. The tuition reserve should be presented separately for each applicable year on the *Budgetary Comparison Schedule – General Fund* (Exhibit C-1) in the Recapitulation of Balances and on Audsum. There is not authority to increase the tuition reserve by interest earnings.

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

Reporting On-Behalf Payments

GASB Statement No. 24 requires that an employer government recognize revenue and expenditures for on-behalf payments for fringe benefits and salaries. On-behalf payments for fringe benefits and salaries are direct payments made by one entity (the paying entity or paying government) to a third-party recipient for the employees of another legally separate entity (the employer entity or employer government). In applying this accounting directive in New Jersey, districts are required to include in their CAFR as both a revenue and expenditure both the pension contributions made directly to the TPAF by the state on their behalf, as well as the reimbursed social security amounts related to its employees that are TPAF members. The department annually provides district information on the amounts paid on their behalf for employer contributions to the TPAF on the DOE website at http://www.nj.gov/njded/finance/fp/audit/0607/.

Districts should prepare a schedule of the amounts reimbursed by the state for the current year FICA employer contribution for its TPAF members on an accrual basis. That is, the current year amount equals total cash reimbursement received during the current year less the prior year June 30th receivable amount plus the current year June 30th receivable balance. **The on-behalf payments will be included in the CAFR as non-budgetary revenue and expenditure items, similar to the reporting of assets acquired under capital leases.** Districts are not required to include these amounts in their annual school budgets or monthly reports of the board secretary.

Compensation Reporting

P.L. 2007, c.53, approved by the Governor on March 15, 2007, amended *N.J.S.* 18A:23 to include a provision (*N.J.S*. 18A:23-2.1) 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.

Auditors should assess the risk of noncompliance regarding compensation reporting and to develop appropriate audit procedures to comply with this section of the new law. Documentation regarding this assessment and audit procedures should be included in the audit workpapers. Such procedures may include, but are not limited to, inquiry of knowledgeable personnel regarding fringe benefits, comparison of administrators' contractual salaries and benefits with actual payroll, evaluating year end payroll tax reports such as the W-2 forms for inclusion of taxable benefits, reading board of education minutes for authorization of special payments and bonuses, review of BOE policy regarding personnel use of district owned or leased vehicles or cell phones. Payments at retirement or separation should be analyzed.

The following links are provided to assist auditors in complying with this law:
Internal Revenue Service Governmental Entities website - www.irs.gov/govt/fslg/index.html. At that site, select "FSLG Toolkit" for a listing of several tax guides for payroll and fringe benefits (FSLG Taxable Fringe Benefits Guide).

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.

Section 8 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 Department is working with the Department of Treasury for determination of the process of certification. It is our understanding that this will be a calendar year-end activity first effective December 31, 2007, but final determination and guidance will be provided by Treasury in consultation with the Department.

Pensionable Wages

All defined benefit plans administered by the NJ Division of Pensions and Benefits require that employee contributions be remitted regularly to the Division. For school districts, these include the TPAF and PERS. School districts are issued a Quarterly Report of Contributions to report and reconcile employee pension information and monies each calendar quarter. Districts 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.

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

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

Refunds

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

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

The Schools and Libraries Universal Service Fund, known as the "E-rate" was created as part of the Telecommunications Act of 1996 to provide affordable access to modern telecommunications and information services to all eligible schools and libraries in the U.S. The School and Libraries Corporation (SLC) was established by the FCC to administer the Schools and Libraries Universal Service Fund. All public and private schools and libraries qualify for funding based on their level of economic disadvantage (based on the percentage of students eligible for the national school lunch program) and their location, rural or urban. The offset to the reduction in the expenditure is either to accounts receivable if a refund is due or to accounts payable if unpaid at June 30, 2007. Additional information is available at the Department of Education, Office of Technology website at www.state.nj.us/njded/techno/toc.htm and at the School and Libraries website at www.sl.universalservice.org.

Cancellations

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

Health Insurance Policies

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

The 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 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 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 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 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 accounting records or were inaccurately reported as fund balance. Public school accountants should review the terms of district policies and statements/monthly activity reports issued by the carrier. If the district has a minimum premium policy a confirmation should be issued to the insurance carrier regarding the following:

- The existence of and amount of June 30th balances in accounts in the district's name held on their behalf by the carrier*
- District liability for the IBNR claims at June 30th
- District liability for claims that were filed but unpaid at June 30th
- Composition of the accounts (what are the types of underlying investments made on the district's behalf)*
- Investment income earned during the year on district 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 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 itself should be used to determine the proper presentation in the CAFR. The assets (total of the June 30th account balances) will be compared to the related liabilities (total of the June 30th IBNR claims and claims in process at June 30th). Any excess assets should be included in the amount reported as unreserved general fund surplus. If the liabilities exceed the assets, the district'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 30th 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 district wide *Statement of Net Assets* and the June 30th 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 30th 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 or the carrier on the district's behalf are included in the general fund balance sheet as cash, cash equivalents, or investments.

The June 30th 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 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.

Sale and Lease-back Contracts

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

Pursuant to *N.J.S.A.* 18A:7G-9 and *N.J.A.C.* 6A:23-5.1, beginning in ten years following enactment of the act, to receive funding under EFCFA districts will be required to demonstrate a net investment in required maintenance of at least 2% 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:23-1.3) in the CAFR. **This schedule must reflect each year beginning with June 30, 2001 up to ten years.** For reporting 2001 and 2002 required maintenance expenditures (11-000-261-xxx), a district was permitted to allocate the total to each school facility and other facilities by proration according to its gross square footage.

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:23-2.2(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 following page. 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.

Exhibit J-19

ANYTOWN SCHOOL DISTRICT
GENERAL FUND
SCHEDULE OF REQUIRED MAINTENANCE FOR SCHOOL FACILITIES
Last Six Fiscal Years ending June 30, 2007

Undistributed Expenditures – Required Maintenance For School Facilities
11-000-261-XXX

*School Facilities	Gross Square Footage	2001	2002	2003	2004	2005	2006	Total
Martin Luther King Elem	51,939	$ 49,523	$54,520	$57,000	$ 60,450	$62,563	$64,019	$348,075
Abraham Lincoln Elem	35,874	65,963	64,523	64,125	65,030	67,563	69,872	397,076
John F. Kennedy Middle	62,816	48,300	51,253	59,542	75,401	85,221	88,367	408,084
George Washington High	97,572	58,965	79,852	84,523	90,200	96,875	98,641	509,056
Total School Facilities		$163,786	$170,296	$180,667	$200,881	$312,222	$320,899	$1,662,291

*School facilities as defined under EFCFA.
(N.J.A.C. 6A:23-1.2 and N.J.A.C. 6A:23-1.3)

Restricted Appropriations/Balances

Under current New Jersey Administrative Code, budgeted appropriations are deemed restricted when associated with a capital outlay spending growth limitation adjustment (SGLA), insurance and domestic security preparedness SGLA or an additional spending proposal. The "Spending Growth Limitation Summary" statement from the 2006-07 Annual School District Budget Statement and the cover page of the 2006-07 Annual School District Budget Statement Supporting Documentation will reflect the district's status for capital outlay or insurance and domestic security preparedness SGLAs and additional spending proposals, respectively. Additionally, districts with capital outlay spending growth limitation adjustments were provided with a memorandum from the department confirming the actual adjustment amount included in the 2006-07 budget certified for taxes.

Details on restricted appropriations/balances follow:

N.J.A.C. 6A:23-8.8(a) Adjustments to Spending Growth Limitations-Capital Outlay

A **capital outlay spending growth limitation adjustment** is supported by a formal board resolution which contains a narrative description of the capital purposes and the full amount to be included in the base budget, the need for and the amount of the adjustment, and a statement that said purposes must be completed by the end of the budget year and cannot be deferred or incrementally completed over a longer period of time. The associated appropriations are included in the base budget submitted to the voters or board of school estimate, and do not require an additional tax levy question.

N.J.S.A. 18A:7F-5d includes restrictions on the transfer of funds between capital outlay and current expense accounts for any district receiving a capital outlay spending growth limitation adjustment and also excludes the adjustment from the base amount that will be used to calculate a district's maximum permitted net budget in the subsequent year. *N.J.A.C.* 6A:23-8.8(a) includes restrictions that the total capital outlay portion of the budget is restricted. If the capital outlay portion of the budget will not be or is not fully expended or encumbered by the end of the budget year, the district must reserve and designated any balances in the subsequent budget year when determined prior to the adoption of that budget or the second subsequent budget year when determined after adoption. It also requires that funds budgeted within capital outlay for individual projects are restricted to their original purpose unless an exception is granted by the Commissioner due to unforeseeable conditions which result in other urgent capital outlay needs. Transfers are allowed between approved projects.

When a reservation of fund balance is established for unexpended or unencumbered funds pursuant to a capital outlay spending growth limitation adjustment, 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 in the general fund equity account: *reserved fund balance-legally restricted appropriations*.

N.J.A.C. 6A:-23-8.8(f) Adjustments to Spending Growth Limitation – Insurance and Domestic Security Preparedness

P.L. 2003, c. 92 supplements *N.J.S.A.* 18A:7F-5 and is applicable for school years 2004-05, 2005-06, and 2006-07. Costs incurred by a school district for liability insurance, workers' compensation insurance and employee group insurance or for domestic security preparedness are eligible as an adjustment to the district's spending growth limitation. Pursuant to *N.J.A.C.* 6A:23-8.8(f), the accounts that generated an adjustment for this SGLA are restricted during the year, and line item transfers from these accounts to other accounts that did not generate the SGLA are prohibited, although districts are permitted to make line-item transfers between the restricted accounts. Districts may request Commissioner approval upon written request and approval of the Assistant Commissioner of Finance during the year after written demonstration of need and county superintendent recommendation. District auditors should refer to the 2006-07 Budget Guidelines pages 195-199 for further information on the restricted line item accounts related to this SGLA.

N.J.A.C. 6A:23-8.5 Additional Spending Proposals

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

N.J.A.C. 6A:23-8.5(i) requires that amounts approved by the local voters or board of school estimate or amounts restored by the municipal governing body or bodies after rejection by the local voters 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. If an amount restored by a municipal governing body or bodies is insufficient to complete the project or projects as submitted, the district board of education may not use the monies for general fund purposes and shall reserve the funds for tax relief.

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 or amounts restored by the municipality but insufficient to complete a project 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.

Pursuant to *N.J.A.C.* 6A:23-8.5(h), 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 and not restored by the local governing body or bodies, except as specified in *N.J.A.C.* 6A:23-8.5(l), 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: *reserved fund balance-legally restricted appropriations*.

Capital Reserve Account - General Fund

The capital reserve account (*N.J.A.C*. 6A:23-2.13) 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.

The Educational Facilities Construction and Financing Act (EFCFA), (*N.J.S.A.* 18A:7G –1 et seq.), as amended by P.L. 2004, c.73 (S1701), now allows a capital reserve account to be established at any time and no longer permits districts to transfer undesignated general fund balance or excess undesignated general fund balance to the capital reserve account at any time during the budget year.

The regulations *N.J.A.C.* 6A:23-2.13 et seq. provide procedures for capital reserve accounts (withdrawals, deposits, and transfers). The bulleted points below are highlights of that rule. Additional guidance on Economic Development Authority (SCC/EDA) grant accounting and use of capital reserve can be found in Section II-30.4 of this Audit Program.

Capital Reserve Account - General Fund – (Continued)

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:23-2.13(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:23-2.13(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:23-2.13(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 supplement funds in the account as required to meet the needs of the long-range facilities plan (*N.J.A.C.* 6A:23-2.13(c)1).
- The regulations (*N.J.A.C.* 6A:23-2.13(c)2) provide that districts may request approval from the county superintendent (as the Commissioner's designee) to appropriate excess unreserved general fund balance as calculated on supporting documentation 9 of the proposed budget into capital reserve when the following conditions are met:

    1. The district board of education has formally established a capital reserve;
    2. The district board of education has an approved long-range facilities plan (LRFP) in accordance with *N.J.A.C.* 6A:26-2; and
    3. The district board of education has appropriated at least fifty percent of the excess surplus in the proposed budget for property tax relief.

- 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:23-2.13(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.

- Funds may be appropriated in the annual budget within the restrictions noted in points 1,2 and 3 above. 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 for referendum authorized school facilities projects may be made if the capital reserve use and amount is identified in the approved referendum question.

- Withdrawals for a non-referendum school facilities project may be made, by board resolution, up to 110% of the local share less excess costs. Withdrawals must be transferred to the capital projects fund and accounted for separately with the corresponding EDA grant.

Withdrawals for Excess Costs or Other Capital Projects:

- Upon voter, board of school estimate, or capital project board approval, withdrawals may be made to fund excess costs of a school facilities project or other capital project (need a separate Statement of Purpose in the advertised budget).

- Withdrawals for referendum approved other capital projects may be made if the capital reserve use and specific amount is identified in the approved question.

- Withdrawals for additional funds for a referendum approved 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.

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:23-2.13(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:23-2.13(h)4)

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) supercedes 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:23-2.13. 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 Reserved Fund Balance - Capital Reserve Account. In the district-wide *Statement of Net Assets* (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, 2007 Balance Sheet should reflect the actual balance at June 30, 2007 and not increases/withdrawals included in the 2007-08 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 30th in accordance with *N.J.S.A.* 18A:7F-7, as amended by P.L. 2004, c.73 (S1701), for all regular and county vocational school districts. The audited excess surplus calculation is not applicable to Education Service Commissions (ESCs). Special services school districts are subject to an excess surplus calculation in accordance with *N.J.S.A.* 18A:46-31, as amended. This calculation will be performed by the department during the tuition rate certification process. Do not perform the excess surplus calculation or report excess surplus for a special services school district.

This calculation is required to be documented in the Auditor's Management Report. P.L. 2004, c.73 (S1701) changed the percentage used for regular non-vocational districts from 6% to 3% at June 30, 2004 and from 3% to 2% at June 30, 2005 and thereafter. P.L. 2007, c.62 changed the minimum from $100,000 to $250,000 beginning June 30, 2007. The calculation for county vocational districts is still at 6% but the minimum was changed to $250,000.

> *Auditor's Note* - Abbott school districts should refer to the *Abbott Addendum* for detailed instructions on how to complete the excess surplus calculations.

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

Amounts included in the 2007-08 certified budget (reserved fund balance – excess surplus designated for subsequent year's expenditure) and any additional amounts reserved for appropriation in the 2008-09 original annual budget (reserved fund balance - excess surplus) must be separately reported in the Audsum diskette 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, 2008. 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 2007-08 budget software in Supporting Documentation Item 9 using projected 6/30/07 surplus balances and revised 2006-07 budgeted appropriations. The software, via the edits, forced the inclusion of the greater of the audited excess surplus at 6/30/06 or the calculated projected excess surplus at 6/30/07 in the 2006-07 budget as budgeted fund balance.

The 6/30/07 audited calculation should be based upon June 30, 2007 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 amounts and amounts reported as “Assets acquired under capital leases (non-budgeted).” General fund transfers to other funds not included in the general fund expenditures of the CAFR, but added to the calculation, were Transfer to Food Service fund, Transfer Capital Outlay to Capital Projects (augment EDA/SCC grant) and Transfer Capital Reserve to Capital Projects (augment EDA/SCC grant). This calculation is also adjusted for any allowable adjustments such as impact aid, sale and lease-back, extraordinary aid, higher expectation for learning proficiency (HELP) and additional nonpublic transportation aid, if applicable. The adjustment for extraordinary aid, higher expectation for learning proficiency (HELP) and additional nonpublic transportation aid is limited to the amount of revenue recognized in the current year that was not appropriated. The impact aid adjustment only applies to districts receiving impact aid and the amount that can be deducted as an adjustment generally is the amount recognized as impact aid revenue in the current year.

The surplus used in the calculation is the total general fund surplus net of any reserve for encumbrances, capital, maintenance and tuition reserve amounts, and any other state/government imposed or department approved legal reserve that has not been appropriated in the 2007-08 budget and that are in compliance with *N.J.A.C.* 6A:23-2.2. Adjustments for legal reserves not appropriated in 2007-08 must be supported by a board resolution establishing the legal reserve. In most cases, this adjustment will not be applicable since most legal reserves require appropriation into the next year's budget.

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

Auditors are required to include the calculation of 6/30/07 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% Calculation –Regular Districts

Pursuant to P.L. 2004, c.73, (S1701) all regular districts, excluding county vocational districts, must perform the excess surplus calculation using 2% of general fund expenditures. P.L. 2007, c.62 revised the minimum balance from $100,000 to $250,000.

Amounts calculated in excess of 2% that have not been appropriated in the 2007-08 original budget certified for taxes must be reported as general fund “Reserved Fund Balance - Excess Surplus” in the June 30, 2007 CAFR and appropriated in the 2008-09 budget for property tax relief. The amount which has been included in the 2007-08 budget should be reported 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 2007-08 original budget certified for taxes and the amount reserved for the subsequent year budget.

The following discussion and the example on the following page illustrate the proper calculation of the 2% excess surplus for Regular Non-Abbott Districts (Abbott Districts should refer to the *Abbott Addendum*):

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, were Transfer to Food Service of $65,000, Transfer from Capital Outlay to Capital Projects (augment EDA grant) of $10,000 and Transfer from Capital Reserve to Capital Projects (augment EDA /SCCgrant) of $12,000. The district received $3,000 in federal impact aid revenue during 2006-07. In the June 30, 2007 balance sheet the district had the following: $4,900 reserved for encumbrances; $9,000 legally restricted from an unexpended 2005-06 additional spending proposal and required to be designated in the 2007-08 budget for property tax relief; $55,000 reserved June 30, 2006 excess surplus required to be designated for property tax relief in the 2007-08 budget; $100,000 unreserved and designated in the 2007-08 budget; and $395,000 unreserved/undesignated prior to calculating June 30, 2007 excess surplus.

2006-07 Total General Fund Expenditures	$7,500,000 *(a)*	
Increased by Applicable Operating transfers:		
Transfer to Food Service Fund	65,000 *(b)*	
Transfer from Capital Outlay to Capital Projects	10,000 *(b)*	
Transfer from Capital Reserve to Capital Projects	12,000 *(b)*	
Decreased by:		
On-Behalf State Aid Payments	(405,000)	
Assets Acquired Under Capital Leases	(182,000)	
Adjusted General Fund Expenditures	7,000,000	
Applicable Excess Surplus Percentage	x .02	
2% of Adjusted 2006-07 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, 2007)	$ 563,900	
Decreased by:		
Reserved for Encumbrances	(4,900)	
Legally Restricted – Designated for Subsequent Year's Expenditures	(9,000) *(d)*	
Excess Surplus – Designated for Subsequent Year's Expenditures	(55,000) *(d)*	
Unreserved -- Designated for Subsequent Year's Expenditures	(100,000) *(d)*	
Total Unreserved/Undesignated Fund Balance		395,000
Reserved – Excess Surplus (June 30, 2007)		$ 142,000*(e)*

Recapitulation of Excess Surplus as of June 30, 2007

Reserved Excess Surplus – Designated for Subsequent Year's Expenditures (Audsum line 10025)	$ 55,000 (*f*)
Reserved Excess Surplus (Audsum line 10024)	142,000 (*g*)
Total Excess Surplus	$ 197,000

(a) Total General Fund Expenditures obtained from June 2007 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, Higher Expectation for Learning Proficiency (HELP) and Additional Nonpublic School Transportation Aid, if applicable.
(d) The aggregate of $164,000 represents the total amount of General Fund fund balance appropriated in the 2007-08 General Fund budget.
(e) If this amount is negative enter zero (-0-).
(f) Represents surplus generated in 6/30/06, and budgeted in 2007-08.
(g) Represents surplus generated in 6/30/07 (required to be budgeted in 2008-09).

6% Calculation – Vocational Districts

Under CEIFA, county vocational districts must perform the 6% calculation.

Amounts calculated in excess of 6% that have not been appropriated in the 2007-08 original budget certified for taxes must be reported as general fund "Reserved Fund Balance - Excess Surplus" in the June 30, 2007 CAFR and appropriated in the 2008-09 budget for property tax relief. The amount which has been included in the 2007-08 budget should be reported 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 2007-08 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% 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% 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 2008-09 original certified budget.

Fund Balance Classifications

The proper presentation of fund balance is an important reporting issue. Districts should 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 reserve or designation. 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 should be grouped under two main categories – reserved and unreserved. In the accrual basis *Statement of Net Assets* (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 staff should refer to GASB 34, paragraphs 30 – 37 for further clarification of these classifications.

> *Auditor's Note* – No appropriation of surplus after June 30, 2007 is to be reflected in the June 30, 2007 balance sheet as designated for subsequent year's expenditures. The department recommends footnote disclosure in the CAFR.

Reserved fund balance classification should only be for encumbrances, or for state or other government imposed legally reserved fund balance restrictions. Beginning in 2003-04, all other legal reserves require Departmental review and approval. The request for approval should state the amount, source, purpose and legal basis for the reserve (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 should submit requests to the Assistant Commissioner of Finance no later than September 30 if approval is required for the audit period under review.

Fund balance - reserved for:

- The **reserve for encumbrances** 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 30th. 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 diskette for the reserve for encumbrances at June 30th 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 should not be encumbering goods and services that relate to the subsequent year. The Hotline is reproduced in Section I-8 of this Audit Program.

- The **capital reserve account** maintained in the general fund allows a district to accumulate funds for future capital projects. EFCFA was signed into law on July 18, 2000 and significantly affected the transactions in the capital reserve accounts, which were affected again by the passage of S1701. Passage of S1701 allows a capital reserve account to be established at any time and amended N.J.S.A. 18A:7F-7 to require voter approval for deposits. See page II-10.12 of this Audit Program for specific procedures affecting capital reserve accounting. A separate line is provided in the Audsum diskette for this reserve account.

- The **maintenance reserve account** is used to accumulate funds for the required maintenance of a facility in accordance with the EFCFA (*N.J.S.A.*18A:7G-9) as amended by P.L. 2004, c. 73 (S1701). Districts may only 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:23-2.14). 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.

- The **reserve for tuition** 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:23-3.1(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 third 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 budgeted for tax relief. The account should be shown in the reserved fund balance equity section as reserve fund balance – tuition reserve. In the recapitulation of fund balance reported at the end of the *Budgetary Comparison Schedule* (Exhibit C-1), the reserve for each of three possible years should be reported separately. This may be aggregated in the *Balance Sheet* (Exhibit B-1). 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 three years reserve. See this Audit Program, Section III-5 for further clarification on the specific lines.

- The **reserved fund balance-legally restricted account,** which is shown in the reserved fund balance equity section, 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:23-8.5
  2) Capital outlay for a district with a capital outlay spending growth limitation adjustment in 2006-07 as outlined in *N.J.A.C.* 6A:23-8.8(a)4
  3) Sale/lease-back reserve *N.J.S.A.* 18A:7F-7(e)

  Legal reserves that are for anything other than state imposed or other government imposed legal restriction must be approved by the Assistant Commissioner of Finance. Examples of state imposed legal restrictions include audited excess surplus, unspent separate proposals, unspent capital outlay resulting from an SGLA, ASSA audit recoveries, legally established capital, maintenance and tuition reserve accounts, and a reserve established for the sale leaseback of textbooks in the year the proceeds are realized. **The request for approval should by submitted by the school district to the Assistant Commissioner of Finance by September 30, 2007 for the June 30, 2007 year.** The request should state the purpose and legal basis for the reserve (e.g., the specific "constraint imposed on the use by external parties or by laws or regulations of other governments). Approval will only be granted for those other legal obligations that are in conformity with GAAP.

  Under GAAP, few items would constitute a legal reserve. Per GAAP, the basic concept of a legal reserve is that it is not unilaterally established by the district and it cannot be removed without the consent of those imposing the restriction or through formal due process. Districts 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 statements, the full amount is accrued. Contingent liabilities not required to be accrued should be disclosed in the notes to the financial statements. All significant facts with respect to the contingency should be disclosed. GAAP guidance is available in the GASB Codification chapter “Claims and Judgments” (C50).

The notes to the financial statements must contain a discussion of all legally restricted balances, including the amount, source and fiscal year in which it will be appropriated. A separate line is provided in the Audsum data collection for legal reserves - general fund. These balances, if determined prior to the adoption of the budget, should have been anticipated in the 2007-08 “School District Budget Statement” and line 1660, “Amount Budgeted in FY 2007-08” in column 6, General Fund (Reserved) Legal Reserves of the Recapitulation of Balances. Amounts not anticipated in the 2007-08 budget must be shown as a legal reserve in the June 30th CAFR and appropriated in the 2008-09 budget.

- The **reserved fund balance – excess surplus – designated for subsequent year’s expenditures** represents the audited excess surplus from the prior year budgeted in the subsequent year. Under CEIFA, any June 30, 2007 audited excess surplus that was appropriated in the 2007-08 original budget certified for taxes must be reported as reserved general fund balance in the CAFR. Audsum line 10025 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, 2007 of $55,000 and an unexpended 2005-06 additional spending proposal of $9,000. The district appropriated $164,000 (sum of the *(a)*s) in the 2007-08 original budget (comprised of the $9,000 unexpended 2005-06 additional spending proposal, $55,000 audited excess surplus from June 30, 2006 and $100,000 of unreserved/designated surplus). As of June 30, 2007 the district had generated an additional $142,000*(b)* of excess surplus. The $142,000 (calculated in the excess surplus example) is required to be appropriated in the 2008-09 original budget and should also be reported on line 10024 of the June 30, 2007 audsum data collection.

  (See the illustration on the next page).

	June 30, 2007		June 30, 2006
Fund Balances*:*			
Reserved:			
For Encumbrances	$ 4,900		$50,000
Legally Restricted – Unexpended Additional Spending Proposal			9,000
Legally Restricted – Designated for Subsequent Year’s Expenditures	9,000	*(a)*	
Excess Surplus	142,000	*(b)*	55,000
Excess Surplus - Designated for Subsequent Year’s Expenditures	55,000	*(a)*	
Unreserved:			
Designated for Subsequent Year’s Expenditures	100,000	*(a)*	235,000
Undesignated	143,000		215,000
	$ 453,900		$ 564,000

- The **reserved fund balance – excess surplus** represents audited excess surplus generated in the current audit year. Any amount calculated as excess surplus generated during the year ended June 30, 2007 that has not been appropriated in the 2007-08 original budget certified for taxes must be reported as reserved general fund balance-excess surplus in the CAFR. Appropriate footnote disclosure should be made in the notes to the financial statements including the amount and an explanation that the amount represents surplus determined to be reserved and designated in the 2007-08 budget during the audited excess calculation performed at June 30th in accordance with *N.J.S.A.* 18A:7F-7. Audsum line 10024 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, 2007. Auditors are required to include the calculation of excess surplus in the Auditor's Management Report.

- The **reserved fund balance – adult education programs** is a required separate restricted account. *N.J.S.A.* 18A:50-6 requires that surplus generated from the excess of receipts from donations, tuition fees, or from any source other than local taxation over the actual cost of the maintenance and operation of the district's adult education program remain in a separate account for the restricted fund balance. The account should be shown in the reserved fund balance equity section as reserved fund balance - adult education programs. A separate line is provided in the Audsum diskette for reserved for adult education programs - general fund.

Fund Balance – Unreserved

All other fund balance is considered **unreserved** and is considered in the excess surplus calculation. Districts may reflect management's intent for use of the unreserved fund balance as separate lines in the equity section of the balance sheet under the heading unreserved fund balance. Each designation should be explained in the notes to the financial statements. All other unreserved fund balance should be presented as unreserved - undesignated. The amount of unreserved fund balance that has been included in the upcoming year's general fund budget as budgeted fund balance should be reported in the unreserved fund balance equity section as **designated for subsequent year's expenditure**. If the budgeted fund balance amount included in the certified budget contains an amount that has been shown in the reserved fund balance section of the balance sheet (refer to the example on the previous page), do not include it as part of the unreserved designated for subsequent year's expenditure amount. **Separate lines are provided in the Audsum data collection for unreserved - 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 2007-08 certified 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 unreserved - undesignated line all other unreserved fund balance.**

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.*

Recapitulation of Fund Balance:

Reserve for Encumbrances	$ 4,900
Legally Restricted – Designated for Subsequent Year's Expenditures	9,000
Reserved Excess Surplus - Designated for Subsequent Year's Expenditures	55,000
Reserve for Excess Surplus	142,000
Maintenance Reserve [if applicable]	xxx
Capital Reserve [if applicable]	xxx
Unreserved – Designated for Subsequent Year's Expenditures	100,000
Unrestricted Fund Balance	253,000
	563,900
Reconciliation to Governmental Funds Statements (GAAP):	
Last State Aid Payment Not Recognized on GAAP Basis	(551,385)
Fund Balance per Governmental Funds (GAAP)	$ 12,515

<u>Deficit due to delay of last state aid payment</u>

On the modified accrual statements, a deficit may occur in the general or special revenue fund. Pursuant to *N.J.S.A.* 18A:22-44.2 any negative unreserved, undesignated 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.

SECTION II – SPECIFIC COMPLIANCE
FUND 20 – SPECIAL REVENUE FUND

TPAF Reimbursement

N.J.S.A. 18A:66-90 requires that each local board of education 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. Auditors should refer to the updated letter and downloadable form on the NJDOE website:
http://www.nj.gov/education/finance/ba/tpaf.pdf.

Districts were given specific guidance in a hotline dated June 29, 1993 on accruing a liability for the TPAF Pension and Social Security related to salaries charged to federal grants. The reimbursement must be made by the September 30th following the fiscal year end. Auditors are required to certify the accuracy of the reimbursement via their signature on the reimbursement form submitted by the district with the actual reimbursement. If submission of the reimbursement form is performed prior to the completion of audit procedures, the form may initially be submitted without the required auditor signature and a revised form reflecting the auditor signature may be subsequently submitted.

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

Restricted State Aids

Overview

Under CEIFA four restricted state formula aids, Demonstrably Effective Program Aid (DEPA), Early Childhood Program Aid (ECPA), Distance Learning Network Aid (DLNA), and Instructional Supplement Aid (ISA), were enacted and are accounted for in the special revenue fund. These restricted formula aids may only be expended for allowable expenditures in accordance with the type of aid received. Beginning in 2003-04, DLNA funding was combined into a general fund Consolidated Aid category. The only potential available resource in 2006-07 for DLNA is from a prior period carryover. The district wide actual totals of these restricted formula aids are to be included in the CAFR, Special Revenue Fund – *Combining Schedule of Revenues and Expenditures*, Exhibit E-1, on the budgetary basis. The 2006-07 budget allowed for anticipated carryover for these four restricted formula aids. The following is a description and the reporting requirements for these aids.

Currently under GAAP, there are no fund balances related to grant revenues in excess of expenditures in the special revenue fund since the revenue recognition criteria in the Special Revenue Fund requires that any excess revenue be reported as deferred revenue. This also applies to the four restricted state aids (ECPA, DEPA, DLNA, ISA) being accounted for in the special revenue fund. However, there may be a deficit fund balance in the GAAP statements for these four restricted state aid classifications due to the non-recognition of the revenue for the last state aid payment. See discussion below.

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

Last State Aid Payment

Districts prepare their budgets based on state aid revenue paid over twenty 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. GASB 33 requires that the provider government and recipient government recognize a payable and receivable in the same fiscal period. *N.J.S.A.* 18A:22-44.2 requires that districts include the last state aid payment as revenue for budgetary purposes only. Beginning in 2002-03, 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 payment is deferred to the subsequent fiscal year. Treatment of the last payment for 2006-07 will be the same as 2005-06. The district CAFR must include a reconciliation from the budgetary revenue to the GAAP revenue. See chapters II-8 and III-6 for further discussion.

I. Demonstrably Effective Program Aid

N.J.A.C. 6A:23-5.5 provides rules for demonstrably effective programs (DEP), strategies or services pursuant to *N.J.S.A.* 18A:7F-18. Such programs include but are not limited to alternative schools, community schools, class size reduction programs, additional programs that are recommended or revised by the Commissioner; and specific supplemental programs shown to be beneficial for districts with high concentrations of students from low-income families including health services, comprehensive guidance counseling, programs to ensure that schools are safe and drug free, summer school and outreach for dropouts. Effective July 1, 2001, districts may no longer transfer ECPA to DEPA.

Beginning with fiscal year 2003-04, districts receiving DEPA are no longer required to maintain separate detailed accounting by programs and services (strategy) but must still report DEPA by school. Districts receiving DEPA must maintain the budget to actual status of the appropriations by school location. DEPA allocations for 2006-07 were not recalculated but were based on 2001-02 school level DEPA allocations which were generated on a revenue basis. Some districts' 2006-07 DEPA allocations by school will not agree with the total DEPA revenue. Those districts have the flexibility to allocate any additional amounts to any existing school that currently generated DEPA or to a new school. If a district opened a new school, the district should have developed a new operational plan for the school receiving the funds. The district should provide auditors with documentation of department approval of the new operational plan if the district has allocated DEPA to a new school. School district auditors should reference the memo issued by the Office of Fiscal Policy and Planning to School Business Administrators on February 6, 2003 on Budgeting for DEPA if the DEPA allocations by school have been revised. Districts that fail to use DEPA as required by *N.J.A.C.* 6A:23-5.5 shall be subject to recession of aid and additional monetary penalties as established by the Commissioner.

Deferred Revenue/Carryover

DEPA must be utilized in the schools that generated the aid, and the carryover of deferred DEPA funds must remain at the school that generated the carryover balances. DEPA revenue that was not expended or encumbered by June 30th of the budget year are classified as deferred revenue in the financial accounts and statements of the district and added to the revenue of a subsequent year budget in one of three ways:

1. When identified prior to the preparation of the subsequent year budget and incorporated therein;
2. Appropriated during the subsequent year with the approval of the Commissioner or his designee; or
3. Retained as deferred revenue until the second subsequent year budget.

A 2005-2006 Carryover Funds form was required to be utilized by districts to request use of the 2005-2006 DEPA balances or to adjust prior estimates (a copy of this form with instructions was distributed via departmental memoranda). A district that anticipated carryover balances when preparing its 2006-07 budget may have been required to amend its approved plan if the estimated amount anticipated was incorrect. Districts were required to have the use of DEPA carryovers approved by board resolution. There is no requirement to track the carryover funds in separate revenue or expenditure accounts by year. Once approved, these funds become current year revenue and expenditures and the calculation of deferred revenue amounts at June 30, 2007 will not require delineation as to year of origin. A district board of education shall use the carryover at the location that generated the aid and must be used only for approved demonstrably effective programs, strategies or services pursuant to *N.J.A.C.* 6A:23-5.5.

Transfers/Revisions

A transfer notification form is required for all DEPA revisions to notify the department of the plan amendments and in some cases to document the approval of the transfer. Minor revisions, which are defined as those which do not jeopardize the accomplishment of the objective nor shift more than a cumulative 10 percent of the money allocated for the program/strategy, do not require prior written approval. Substantive revisions which require prior written approval include the elimination of a strategy or reallocation of more than a cumulative 10 percent of the money allocated to the strategy/program. Either the chief school administrator or school business administrator must sign the transfer forms. Copies of the forms are kept on file at the district and with the department and are available for audit.

> *Auditor's Note* – Auditors should review the *State Aid/Grants Compliance Supplement* for suggested audit procedures http://www.nj.gov/njded/finance/fp/audit/0607/.
>
> *Auditor's Note* – Auditors should review *The Abbott Addendum* for items that specifically relate to Abbott districts.

For non-Abbott districts, the transfer notification form is submitted to the county superintendent who is responsible for review and, if necessary, approval. Substantive revisions require prior written approval. The transfer form is returned to the district indicating approval of the plan revision in the space provided. Acknowledgment of receipt of minor transfers/revisions is made through the return of the transfer notification form to the district. The county office monitors the district transfer approval submissions for non-Abbott districts.

Expenditure of Funds

Revenue and expenditures for DEPA are reported in the Other Supplementary Information section of the CAFR on the budgetary basis in the E-2 series. The district wide actual results from the school schedules are reported on the budgetary basis in the *Combining Schedule of Revenues and Expenditures Special Revenue Fund – Budgetary Basis,* Exhibit E-1, and are added in with other special revenue fund activity for the Budgetary Comparison Schedule – Special Revenue Fund, Exhibit C-2. For the special revenue fund column of the Balance Sheet (B-1), encumbrances for this aid as well as other special revenue funds are reported as deferred revenue since the Balance Sheet is a GAAP basis statement. Encumbrances are a reconciling item in the Required Supplementary Information (RSI), *Budgetary Comparison Schedule*, *Note to RSI* which reconciles the budgetary information to the GAAP statements.

Districts were advised by letter dated January 17, 2003, that beginning in 2003-04 they were no longer required to itemize DEP by program/strategy for the budget. An itemized accounting setting forth the precise allocation of DEPA funds (i.e., price per unit and quantities, hourly rate and number of hours worked in the case of stipends) is still required to support each DEP activity listed in the DEPA Operational Plan for each school. Districts were required to budget a total cost for each strategy and provide detailed budgets by school. Beginning with the 2003-04, the financial statement reporting should reflect this change and show detail by school but not by program/strategy. The sample schedules in this chapter have been modified to illustrate the change.

DEPA must still be spent at the school that generated the aid. Districts are required to prepare DEPA budgetary schedules using the minimum outline for the special revenue fund. The calculation of actual carryover is presented by location. In order to reflect the actual carryover as of June 30, 2007, the district must calculate unbudgeted DEPA funds at each school along with June 30, 2007 unexpended/unencumbered funds for that school.

The bottom portion of each DEPA budgetary schedule includes a summary of location totals. The total DEPA deferred revenue per this schedule must agree to the total of the deferred revenue reported on Schedule B, *Schedule of Expenditures of State Financial Assistance*, under DEPA after adjustment for the last state aid payment. Any DEPA carryover must be carried over for expenditure in the location that generated the revenue. These statements are the responsibility of the district.

> *Auditor's Note* – No negative carryover balances (i.e. overexpenditures) are to be reflected in the individual school locations. If overexpenditures occur, they should be reclassified and included as a finding in the *Auditor's Management Report*.

A list of DEP programs utilized in 2006-07 is on page 129 of the 2006-07 *Budget Guidelines*, and descriptions of these programs are included in Appendix C of that document. Auditors should also refer to pages 55-56 of the Budget Guidelines. The appropriations are summarized under three functions, (1) instruction, (2) support, and (3) facilities acquisition and construction services, at the object level following the minimum outline for the special revenue fund. A separate line is used for the Contribution to Charter Schools. (Note that pursuant to CEIFA, <u>2000-01</u> was the last year in which ECPA could be used for DEP and educationally meritorious programs.)

Audit procedures to be performed should include verifying that the funds were expended only for approved demonstrably effective programs, strategies or services pursuant to *N.J.A.C.* 6A:23-5.5 and are in compliance with the department approved DEP school-level operational plans. Auditors should verify that the required Carryover Funds form was filed and that the proper revisions were made for June 30, 2006 carryovers by location. Auditors should verify if the 2006-07 DEPA plan was amended to reflect audited carryover balances, on a test basis that the district has completed the transfer notification form for DEPA transfers and where appropriate obtained prior written approval. Minor transfers, that do not jeopardize the accomplishment of an objective or shift more than 10% of the money allocated for the program/strategy, do not require prior written approval. Substantive revisions that include the elimination of a strategy or reallocation of more than 10% require prior written approval. See also the <u>State Aid/Grant Compliance Supplement</u> available for the applicable year on the NJ Treasury (OMB) web site for suggested audit procedures.

All instances of non-compliance must be included in the Auditor's Management Report, including if the district is not tracking expenditures by location.

PREPARING THE DEMONSTRABLY EFFECTIVE PROGRAM RESTRICTED AID (DEPA) SCHEDULES

The *Demonstrably Effective Program Aid Schedule of Expenditures – Budgetary Basis (E-2 series)* is prepared from the district records and is the responsibility of the district. The district wide summary schedule is to be included in the *Combining Schedule of Revenues and Expenditures, Special Revenue Fund – Budgetary Basis (E-1)*.

A separate schedule must be prepared for each location as well as a district-wide schedule. Beginning with 2004-05, the location schedules are no longer presented by program code. The format of the schedule was redesigned for 2004-05, eliminating the program code presentation, but maintaining the calculation of deferred revenue by location. This schedule is to be prepared on the budgetary basis where "actual" equals the 2006-07 expenditures plus encumbrances at June 30, 2007. These encumbrances must be liquidated within 60 to 90 days.

At the bottom of each school schedule is a calculation of the 2006-07 Available & Unbudgeted funds and the Actual Carryover as of June 30, 2007.

Line (1) represents the 2006-07 DEPA allocation for that school. Note: In instances where original aid allocations by school included closed schools or omitted schools, department approval would have been necessary to change the by school allocation and should be on file at the district. This amount can be obtained from the district's SA1NET and is a budgetary amount.

Line (2) represents the actual audited DEPA carryover as of June 30, 2006 at that location. Carryover balances may have been anticipated in the 2006-07 original budget. Districts were instructed to utilize a Carryover Funds form to request use of June 30, 2006 balances or to adjust prior estimates. Copies of the approved request should be on file at the district.

Line (3) represents the total 2006-07 DEPA funds available for the 2006-07 budget (the sum of Lines 1&2).

Line (4) represents the amount the district included in its DEPA budget for the fiscal year 2006-07 including approved carryover amounts and contribution to charter schools.

Line (5) represents the difference between Line (3) and Line (4). If a district did not revise its budgeted original allocation (if different) or revise its budgeted June 30, 2006 carryover, then this amount is considered Available and Unbudgeted as of June 30, 2007. Line (5) is then considered a component of the Actual Carryover – DEPA as of June 30, 2007.

Line (6) represents 2006-07 budgeted DEPA (Line 4) less the "total actual" for the school (unexpended/unencumbered DEPA).

Line (7) is the total of Lines (5) and (6).

Line (8) can be found in the 2007-08 Supporting Documentation 16c for that location from the 2007-08 certified budget. If the actual carryover (Line 7) is less than the budgeted amount then the district must file an amended 2007-08 DEPA operational plan with the department. If the actual carryover is greater than the budgeted carryover then the district has the option of filing an amended DEPA operational plan or can retain the additional carryover amount not originally budgeted as deferred revenue until 2007-08.

A district-wide summary schedule is to be prepared once a schedule is completed for each location. The "actual" column is the sum of the "total actual" columns from the location schedules. The "budgeted" column can be obtained from the district's 2006-07 certified Detailed Appropriations lines 13410 – 13690 adjusted for any revised allocations, approved carryovers and/or transfers. The total "budgeted" expenditures reported on the district-wide summary must equal the sum of the total budgeted DEPA expenditures (Line 4) from the location statements.

The bottom of the district-wide summary is a roll up of the carryover calculations from the location statements. The amount reported as Total 2006-07 DEPA Allocation must agree to the total DEPA entitlement reported on the 2006-07 State Aid printouts (SA1a) dated February 26, 2007.

The Actual DEPA Carryover (line 8) is for budget purposes and will differ from the June 30, 2007 DEPA deferred revenue reported on Schedule B, *Schedule of State Financial Assistance* by amount of the 2006-07 last state aid payment. The Schedule of State Financial Assistance will not include the amount of the last state aid payment but instead will include this amount in the MEMO column under "Budgetary Receivable". The last state aid payment adjustment is required because the revenue recognition of the last state aid payment in 2006-07 is not in conformity with GAAP based on GASB 33; however, districts are legally required to recognize the revenue of the last state aid payment for fiscal year 2006-07 in their budgetary schedules. The Schedule of State Financial Assistance does not include the last payment for 2005-06 (received in July 2006) in the beginning balance deferred revenue, but does include it in the cash received column.

Please note that on the following sample statements every possible account is listed. This is an optional format; districts may list only those accounts that are applicable. In addition, the line (#) references on the sample statements should not appear on the actual statement in the CAFR. The four individual schools presented include different scenarios to assist in the preparation of these statements.

Ex. E-2

Anytown School District
Special Revenue Fund
Schedule of Demonstrably Effective Program Aid
Budgetary Basis
For the Fiscal Year Ended June 30, 2007

District -Wide Totals

	Budgeted	Actual	Variance
EXPENDITURES:			
Instruction:			
Salaries of Teachers	$ 1,121,500	$1,118,479	$ 3.021
Other Salaries of Instruction	15,000	14,040	960
Purchased Professional and Technical	1,800	1,800	-
Other Purchased Services (400-500 series)	60,500	60,007	493
General Supplies	137,750	136,838	912
Textbooks	74,750	74,300	450
Other Objects	115,000	114,917	83
Total Instruction	1,526,300	1,520,381	5,919
Support Services:			
Salaries of Other	45,000	44,445	555
Other Salaries	3,500	3,500	-
Personal Services – Employee Benefits	151,500	150,860	640
Purchased Professional – Educational	13,225	13,072	153
Other Purchased Professional Services	-	-	-
Purchased Technical	3,200	3,190	10
Rentals	1,250	1,000	250
Travel	1,500	1,375	125
Supplies & Materials	35,000	14,486	20,514
Total support services	254,175	231,928	22,247
Facilities acquisition and const. services:			
Instructional Equipment	233,750	232,403	1,347
Noninstructional Equipment	600	550	50
Total facilities acquisition and const.	234,350	232,953	1,397
Contribution to charter schools	70,000	70,000	-
Total expenditures	$2,084,825	$2,055,262	$ 29,563

Notes to Preparer
a) Prepare all individual DEPA locations prior to completing this exhibit.
b) GAAP deferred revenue is the 2006-07 actual carryover less the last state aid payment adjusted for prior year/current year encumbrances. If the result is negative, the district has a deficit for the program.

SUMMARY OF LOCATION TOTALS

Total 2006-07 DEPA Allocation	$	2,080,000	(1)
Actual DEPA Carryover (June 30, 2006)		121,976	(2)
Total DEPA Funds Available for 2006-07 Budget		2,201,976	(3)
Less: 2006-07 Budgeted DEPA (Including Prior year budget carryover)		(2,084,825)	(4)
Available & Unbudgeted DEPA Funds as of June 30, 2007		117,151	(5)
Add: 2006-07 Unexpended DEPA		29,563	(6)
2006-07 Actual Carryover - DEPA	$	146,714	(7)
2006-07 DEPA Carryover Budgeted in 2007-08	$	145,000	(8)

Anytown School District
Special Revenue Fund
Schedule of Demonstrably Effective Program Aid
Budgetary Basis
For the Fiscal Year Ended June 30, 2007

School A

	Budgeted	Actual	Variance
EXPENDITURES:			
Instruction:			
Salaries of	$ 700,000	$ 700,000	$ -
Other Salaries of	-	-	-
Purchased Professional and Technical Services	1,800	1,800	-
Other Purchased Services (400-500 series)	14,000	13,694	306
General Supplies	18,000	17,934	66
Textbooks	16,000	15,800	200
Other Objects	-	-	-
Total Instruction	749,800	749,228	572
Support Services:			
Salaries of Other	-	-	-
Other Salaries	-	-	-
Personal Services – Employee Benefits	-	-	-
Purchased Professional – Educational Services	-	-	-
Other Purchased Professional Services	-	-	-
Purchased	3,200	3,190	10
Rentals	1,250	1,000	250
Travel	1,500	1,375	125
Supplies &	12,500	12,276	224
Total support	18,450	17,841	609
Facilities acquisition and const. services:			
Instructional	14,000	14,000	-
Noninstructional	-	-	-
Total facilities acquisition and const. services	14,000	14,000	-
Contribution to charter schools	-	-	-
Total expenditures	$ 782,250	$ 781,069	$ 1,181

Notes to Preparer
a) Budgeted 2006-07 funds do not equal DEPA funds available – resulting in Unbudgeted DEPA funds at 6/30/07.
b) Total unexpended & unencumbered as of 6/30/07 is $1,181.
c) Total actual carryover as of 6/30/07 is the unexpended balance of $1,181 plus the unbudgeted $75,456 for a total of $76,637.
d) Since the actual carryover for 2006-07 exceeds the 2006-07 carryover budgeted in 2007-08, the district should consider revising its 2007-08 DEPA budget.

CALCULATION OF BUDGET & CARRYOVER

Total 2006-07 DEPA Allocation	$ 780,000	(1)
Actual DEPA Carryover (June 30, 2006)	77,706	(2)
Total DEPA Funds Available for 2006-07 Budget	857,706	(3)
Less: 2006-07 Budgeted DEPA (Including Prior year budget carryover)	(782,250)	(4)
Avail. & Unbudgeted DEPA Funds as of June 30, 2007	75,456	(5)
Add: 2006-07 Unexpended DEPA	1,181	(6)
2006-07 Actual Carryover - DEPA	$ 76,637	(7)
2006-07 DEPA Carryover Budgeted in 2007-08	$ 70,000	(8)

Anytown School District
Special Revenue Fund
Schedule of Demonstrably Effective Program Aid
Budgetary Basis
For the Fiscal Year Ended June 30, 2007

School B

	Budgeted	Actual	Variance
EXPENDITURES:			
Instruction:			
Salaries of Teachers	$ 421,500	$ 418,479	$3,021
Other Salaries of	15,000	14,040	960
Purchased Professional and Technical	-	-	-
Other Purchased Services (400-500 series)	46,500	46,313	187
General Supplies	119,750	118,904	846
Textbooks	58,750	58,500	250
Other Objects	115,000	114,917	83
Total Instruction	776,500	771,153	5,347
Support Services:			
Salaries of Other	45,000	44,445	555
Other Salaries	3,500	3,500	-
Personal Services – Employee Benefits	151,500	150,860	640
Purchased Professional – Educational	13,225	13,072	153
Other Purchased Professional Services	-	-	-
Purchased Technical	-	-	-
Rentals	-	-	-
Travel	-	-	-
Supplies & Materials	22,500	2,210	20,290
Total support	235,725	214,087	21,638
Facilities acquisition and const. services:			
Instructional	219,750	218,403	1,347
Noninstructional	600	550	50
Total facilities acquisition and const.	220,350	218,953	1,397
Contribution to charter schools	70,000	70,000	-
Total expenditures	$ 1,302,575	$ 1,274,193	$ 28,382

Notes to Preparer

a) Budgeted 2006-07 funds do not equal DEPA funds available, resulting in Unbudgeted DEPA funds at 6/30/07.

b) Total amount of funds unexpended/ unenumbered as of 6/30/07 is $28,382.

c) Total Actual Carryover as of 6/30/07 is the unexpended balance of $28,382 plus the unbudgeted $41,695 for a total of $70,077.

d) Since the Actual Carryover for 2006-07 is less than the 2006-07 carryover budgeted in 2007-08, the district must revise its 2007-08 DEPA budget.

CALCULATION OF BUDGET & CARRYOVER

Total 2006-07 DEPA Allocation	$ 1,300,000	(1)
Actual DEPA Carryover (June 30, 2006)	44,270	(2)
Total DEPA Funds Available for 2006-07 Budget	1,344,270	(3)
Less: 2006-07 Budgeted DEPA (Including Prior year budget carryover)	(1,302,575)	(4)
Avail. & Unbudgeted DEPA Funds as of June 30, 2007	41,695	(5)
Add: 2006-07 Unexpended DEPA	28,382	(6)
2006-07 Actual Carryover - DEPA	$ 70,077	(7)
2006-07 DEPA Carryover Budgeted in 2007-08	$ 75,000	(8)

II. Early Childhood Program Aid

Pursuant to *N.J.S.A.* 18A:7F-16, districts with high concentrations of low income students shall establish preschool and full day kindergarten for all four and five year-olds by the 2001-02 school year and shall maintain them thereafter. County vocational schools and limited purpose regional school districts eligible for ECPA receive their aid as DEPA rather than ECPA. Districts which have fully implemented preschool and full-day kindergarten are required to continue the full operation of such programs for as long as they receive ECPA. Beginning in the year 2001-02 school year, districts can only use ECPA (new or deferred revenue) for preschool, full-day kindergarten and other early childhood programs and services. Pursuant to *N.J.A.C.* 6A:23-5.4, districts receiving ECPA funding must maintain separate accounting records for each of the three applicable budgeted ECPA programs, which includes pre-kindergarten, kindergarten and grades 1-3. The sample schedule for ECPA has been modified to reflect this accounting.

ECPA revenue that was not expended or encumbered by June 30th of the budget year shall be classified as deferred revenue in the financial accounts and statements of the district and added to the revenue of a subsequent year budget in one of the three ways previously outlined in the beginning of the section. Also, the aforementioned *Deferred Revenue/Carryover* and *Transfers/Revisions* restrictions described under DEPA apply to ECPA.

As part of the June 30th CAFR districts are required to prepare a budgetary basis statement for ECPA expenditures using the minimum outline required for the special revenue fund, including a calculation of the unbudgeted ECPA funds along with June 30, 2007 unexpended/unencumbered funds. It should be noted that although the district was required to submit a detailed budget by program, there is no requirement to track ECPA expenditures by program. Accordingly, the ECPA statement of expenditures included in the CAFR is prepared at the summary level, not by program. This statement is the responsibility of the district.

Auditors should verify that the funds were expended only for approved ECPA programs pursuant to *N.J.S.A.* 18A:7F-16 and are in compliance with the department approved ECPA Program Description and operational plan. Auditors should verify that the required Carryover Funds form was filed and that the proper revisions were made for June 30, 2006 carryover. Auditors should verify that the 2006-07 ECPA plan was amended to reflect audited carryover balances, test that the district has completed the transfer notification form for transfers and where appropriate obtained prior written approval. See the *State Aid/Grant Compliance Supplement* for the applicable year available on the NJ Treasury (OMB) web site for further audit procedures.

PREPARING THE EARLY CHILDHOOD PROGRAM RESTRICTED AID (ECPA) SCHEDULE

The Schedule of Early Childhood Program Aid is prepared from the district records and is the responsibility of the district. This schedule is to be included in the Special Revenue Fund section of Other Supplementary Information**.** All districts eligible for ECPA were required to track ECPA expenditures in the special revenue fund using the uniform grant project budget statement coding structure.

The format of the schedule was designed to provide an audit trail of the actual versus budgeted expenditures as well as calculate deferred revenue. This statement is to be prepared on the budgetary basis where “actual” equals the 2006-07 expenditures plus encumbrances at June 30, 2007. These encumbrances must be liquidated within 60 to 90 days. The “budgeted” amounts can be obtained from the district’s 2006-07 certified Detailed Appropriations lines 13010 – 13300 adjusted for any approved carryovers and/or transfers.

At the bottom of the statement is a calculation of the 2006-07 Available & Unbudgeted funds and the Actual Carryover as of June 30, 2007.

Line (1) represents the total 2006-07 ECPA allocation. This amount can be obtained from the district's SA1NET and is a budgetary amount.

Line (2) represents the actual audited ECPA carryover as of June 30, 2006. Carryover balances may have been anticipated in the 2006-07 original budget. Districts were instructed to utilize a Carryover Funds form to request use of June 30, 2006 balances or to adjust prior estimates. Copies of the approved request should be on file at the district.

Line (3) represents the budgeted transfer from the general fund to fund ECPA programs. This amount can be obtained from Line 511 (Account 20-5200) in the 2006-07 certified advertised revenues.

Line (4) represents the total 2006-07 ECPA funds available for the 2006-07 budget (sum of lines 1-3).

Line (5) represents the amount the district included in its ECPA budget for the fiscal year 2006-07, including contribution to charter schools.

Line (6) represents the difference between Line (4) and Line (5). If a district did not revise its budgeted original allocation (if different) or revise its budgeted June 30, 2006 carryover, then this amount is considered Available and Unbudgeted as of June 30, 2007. Line (6) is then considered a component of the Actual Carryover – ECPA as of June 30, 2007.

Line (7) represents 2006-07 budgeted ECPA (Line 5) less the "total actual" for the program. This amount represents the 2006-07 unexpended/unencumbered ECPA.

Line (8) is the total Actual Carryover – ECPA as of June 30, 2007 and is the sum of Lines (6) and (7).

Line (9) can be found in the 2006-07 Supporting Documentation 15b from the 2006-07 certified budget. If the actual carryover (Line 8) is less than the budgeted amount then the district must file an amended 2006-07 ECPA program budget with the department. If the actual carryover is greater than the budgeted carryover then the district has the option of filing an amended ECPA program budget or can retain the additional carryover amount not originally budgeted as deferred revenue until 2007-08.

The Actual ECPA Carryover (line 8) is for budget purposes and will differ from the June 30, 2007 ECPA deferred revenue reported on Schedule B, *Schedule of State Financial Assistance* by the amount of the 2006-07 last state aid payment. The Schedule of State Financial Assistance will not include the amount of the last state aid payment but instead will include this amount in the MEMO column under "Budgetary Receivable". The last state aid adjustment is required because the revenue recognition of the last state aid payment in 2006-07 is not in conformity with GAAP revenue recognition based on GASB 33; however, districts are legally required to recognize the revenue of the last state aid payment for fiscal year 2006-07 in their budgetary schedules. The Schedule of State Financial Assistance does not include the last payment for 2005-06 (received in July 2006) in the beginning balance deferred revenue, but does include it in the cash received column.

Please note that on the following example statement every possible account is listed. This is an optional format. Districts may list only those accounts that are applicable. In addition, the line (#) references on the example statements should not appear on the actual statements in the CAFR.

Anytown School District
Special Revenue Fund
Schedule of Early Childhood Program Aid
Budgetary Basis
For the Fiscal Year Ended June 30, 2007

District-wide Total

	Budgeted	Actual	Variance
EXPENDITURES:			
Instruction:			
Salaries of Teachers	$ 808,955	$ 743,268	$65,687
Other Salaries of Instruction	253,474	252,365	1,109
Other Purchased Services (400-500 series)	325,000	315,000	10,000
General Supplies	110,500	82,500	28,000
Total Instruction	1,497,929	1,393,133	104,796
Support Services:			
Personal Services – Employee Benefits	142,071	136,589	5,482
Purchased Professional – Educational Services	25,000	5,689	19,311
Total support services	167,071	142,278	24,793
Facilities acquisition and const. services:			
Instructional Equipment	15,000	10,000	5,000
Noninstructional Equipment	-	-	-
Total facilities acquisition and const. services	15,000	10,000	5,000
Contribution to charter schools	20,000	20,000	-
Total expenditures	$1,700,000	$1,565,411	$134,589

CALCULATION OF BUDGET & CARRYOVER

Total revised 2006-07 ECPA Allocation	$ 1,642,835	(1)
Add: Actual ECPA Carryover (June 30, 2006)	212,404	(2)
Add: Budgeted Transfer from the General Fund 2006-07	42,835	(3)
Total ECPA Funds Available for 2006-07 Budget	1,898,074	(4)
Less: 2006-07 Budgeted ECPA (Including Prior year budget carryover)	(1,700,000)	(5)
Available & Unbudgeted ECPA Funds as of June 30, 2007	198,074	(6)
Add: June 30, 2007 Unexpended ECPA	134,589	(7)
2006-07 Actual Carryover - ECPA	$ 332,663	(8)
2006-07 ECPA Carryover Budgeted in 2007-08	$ 130,000	(9)

Note to Preparer
a) Since the 2006-07 Actual Carryover is more than the amount budgeted in 2007-08 district should consider revising its 2007-08 ECPA budget.

Ex. E-3a

Anytown School District
Special Revenue Fund
Early Childhood Program Aid Schedule of Expenditures
Budgetary Basis
For the Fiscal Year Ended June 30, 2007

Program: Preschool	**Total**		
	Budgeted	**Actual**	**Variance**
EXPENDITURES:			
Instruction:			
Salaries of Teachers	$ 485,373	$ 445,960	$ 39,413
Other Salaries of Instruction	152,084	151,419	665
Other Purchased Services (400-500 series)	195,000	189,000	6,000
General Supplies	66,300	49,500	16,800
Total Instruction	898,757	835,879	62,878
Support Services:			
Personal Services – Employee Benefits	85,243	81,953	3,290
Purchased Professional – Educational Services	15,000	3,413	11,587
Total support services	100,243	85,366	14,877
Facilities acquisition and const. services:			
Instructional Equipment	9,000	6,000	3,000
Noninstructional Equipment			
Total facilities acquisition and const. services	9,000	6,000	3,000
Contribution to charter schools	-	-	-
Total expenditures	$ 1,008,000	$ 927,245	$ 80,755

Anytown School District
Special Revenue Fund
Early Childhood Program Aid Schedule of Expenditures
Budgetary Basis
For the Fiscal Year Ended June 30, 2007

Program: Kindergarten	**Total**		
	Budgeted	**Actual**	**Variance**
EXPENDITURES:			
Instruction:			
Salaries of Teachers	$ 161,791	$ 148,654	$ 13,137
Other Salaries of Instruction	50,695	50,473	222
Other Purchased Services (400-500 series)	65,000	63,000	2,000
General Supplies	22,100	16,500	5,600
Total Instruction	299,586	278,627	20,959
Support Services:			
Personal Services – Employee Benefits	28,414	27,318	1,096
Purchased Professional – Educational Services	5,000	1,138	3,862
Total support services	33,414	28,456	4,958
Facilities acquisition and const. services:			
Instructional Equipment	3,000	2,000	1,000
Noninstructional Equipment	-	-	-
Total facilities acquisition and const. services	3,000	2,000	1,000
Contribution to charter schools	10,000	10,000	-
Total expenditures	$ 346,000	$ 319,083	$ 26,917

Anytown School District
Special Revenue Fund
Early Childhood Program Aid Schedule of Expenditures
Budgetary Basis
For the Fiscal Year Ended June 30, 2007

Program: Grades 1-3	Total		
	Budgeted	Actual	Variance
EXPENDITURES:			
Instruction:			
Salaries of Teachers	$ 161,791	$ 148,654	$ 13,137
Other Salaries of Instruction	50,695	50,473	222
Other Purchased Services (400-500 series)	65,000	63,000	2,000
General Supplies	22,100	16,500	5,600
Total Instruction	299,586	278,627	20,959
Support Services:			
Personal Services – Employee Benefits	28,414	27,318	1,096
Purchased Professional – Educational Services	5,000	1,138	3,862
Total support services	33,414	28,456	4,958
Facilities acquisition and const. services:			
Instructional Equipment	3,000	2,000	1,000
Noninstructional Equipment	-	-	-
Total facilities acquisition and const. services	3,000	2,000	1,000
Contribution to charter schools	10,000	10,000	-
Total expenditures	$ 346,000	$ 319,083	$ 26,917

III. Distance Learning Network Aid (DLNA) and Instructional Supplement Aid (ISA)

DLNA and ISA which is not expended or encumbered by June 30th of the budget year shall be classified as deferred revenue in the financial accounts and statements and shall be expended in the subsequent year budget for allowable costs. Specific approval for the use of DLNA and ISA carryover is not required. Both of these restricted formula aids are accounted for in the special revenue fund.

Beginning in 2003-04, DLNA funding combined into a general fund Consolidated Aid category. The only available resource in 2006-07 for DLNA restricted funding is from a prior period carryover which must still be reported in the special revenue fund. DLNA carryover must be accounted for under the support and facilities acquisition and construction services functions. Intended uses of these funds were provided in supporting documentation Item 17. All expenditures from DLNA carryover must support distance learning activities and services, to assist all pupils in achieving New Jersey's Core Curriculum Content Standards. Allowable expenditures are included in the 2003-04 *State Aid/Grant Compliance Supplement* which can be found on the website http://www.nj.gov/njded/finance/fp/audit/0304/ .

ISA must be accounted for under the instruction and support functions. Intended uses of these funds were provided in supporting documentation Item 18. All expenditures must provide supplemental services for students from low-income families, the same purpose as DEPA. Expanded coding of expenditures is not required by program.

The calculation of deferred revenue as of June 30, 2007 must include consideration of the audited June 30, 2006 deferred revenue carried over and included in the 2006-07 funds available for expenditure in 2006-07. Deferred revenue as of June 30, 2007 may be carried over and expended in 2007-08 for allowable costs as designated above. As stated above, specific approval for the use of DLNA and ISA carryover is not required.

Any unexpended or unencumbered DLNA or ISA must be reported as deferred revenue in the financial statements and in Schedule B, *Schedule of Expenditures of State Financial Assistance*. As part of the June 30th CAFR districts are required to prepare budgetary statements using the minimum outline required for the special revenue fund which must include the 2006-07 budgeted carryover for DLNA and ISA. This statement is the responsibility of the district. *The State Aid/Grant Compliance Supplement* should be referenced for compliance requirements and suggested audit procedures.

PREPARING THE DISTANCE LEARNING NETWORK AID (DLNA) RESTRICTED AID SCHEDULE

The Schedule of Distance Learning Network Aid is prepared from the district records and is the responsibility of the district. This schedule is to be included in the Special Revenue Fund section of Other Supplementary Information. All districts that had Distance Learning Network Aid carryover funds from a prior year were required to track these expenditures in the special revenue fund using the uniform grant project budget statement coding structure.

The format of the schedule was designed to provide an audit trail of the actual versus budgeted expenditures as well as calculate deferred revenue. This schedule is to be prepared on the budgetary basis where "actual" equals the 2006-07 expenditures plus encumbrances at June 30, 2007. These encumbrances must be liquidated within 60 to 90 days. The "budgeted" amounts are to be taken from the district's 2006-06 certified budget on lines 13710 – 13900 of the Detailed Appropriations adjusted for any approved carryovers and/or transfers.

At the bottom of the schedule is a calculation of the 2006-07 Available & Unbudgeted funds and the Actual Carryover as of June 30, 2007.

Line (1) represents the actual audited DLNA carryover as of June 30, 2006.

Line (2) represents the amount the district included in its DLNA budget for the fiscal year 2006-07.

Line (3) represents the difference between Line (1) and Line (2). If a district did not revise its budgeted June 30, 2006 carryover, then this amount is considered Available and Unbudgeted as of June 30, 2007. Line (3) is then considered a component of the Actual Carryover – DLNA as of June 30, 2007

Line (4) represents 2006-07 budgeted DLNA (Line 4) less the "total actual" for the program. This amount represents the unexpended/unencumbered DLNA.

Line (5) is the total Actual Carryover – DLNA as of June 30, 2007 and is the sum of Lines (3) and (4).

Line (6) can be found in the district's 2006-07 certified budget on line 423 of the Advertised Revenue Section. All carryover must be expended in subsequent years for allowable program expenditures.

The Actual DLNA Carryover (line 5), if any, is the amount of unused DLNA carryover from the previous year, since there were no DLNA allocations for 2006-07. Any carryover should agree to the June 30, 2007 amount reported on Schedule B, *Schedule of State Financial Assistance*. The *Schedule of State Financial Assistance* does not include the last payment for 2005-06 (received in July 2006) in the beginning balance deferred revenue, but does include it in the cash received column.

Please note that on the following example statement every possible account is listed. This is an optional format. Districts may list only those accounts that are applicable.

Anytown School District
Special Revenue Fund
Statement of Distance Learning Network Aid
Budgetary Basis
For the Fiscal Year Ended June 30, 2007

	Total		
	Budgeted	**Actual**	**Variance**
EXPENDITURES:			
Support Services:			
Salaries of Other Professional Staff	$ 17,300	$ 17,300	$ -
Other Purchased Services (400-500 series)	-	-	-
Supplies & Materials	19,305	19,305	-
Total support services	36,605	36,605	-
Facilities acquisition and const. services:			
Instructional Equipment	-	-	-
Noninstructional Equipment	-	-	-
Total facilities acquisition and const. services	-	-	-
Contribution to charter schools	-	-	-
Total expenditures	$36,605	$36,605	$ -

CALCULATION OF BUDGET & CARRYOVER

Actual DLNA Carryover (June 30, 2006)	$ 36,605	(1)
Less: 2006-07 Budgeted Prior Year Carryover of DLNA	(36,605)	(2)
Available & Unbudgeted DLNA Funds as of June 30, 2007	-	(3)
Add: 2006-07 Unexpended DLNA	-	(4)
2006-07 Actual Carryover DLNA	-	(5)
2006-07 DLNA Carryover Budgeted in 2007-08	$ -	(6)

Notes to Preparer

a) The schedule should reflect the prior year DLNA carryover since DLNA was not a form of state aid for 2006-07. Carryover from previous years, if any, should be included.

b) In the unusual situation of a district not utilizing carryover, the schedule should reflect continued carryover as DLNA.

PREPARING THE INSTRUCTIONAL SUPPLEMENT AID (ISA) RESTRICTED AID SCHEDULE

The *Schedule of Instructional Supplement Aid* (ISA) is prepared from the district records and is the responsibility of the district. This schedule is to be included in the Special Revenue Fund section of Other Supplementary Information. All districts eligible for ISA were required to track these expenditures in the special revenue fund using the uniform grant project budget statement coding structure.

The format of the schedule was designed to provide an audit trail of the actual versus budgeted expenditures as well as calculate deferred revenue. This schedule is to be prepared on the budgetary basis where "actual" equals the 2006-07 expenditures plus encumbrances at June 30, 2007. These encumbrances must be liquidated within 60 to 90 days. The "budgeted" amounts are to be taken from the district's 2006-07 certified budget on lines 14010 – 14250 of the Detailed Appropriations adjusted for any approved carryovers and/or transfers.

At the bottom of the schedule is a calculation of the 2006-07 Available & Unbudgeted funds and the Actual Carryover as of June 30, 2007.

Line (1) represents the 2006-07 ISA allocation. This amount can be obtained from the district's SA1NET and is a budgetary amount.

Line (2) represents the actual audited ISA carryover as of June 30, 2006.

Line (3) represents the total 2006-07 ISA funds available for the 2006-07 budget (the sum of Lines 1 & 2).

Line (4) represents the amount the district included in its ISA budget for the fiscal year 2006-07, including the contribution to charter schools.

Line (5) represents the difference between Line (3) and Line (4). If a district did not revise its budgeted original allocation (if different) or revise its budgeted June 30, 2006 carryover, then this amount is considered Available and Unbudgeted as of June 30, 2007. Line (5) is then considered a component of the Actual Carryover – ISA as of June 30, 2007.

Line (6) represents 2006-07 budgeted ISA (Line 4) less the "total actual" for the program. This amount represents the unexpended/unencumbered ISA.

Line (7) is the total Actual Carryover – ISA as of June 30, 2007 and is the sum of Lines (5) and (6).

Line (8) can be found in the district's 2007-08 certified budget on line 424 of the Advertised Revenue Section. All carryover must be expended in subsequent years for allowable program expenditures.

The Actual ISA Carryover (line 7) is for budget purposes and will differ from the June 30, 2007 ISA deferred revenue reported on Schedule B, *Schedule of State Financial Assistance* by the amount of the 2006-07 last state aid payment. The Schedule of State Financial Assistance will not include the amount of the last state aid payment but instead will include this amount in the MEMO column under "Budgetary Receivable". The last state aid adjustment is required because the revenue recognition of the last state aid payment in 2006-07 is not in conformity with GAAP revenue recognition based on GASB 33; however, districts are legally required to recognize the revenue of the last state aid payment for fiscal year 2006-07 in their budgetary schedules. The Schedule of State Financial Assistance does not include the last payment for 2005-06 (received in July 2006) in the beginning balance deferred revenue, but does include it in the cash received column. Please note that on the following example statement every possible account is listed. This is an optional format. Districts may list only those accounts that are applicable.

Anytown School District
Special Revenue Fund
Schedule of Instructional Supplemental Aid
Budgetary Basis
For the Fiscal Year Ended June 30, 2007

	Total		
	Budgeted	**Actual**	**Variance**
EXPENDITURES:			
Instruction:			
Other Purchased Services (400-500 series	$ 356,000	$ 315,698	$ 40,302
General Supplies	126,000	75,245	50,755
Total instruction	482,000	390,943	91,057
Support services:			
Other Purchased Professional Services	52,000	42,895	9,105
Total support services	52,000	42,895	9,105
Contribution to charter schools	23,000	23,000	-
Total expenditures	$557,000	$456,838	$100,162

CALCULATION OF BUDGET & CARRYOVER

Total 2006-07 ISA Allocation	$ 550,000	(1)
Actual ISA Carryover (June 30, 2006)	211,324	(2)
Total DLNA Funds Available for 2006-07 Budget	761,324	(3)
Less: 2006-07 Budgeted ISA (Including Prior year budget carryover)	(557,000)	(4)
Available & Unbudgeted ISA Funds as of June 30, 2007	204,324	(5)
Add: 2006-07 Unexpended ISA	100,162	(6)
2006-07 Carryover ISA	$ 304,486	(7)
2006-07 ISA Carryover Budgeted in 2007-08	$ 250,000	(8)

Note to Preparer

a) Since the 2006-07 actual carryover is greater than the amount budgeted in 2006-07, the district should consider revising its 2006-07 budget.