

**FINANCIAL ACCOUNTING
FOR
NEW JERSEY SCHOOL DISTRICTS**

THE AUDIT PROGRAM

2007-08

**STATE OF NEW JERSEY
DEPARTMENT OF EDUCATION
DIVISION OF FINANCE
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SIGNIFICANT CHANGES FOR 2007-08

CHANGES RESULTING FROM SFRA OF 2008

P.L. 2007, c.260 known as the “School Funding Reform Act of 2008”, effective January 13, 2008 provides for a new state aid funding formula beginning in the 2008-09 school fiscal year. Changes to the state aid categories has had an impact on the June 30, 2008 year end reporting for several restricted state aids.

The elimination of certain restricted state aid revenues beyond June 30, 2008 has modified the carryover reporting. Districts were instructed during preparation of their 2008-09 budget to account for any existing or anticipated June 30, 2008 carryover of Demonstrably Effective Program Aid, (DEPA), Instructional Supplement Aid (ISA), Targeted At-Risk Aid (TARA) or Distance Learning Network Aid (DLNA) as other unrestricted miscellaneous state aid in the 2008-09 general fund budget on revenue line 360. For districts with an approved multi-year TARA plan, June 30, 2008 carryover may be maintained and reported in the special revenue fund for use in accordance with the approved plan. Early Childhood Program Aid (ECPA) carryover remains in the special revenue fund to fund preschool programs in the subsequent year.

Detailed schedules for these state aid categories must still be prepared and reported in the special revenue fund but the amount of carryover calculated at June 30, 2008 is recorded in the general fund as an interfund receivable and deferred revenue. The special revenue fund carryover is recorded as an interfund payable and a corresponding reduction in revenue. Following is an example of the year end journal entry to record the carryover for these restricted state aids:

		General Fund		Special Revenue Fund	
		DR	CR		
June 30, 2008					
Interfund A/R	10-132	XX,XXX			
Deferred Rev	10-481		XX,XXX		
Revenue	20-32XX*			XX,XXX	
Interfund A/P	20-402				XX,XXX
To record carryover due to general fund at 6/30/08					
*DEPA = 20-3212 *DLNA = 20-32313 *ISA = 20-3214 *TARA = 20-3217					
July 1, 2008					
Deferred Rev	10-481	XX,XXX			
Unrestricted Revenue	10-31XX		XX,XXX		
To record revenue recognition of prior year deferred revenue					

TARA, a new restricted state aid beginning in 2007-08, was available to districts with a low-income concentration of at least 15 percent and did not receive Education Opportunity Aid or Preschool Expansion Aid. TARA revenue and expenditures are to be reported in the special

revenue fund in a format similar to ECPA, i.e. by program. Districts were permitted to use TARA for 2007-08 property tax relief under certain conditions and with Departmental approval. Districts approved to use some or all of their 2007-08 TARA funds for property tax relief were directed to budget that portion directly in the general fund as other state aids. For year end reporting, the full amount of TARA revenue received should be reported in the special revenue fund and any portion used for property tax relief should be reported in the carryover calculation as a transfer to the general fund.

SINGLE AUDIT MAJOR PROGRAM DETERMINATION

The NJ Department of Agriculture has determined that the Child Nutrition Program should follow the risk based approach consistent with the federal OMB Circular A-133. Effective for 2007-08, if the district's Child Nutrition Program is determined to be a major program in accordance with the federal Circular A-133, paragraph 520, the Schedule of Meal Count Activity should be audited and included in the Auditor's Management Report (AMR). In prior years the Schedule of Meal County Activity was audited and included in the AMR for all districts. See Section II-SA for further guidance on determination of major programs and Section II-60 for further guidance on the Child Nutrition Program requirements.

The Department of Education, Office of Fiscal Accountability and Compliance (OFAC), has provided clarification on the TPAF pension and post retirement on behalf payments made by the State of New Jersey. These payments should not result in the exclusion of other programs from the Type A programs threshold calculation and therefore should not be included in the single audit major program determination. The on behalf payment information obtained from the Division of Pensions is posted on the department website for all school districts on an annual basis. This does not impact the compliance requirements for Reimbursed TPAF Social Security Contributions. This clarification was made to achieve consistency in audits across the state. Refer to Section II-10 and II-SA for this guidance.

Effective June 30, 2007, OFAC began requiring Type A Program Worksheets to be included with the submission of the CAFR reporting package. Section II-SA includes an internet link for the worksheet templates and includes guidance from OMB A-133 on how Type A programs are determined. The Quality Assessment Review (QAR) that is performed by staff in the Single Audit Unit includes a review of the Type A worksheet and calculation of the Type A threshold. The QAR checklist in Section III-8 has been updated to include these review questions.

AUDIT SUBMISSION

P.L. 2007, c.52 established an independent Office of State Comptroller (OSC) and provided the State Comptroller with authority to review the audits and other information as deemed necessary to determine whether further financial review by OSC is warranted. Accordingly, districts were notified by OSC in a letter dated May 7, 2008 to provide OSC with a copy of their most recent financial audit. The letter addressed to NJ Boards of Education is available on pages 9 and 10 of the website link: http://www.state.nj.us/comptroller/news/080507_letters.pdf. Pursuant to the establishment of this new office, districts may be asked to submit an electronic version of the CAFR on CD-ROM to the Office of State Comptroller.

In addition to the above submission, the department is requesting two electronic versions of the June 30, 2008 CAFR on CD-ROM be sent to the Office of Fiscal Accountability and Compliance to assist the department in data retrieval and for website data access.

OTHER LAWS IMPACTING SCHOOL DISTRICT COMPLIANCE

Several laws enacted in 2007 have had an impact on school district finances and operations. The provisions which are effective for the year beginning July 1, 2007 are discussed below.

P.L. 2007, c.42 (A-17)

Effective July 1, 2007, this law amended several statutes by eliminating various mandates imposed on public school districts. The amendments affecting school district financing include the following:

- The threshold for affidavit of claims and demands pursuant to N.J.S.A. 18A:19-3 was amended from \$150 to an amount that equals or exceeds 15% of the bid threshold amount established pursuant to N.J.S. 18A:18A-3. Claims and demands, except for payrolls and debt service, must be verified by affidavit, or by a signed declaration in writing, to the effect that the claims are correct in all particulars, that the articles have been furnished or the services rendered and that no bonus has been given or received.
- Exceptions to the requirement for advertising pursuant to N.J.S.A. 18A:18A-5, was amended to reflect the documentation submission requirements for purchasing at 10% less than the State contract prices. Auditors should refer to 18A:18-5(e) for specific details.

P.L. 2007, c. 53 (A-5) –the School District Accountability Act

Approved on March 15, 2007, this law provides for various school district accountability measures including cost efficiencies, publication of user friendly budgets, public notice of certain actions related to employment contracts of superintendents, certification of compensation reporting for income tax purposes, and travel related policy and procedures. Listed below are areas of the law effective for this audit period. District auditors should be aware of the new rules and regulations and consider the risk of noncompliance when developing and implementing procedures to test internal controls and detailed tests of transactions.

Efficiency standards include steps taken to maximize the district's participation in E-rate and ACT, participation in the Alliance for Competitive Energy Services (ACES) Program, and refinance all outstanding debt for which a 3% net present value savings threshold is achievable. The law also requires that districts take steps to maximize participation in the Special Education Medicaid Initiative (SEMI) Program with maximum participation defined by the Commissioner.

The Commissioner letter of March 17, 2008 clarifies sections of this law on travel expenditures and policy. A copy of the letter is included in Section II-10 and is available on the website: <http://www.nj.gov/education/finance/fp/af/>. Suggested audit procedures have been included in Chapter 1 of the *State Aid/Grants Compliance Supplement*.

A certification by the school business administrator, or any other person designated by the board of education is required to be submitted to the Department of Treasury. The certification form states that all documentation prepared for income tax related purposes, in regard to superintendents of schools, assistant superintendents of schools and school business administrators' types of compensation complies fully with the requirements of federal and state laws and regulations. The certification is performed on a calendar year basis and first effective for the December 31, 2007 calendar year end. The certification was to be completed and

submitted to the Department of Treasury by due March 15, 2008. The standardized certification form (E-Cert1) and instructions are available on the Department of Treasury website at http://www.state.nj.us/treasury/taxation/pdf/other_forms/misc/e_cert1.pdf. See Section II-10 on “Compensation Reporting”.

Effective for fiscal year end June 30, 2007, annual audit procedures must include test measures to assure that documentation prepared for income tax related purposes complies with the requirements of federal and State laws on reporting compensation. Suggested audit procedures have been included in the 2007-08 *State Aid/Grants Compliance Supplement*.

P.L. 2007, c. 62 (A-1)

Section 6 of this statute (*N.J.S.A.* 18A:7F-41(c)) provides for two new legal reserves, emergency and debt service reserves beginning in the 2007-08 fiscal year. New accounts were established in audsum, similar to other New Jersey permitted legal reserves such as capital reserve, to enable the tracking and separate reporting of deposits, withdrawals and ending balances for these new legal reserves.

- The current expense emergency reserve account was permitted to be established in the general fund with deposits made to the account with voter approval beginning in the 2007-08 budget process. Deposits may also be made at year end by board resolution as noted below. The reserve account is to be used to finance future unanticipated general fund expenditures required for a thorough and efficient education. Unanticipated means reasonably unforeseeable. The emergency reserve balance may not exceed \$250,000 or one percent of the district’s general fund budget up to a maximum of \$1,000,000 whichever is greater. Withdrawals require the approval of the Commissioner unless the withdrawal is necessary to meet an increase in total health costs greater than four percent.
- The debt service reserve was permitted to be established in the debt service fund beginning in the 2007-08 fiscal year, with proceeds from the sale of district property, at the time the proceeds are realized. The funds are used to retire any outstanding debt service obligation of the district. The reserve is to be liquidated within the lesser of five years from its inception or the remaining term on the obligations. Any remaining balance must be used for tax relief. Districts may not deposit to this reserve if they have no outstanding debt.

Section 6 (*N.J.S.A.* 18A:7F-41(a) and 41(b)) provides that districts may supplement a capital reserve or maintenance reserve account by board resolution at year end, for any unanticipated revenue and/or unexpended line-item appropriation amounts. Year end for this purpose has been defined as the period June 1st through June 30th. June 2008 would be the first year that this provision is effective for deposits by board resolution at year end. Prior to this law, districts could not deposit funds into these reserve accounts without voter approval.

All legal reserve accounts are to be held in accordance with GAAP and subject to annual audit. Any capital gains or interest earned becomes part of the reserve account. A separate bank account is not required, but a separate identity for each reserve must be maintained.

OTHER CHANGES / UPDATES FOR 2007-08

The following is a summary of changes / updates:

1. General changes are found throughout the document and include:
 - Changed references to School Construction Corporation (SCC) to School Development Authority (SDA).
 - Deleted guidance on changes related to implementation of GASB 34 I-4.4 (interfund transfers), II-50 (permanent fund), II-80.1 (trust fund).
 - References to *Government Auditing Standards* (Yellow Book) include the July 2007 Revision where applicable.
 - Changed Asst Commissioner for Abbott Implementation to the appropriate assistant commissioner office.
 - Deleted references to code that are no longer applicable.
 - Terminology for capital outlay spending growth limitation adjustment changed to Commissioner adjustment for capital outlay increases (I-4, III-8).

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

Introduction

- Noted that *N.J.S.A. 18A:7A-55* amended includes late submission of the annual audit as one of the conditions for appointment of a state monitor.
- Included the statute that provides authority for the State Comptroller's request that an electronic copy of the audited CAFR be submitted.

Section I-1

- Noted that there are new AICPA risk assessment standards. Auditors must document their assessment.
- Auditors must have an understanding of the district's internal controls in order to assess risk.
- Refer to COSO's Internal Control –Integrated Framework.
- Added list of recent laws especially relevant to school district financial audits.
- Deleted provision of P.L. 2004, c.93 (S1701) that was superseded by P.L. 2007, c.53 regarding the maximum surplus that is permitted.

Section I-3

- Clarification and explanation of new test for limited English proficiency (Bilingual)

Section I-4

- Transfers to the capital reserve or maintenance reserve may be made by board resolution at year end pursuant to *N.J.S.A. 18A:7F-41a* and *18A:7F-41b*.
- Districts may appropriate funds in the annual budget for an emergency reserve or may transfer funds to the emergency reserve at year end subject to the provisions of *N.J.S.A. 18A:7-41(c)(1)*. Permitted terms of transfer are noted.
- Districts may transfer proceeds from the sale of property to the debt service fund pursuant to *N.J.S.A. 18A:7-41(c)(2)*. Permitted terms of the reserve are noted.
- Clarification of the restriction on the capital outlay budget when a Commissioner Adjustment has been approved.

Section I-5

- Included link to Local Finance notice LFN 2008-9 which updates information about on-line auction of surplus personal property.

Section I-6

- Targeted At-Risk Aid (TARA), a new restricted state aid for 2007-08, is required to be accounted for and reported similar to ECPA and DEPA.
- Added guidance on accounting for carryover of the restricted state aid categories of DEPA, DLNA, ISA and TARA. Carryover is to be reported as an interfund payable in the special revenue fund and an interfund receivable and deferred revenue in the general fund.

Section I-8

- Noted the change in year end procedures for the special revenue fund. Refer to Section II-20.

Section II-10

- Clarification that TPAF amounts paid by the state on behalf of districts are to be excluded from the calculation for Type A programs in the state single audit.
- Added reference to the form (E-CERT1) and website for statute required certification of payroll to the Department of Treasury.
- Terminology of capital outlay spending growth limitation adjustment changed to Commissioner Adjustment – capital outlay. Provisions of the regulations on capital outlay SGLA continue as applicable.
- Spending Growth Limitation Adjustment – Insurance and Domestic Preparedness – all references have been deleted. This adjustment is not applicable after the 2006-07 budget.
- Added that deposits of unanticipated revenue or unexpended line-item appropriations to capital reserve account may be made by board resolution between June 1 and June 30 (*N.J.S.A.* 18A:7F-41).
- Districts that requested a Commissioner tax levy cap waiver were not permitted to budget a deposit into the capital reserve.
- The limitation of appropriating at least fifty percent of the excess surplus as calculated in the budget software Support Documentation Item 9 in the proposed budget for property tax relief has been removed.
- Added emergency reserve to the section on reserved fund balance.
- Refer to the Finance CAFR website Exhibit J-19 for the sample Schedule of Required Maintenance for School Facilities.
- Added Emergency Reserve as an adjustment to the excess surplus calculation.

Section II-20

- Accounting treatment of carryover of DEPA, ISA, DLNA and TARA is explained. These state aids are no longer available and carryover is to be transferred to the general fund in 2008-09.
- Accounting treatment of encumbrances at 6/30/08, if any, for DEPA, ISA, DLNA, and TARA is discussed.
- TARA instructions and sample schedules are included.

Section II-30

- School Construction Corporation (SCC) reference is now School Development Authority (SDA)

Section II-40

- Title of state aid forms for 2008-09 is revised.
- Added information and statute reference on new debt service reserve account.
- Added reference to statutory requirement for annual reporting to the Commissioner regarding payments made for debt service.

Section II-50

- Deleted guidance on changes due to GASB 34.

Section II-60

- Clarification that audit should follow OMB A-133 risk assessment approach. Schedule of Meal Count Activity is required if Child Nutrition Program is audited as a major program.
- Effective with October 2007 monthly reimbursement claims were entered on-line using the School Nutrition Electronic Application and Reimbursement System (SNEARS) website via the myNewJersey portal.
- Updated Child Nutrition Program memo titles and dates

Section II-80

- Deleted guidance related to conversion to GASB 34.

Section II-SA

- Added guidance on determination of major programs.
- Added requirement initiated at June 30, 2007 that Type A Program Worksheets be included with the CAFR package. Included an internet link for worksheet template.
- Clarified the TPAF – Pensions contribution made by NJ State on behalf of the districts is not to be included in the Major Program calculation.
- Added clarification on reporting prior year carryover when there is an approved amendment to include it in the current year grant.
- Added guidance that any June 30, 2008 carryover of the restricted state aids DEPA, DLNA, ISA and TARA should be reported in the column Deferred Revenue/Interfund Payable.
- Federal CFDA and State aid numbers are updated.
- School lunch rates are updated.

Section III-1

- Deleted first paragraph on Accounting Principles. Guidance for disclosures on accounting principles should be found in authoritative literature (GASB).
- Electronic versions of audited CAFR and AMR are to be sent to the Office of State Controller and to the Department of Education.
- Added Type A program worksheets to Checklist for Audit Submission and links to sample worksheets.

Section III-3

- Added language on permissible transfers to the disclosure on Capital Reserve Accounts

Section III-4

- Sample finding and recommendation added for new law requiring Certification of Compliance with Federal and State Reporting of Compensation. Board of education should designate someone to prepare and submit the Certification form E-CERT1.
- Sample finding and recommendation for noncompliance in employee compensation reporting for income tax related purposes.
- Emergency Reserve is an adjustment in the Excess Surplus Calculation

Section III-5

- No change

Section III-6

- Add #23b to the Checklist for Annual Audit - Documentation that districts should have available for audit must include the Form E-CERT 1, Certification of Compliance with Federal and State Law Respecting The Reporting of Compensation for Certain Employees.
- # 27 of the Checklist for Annual Audit – Delete “Deposits [to Capital reserve] may only be made when approved by the voters in the annual budget or by special election.”
- Add #27a Board resolution for deposit to capital reserve account made at year end.
- Add establishment of emergency reserve under #7C of Audit Questionnaire (subject matter recorded in minutes) – if applicable.
- For districts that are required to use school-based budgeting, checklists should include:
 - February 28, 2008 notification letters for Education Opportunity Aid adjustments.
 - The Adjusted 2007-08 State Aid Adjustments Summary

Section III-8

- Changed terminology for capital outlay spending growth limitation adjustments to commissioner cap adjustments for capital outlay increases.
- Added Quality Review question - was dollar threshold used to distinguish between Type A and Type B programs computed correctly.
- Added Quality Review question on whether Type A programs calculated by NJDOE review agree to those identified on the Schedules of Findings and Questioned Costs.

OVERVIEW

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

The *Comprehensive Annual Financial Report* (CAFR) is the basis for the annual audit. New Jersey state law and administrative code (*N.J.S.A.18A:4-14* and *N.J.A.C. 6A:23-2*) require school districts to follow generally accepted accounting principles (GAAP). These principles are augmented with the release of statements from the Governmental Accounting Standards Board (GASB). The Outline for Comprehensive Annual Financial Report section at the end of this introduction provides additional information on the CAFR.

Reference Materials

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

Responsibility/Government Auditing Standards

N.J.A.C. 6A:23-2.2 (i) requires the issuance of a CAFR by every school district, along with interim financial statements to facilitate management control of financial operations. Financial statements are the responsibility of the board of education's management and are its representation of the financial position at a given point in time and the operations of the district during a period of time.

The federal Single Audit Act requires that organizations that expend \$500,000 or more in federal financial assistance have an audit conducted in accordance with guidance provided in the Office of Management and Budget Circular A-133. NJ Circular Letter 04-04-OMB requires that New Jersey school districts that expend \$500,000 or more in State and/or federal financial assistance in their fiscal year have an annual single audit performed in accordance with the Single Audit Act, OMB Circular A-133 and State policy. *Government Auditing Standards July 2007 Revision*, commonly referred to as the "Yellow Book", established generally accepted government audit standards (GAGAS) and is available through the website: <http://www.gao.gov/govaud/ybk01.htm>. A summary of major changes since the 2003 version is also available through that website.

Submission/Reporting Package

The Department of Education requires the submission of the reports described below on or before the statutory deadline. The statutory submission date is the fifth day after four months after the end of the school fiscal year. Accordingly, the deadline for submission of 2007-2008 audits is Wednesday, November 5, 2008. The Commissioner has statutory authority (*N.J.S.A. 18A:23-6*) to appoint auditors for districts failing to meet the statutory due date or invoke other administrative actions but the Commissioner does not have discretion to change a statutory requirement, such as the due date. *N.J.S.A. 18A:7A-55*, as amended by P.L. 2007, c.53 and

approved by the Governor on March 15, 2007, includes late submission of the annual audit as one of the conditions for appointment of a state monitor.

1. The CAFR

The CAFR is the district's official annual report. It should include all funds of the district. It is organized into three primary sections: 1) an introductory section, 2) a financial section, and 3) statistical section. If a district falls under the reporting requirements of the Single Audit Act of 1984, as amended by the Single Audit Act Amendments of 1996 and the revised OMB Circular 133, and/or the reporting requirements under NJOMB Treasury Circular Letter 04-04, the CAFR will also contain a single audit section. The CAFR will strictly adhere to the Outline of the CAFR located at the end of this introduction. The report must include all sections, letters and exhibits in the applicable sample CAFR as they apply to each school district as well as any additional statements, schedules, and disclosures required under the circumstances of the district. The report must also include all applicable single audit opinion letters prepared by the local school district's auditor in the single audit section. Sample single audit letters are provided in Section III – Chapter 2 of *The Audit Program*. With the passage of P.L. 2007, c.52, the Office of the State Comptroller (OSC) has the authority to request the CAFR and AMR be sent to OSC.

Auditor's Note – Auditors should review the *Appendix A to the Audit Program* (Appendix A) for items that specifically relate to districts that are required to use school-based budgeting. Appendix A is available on the web site <http://www.nj.gov/njded/finance/fp/audit/>.

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

This separate report will serve as the auditor's report to management. This report must be submitted together with the CAFR to the Department of Education in order to comply with Finance Policy Bulletin 200-1. A sample Auditor's Management Report is located in Section III – Chapter 4. With the passage of P.L. 2007, c.52, the Office of the State Comptroller (OSC) has the authority to request the CAFR and AMR be sent to OSC.

3. Audit Summary Worksheet

The Audit Summary Worksheet (Audsum) diskette is to be completed by the auditor and given to the district board secretary/business administrator. The board secretary/business administrator is responsible for carefully reviewing the reports generated by the Audsum diskette and signing off on the transmittal letter as to the accuracy of the information. The board secretary/business administrator is responsible for the transmission of the Audsum data via the DOENET to the Department of Education by the same due date as the CAFR. This information is used by the Department of Education for a variety of purposes, including downloading into the actual column of the budget software issued by the department. **It is very important that auditors and district personnel pay particular attention to the accuracy of the data to avoid having to resubmit the data. If data is resubmitted due to an error in the CAFR, revised pages of the CAFR must be sent.**

The procedure for submission of the CAFR and the AMR was adopted by the Department of Education to conform to the common practice for CAFR presentation followed by other school districts throughout the country. The two reports have separate, distinct purposes. The CAFR is the financial report presented to the board for conformance with GAAP. The AMR is the auditor's report to the board of education of his/her findings and recommendations as a result of the audit. In accordance with OMB Circular A-133, the CAFR will also be submitted to the

Federal Audit Clearinghouse as part of the reporting package along with the data collection form in cases where a federal single audit of the district is required.

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

OUTLINE FOR COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR)

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

The financial statements are the responsibility of the board of education's management. The General Accounting Office (GAO) *Government Auditing Standards* (see the Introduction to this *Audit Program*) provide that an auditor may not audit financial statements prepared by that same auditor. The department recommends that district management and auditors give careful consideration to the independence standard and its impact on the auditors of the district financial statements.

Districts should reference the NJ Department of Education (NJDOE) website at www.state.nj.us/njded/finance/fp (click on CAFR) for selected sample statements, including the basic financial statements and budgetary comparisons which are in excel files that can be downloaded by district staff. Information on Management Discussion and Analysis (MD&A) requirements and other topics related to GASB Statement No. 34 financial reporting are also available at that web site to assist auditors and district staff. **The illustrative statements and schedules are not intended to be boilerplate nor inclusive of every situation.**

The NJDOE, after consultation with the NJASBO GASB 34 Taskforce and the NJSCPA, requires that each governmental fund be treated as a major fund in the fund statements for GASB 34 presentation. Questions relating to the preparation of NJ school district CAFRs may be emailed to doecafr@doe.state.nj.us.

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

Auditor's Note – Auditors should review *The Appendix A* for items that specifically relate to districts that are required to use school-based budgeting.

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

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

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

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

Statistical Section – This section is intended to provide CAFR users with a broader and complete understanding of the school district and its financial matters than is possible from the financial statements and supporting schedules included in the financial section. GASB Statement No. 44 (GASB 44) revised the statistical schedules effective for the June 30, 2006 CAFRs. Sample schedules, a crosswalk from the pre-GASB 44 schedules, and guidance for preparing the schedules can be found on the NJDOE web site www.state.nj.us/njded/finance/fp (click on CAFR) and the Outline of the CAFR has been changed to reflect these revisions. Statistical information to assist districts and auditors in preparing this section is posted on that web site (click on Audit Information, and 2007-08 Audit Program).

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

OUTLINE OF CAFR

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Consultants and Advisors

FINANCIAL SECTION

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

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

B. Fund Financial Statements:

Governmental Funds:

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

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- B-4 Statement of Net Assets
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C. Budgetary Comparison Schedules:

- C-1 Budgetary Comparison Schedule – General Fund
- C-1a Combining Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual (**if applicable**)
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- D. Abbott Schedules (if applicable)
- D-1 Combining Balance Sheet
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- E. Special Revenue Fund:
- E-1 Combining Schedule of Revenues and Expenditures Special Revenue Fund- Budgetary Basis
 - E-2 Demonstrably Effective Program Aid Schedule of Expenditures – Budgetary Basis
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- F. Capital Projects Fund:
- F-1 Summary Schedule of Project Expenditures
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- J-16 Full-time Equivalent District Employees by Function/Program
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- K-2 Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133 and New Jersey OMB Circular Letter 04-04
- K-3 Schedule of Expenditures of Federal Awards, Schedule A
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