

SECTION I – GENERAL COMPLIANCE
CHAPTER 8

YEAR-END PROCEDURES
Closing Out for GAAP

Based on the suggested accounting procedures illustrated in the GAAP for New Jersey School Districts, A Technical Systems Manual (Technical Systems Manual), throughout the year districts record transactions on a cash basis, with the exception of recording revenues for formula state aid and local taxes. Other revenues are recognized upon the receipt of cash and expenditures are recognized when the invoice is paid. As such, certain adjustments are necessary to convert the records to the modified accrual basis (and to the accrual basis if reporting under GASB 34) for inclusion in the district's annual report, the Comprehensive Annual Financial Report (CAFR). The public school accountant as part of the audit procedures will review these adjustments.

Various reference materials are available to assist districts in making the required adjusting and closing entries. Sample adjusting and closing entries for each fund are contained in the Technical Systems Manual. This Audit Program includes a discussion of general procedures that should be followed for all funds, standard adjusting and closing entries, as well as the additional entries required in the special revenue fund. Applicable pages of the Technical Systems Manual are referenced for more specific examples of entries to be made. This Audit Program is not meant to be all-inclusive. Districts should reference the aforementioned materials for the specific entries that must be made in other funds, including the account groups. Districts should also consult their software vendors to determine how the illustrated entries are entered into their system.

It should be noted that the closing entries for the general fund as shown in the Technical Systems Manual on page 5.16 were revised in Q.153 of the June 11, 1993 questions and answers papers. The revised entries close the actual revenues against the budgeted revenues and the actual expenditures against the budgeted appropriations.

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

General Procedures for All Funds (Other than Special Revenue)

1) Review the Status of Purchase Orders:

All prior year purchase orders should be closed or canceled as of June 30. Only under extreme extenuating circumstances should any balance be remaining in account XX-754 "Reserve for Encumbrances - Prior Year" which was used to track the liquidation of purchase orders from the prior fiscal year that were rolled over to the current fiscal year. Under GAAP, adjustments are no longer made to fund balance for the liquidation/cancellation of prior year orders. With the change from the contractual order system to the GAAP accounting system, the differences between the purchase order and the actual invoice amounts are flowed through the expenditure account where the order was originally recorded, increasing or decreasing the available balance in that appropriation account.

Under normal circumstances, the amounts reflected in the "Reserve for Encumbrances - Current Year" account should represent orders that are expected to be liquidated within a reasonable period. Open purchase orders must be reviewed to determine their status. The first step is to identify those purchase orders for which the goods/services have been received/rendered yet payment has not been made prior to year-end. These items must be charged as an expenditure against the current year budget and established as an accounts payable at June 30. The accounts payable is recorded at the invoice amount. If the invoice has not been received the amount must be estimated. When payment is made in the subsequent year, the accounts payable account will be charged rather than the expenditure account. The next step is to review

any remaining purchase orders to identify those orders which will be honored the following year (i.e.- the goods/services are still necessary) and which will be canceled (i.e.- the goods/services are no longer necessary). As a general rule, for other than construction contracts, the liquidation of these orders should be within 60 to 90 days of year-end. All purchase orders that are no longer considered necessary and/or will not be honored within that time frame in the subsequent year must be canceled. No entries are necessary to carry open purchase orders as encumbrances in the current fiscal year. The entries to adjust the subsequent year's budget will be made in that year. The district should have ready for the auditor a listing of each type of order - 1) those that represent accounts payable and 2) those that represent orders that will be honored in the following year.

2) Accrue Any Revenues That Have Been Earned and Not Collected:

Districts are instructed to accrue revenues and establish receivables at the beginning of the fiscal year for those revenues whose collection amounts are known. Districts may also have established accounts receivable balances in the prior year for items that should have been collected by June 30. At year-end entries must be made to accrue revenues and establish receivables for any revenues that have been earned but are uncollected as of June 30 in order to bring the accounting records into accordance with GAAP. Examples would be uncollected contracted tuition amounts and interest earned on investments. Adjustments for prior year's tentative tuition charges for regular pupils made because of a difference in actual per pupil cost may only be made during the third school year following the contract year. No accrual is made for such adjustments. The payments of adjustments for special education pupils are made in accordance with the terms of the original contract. Districts must also determine the collectability of any uncollected accounts receivable balances as of June 30. Uncollected balances for tax levy and state aid should be investigated. Uncollected balances for state aids may be the result of the state facilities tuition adjustment and other certificates of debit and credit not being recorded or being recorded incorrectly. Uncollected balances for a district's tax levy may be the result of an amount certified by the Commissioner which was too late for inclusion in the current year tax levy.

3) Analyze Balance Sheet Account Balances:

Districts must be able to provide their auditors with the detail of what comprises each balance sheet account at June 30. In other words, for each asset and liability account, the district should prepare a schedule (list) of what individual amounts comprise the total balance shown in the general ledger account. Accounts receivable amounts should be detailed by what is owed to the district, by whom and for what; each investment should be listed along with the identity of the trustee(s) or Institution(s) holding such assets. Accounts payable amounts should be detailed by amount and vendor, etc. During the preparation of these analyses, the district should address the propriety of the amounts being included on the schedules, taking into consideration such things as which accounts should have debit balances and which accounts should have credit balances. If an account balance cannot be supported it should be investigated and adjusted appropriately. Part of the public school accountant's audit will be to examine and test these detailed schedules (lists).

The presentation of prior period adjustments differs under GAAP. Entries are not made directly to fund balance. The correction of immaterial errors is recorded as miscellaneous income or expenditures of the current year. The correction of material errors is shown in the balance sheet as a prior period adjustment, with a restatement of the opening July 1 fund balance. The use of prior year's surplus in the current year budget is tracked in the recapitulation of balances section of the board secretary's report. No adjustment is made to fund balance for the estimated use of surplus. The actual use of surplus is adjusted to fund balance as part of the year-end closing entries. As such, the preliminary (preclosing) June 30 balance in the fund balance account should equal the June 30 balance per the prior year audit.

GASB 34 Model

As noted in Chapter I-1 under "GASB 34 Implementation", districts should have a schedule of capital assets which will enable them to include a line on the *Statement of Net Assets (A-1)* for "Capital Assets, net" with amounts in the governmental funds and the business like activities columns to reflect the cost of

the assets less accumulated depreciation. Similarly, the district staff should prepare a schedule of long-term debt as described in Chapter I-1 to enable them to include the current and noncurrent portions of long-term debt as line items on the *Statement of Net Assets*.

District staff will need to prepare a conversion from the modified accrual fund balance presentation in the *Governmental Funds Balance Sheet (B-1)* to Net Assets presentation in the *Statement of Net Assets (A-1)*. A worksheet to assist in this conversion will be available on the NJDOE GASB 34 web site <http://www.state.nj.us/njded/finance/fp/gasb34/>.

Standard Adjusting Entries

To Establish Accounts Payable:

Dr. Reserve for Encumbrances (XX-753)
Cr. Encumbrances (XX-603)

Dr. Expenditures (XX-602)
Cr. Accounts Payable (XX-421)

(With the appropriate entries being made in the expenditure subsidiary ledger.)

Note: The reversal of the encumbrance and reserve is made in the amount of the original order; the accounts payable is recorded in the amount of the invoice, which may differ.

To Cancel Purchase Orders:

Dr. Reserve for Encumbrances (XX-753)
Cr. Encumbrances (XX-603)

(With the appropriate entries being made in the expenditure subsidiary ledger.)

To Accrue Revenues:

Dr. Applicable Accounts Receivable (XX-1XX)
Cr. Revenues (XX-302)

(With the appropriate entries being made in the revenue subsidiary ledger.)

Closing Entries

Two entries are needed to close the temporary budgetary accounts to fund balance. The estimated revenues, budgeted fund balance, and actual revenues are reversed, with the difference being recorded as an increase or decrease in unreserved fund balance. The budgeted appropriations, expenditures, and encumbrances are reversed, with the difference being recorded as an increase or decrease in unreserved fund balance.

As an example, after the adjusting entries have been recorded, the general fund trial balance would appear as follows:

<u>A/C</u>	<u>DEBIT</u>	<u>CREDIT</u>
101 Cash in Bank	\$117,000	
106 Cash Equivalents	1,134,576	
111 Investments	570,600	

114	Interest Receivable on Investments	25,400	
142	Intergovernmental A/R - Federal	65,000	
301	Estimated Revenues	49,929,100	
302	Revenues		\$49,911,100
303	Budgeted Fund Balance	568,300	
421	Accounts Payable		60,000
601	Appropriations		50,497,400
602	Expenditures	49,893,100	
603	Encumbrances	65,000	
753	Reserve for Encumbrances - Current Year		65,000
770	Unreserved Fund Balance		1,834,576

The entry to close the budgeted revenues against the actual revenues is:

	<u>DEBIT</u>	<u>CREDIT</u>
Dr. Unreserved Fund Balance (XX-770)	586,300	
Dr. Revenues (XX-302)	49,911,100	
Cr. Estimated Revenues (XX-301)		49,929,100
Cr. Budgeted Fund Balance (XX-303)		568,300

(With the appropriate entries being made in the revenue subsidiary ledger.)

The entry to close the budgeted appropriations against the actual expenditures and encumbrances is:

Dr. Appropriations (XX-601)	50,497,400	
Cr. Expenditures (XX-602)		49,893,100
Cr. Encumbrances (XX-603)		65,000
Cr. Unreserved Fund Balance (XX-770)		539,300

(With the appropriate entries being made in the expenditure subsidiary ledger.)

In this example, the actual use of fund balance (deficit) was \$47,000, which is calculated as the net debit to Unreserved Fund Balance (\$586,300 less \$539,300) in comparison to the budgeted deficit of \$568,300.

Each year the budgetary accounts are closed with these entries. The opening balances of those accounts in the subsequent year are always zero. The other balance sheet accounts are not zeroed. No journal entry is needed to open the books. The unaudited ending balances from the prior fiscal year will be carried forward and used as opening balances. If necessary, these amounts will be adjusted for the result of findings of the audit when the CAFR is issued.

Other Issues/Entries

The June board secretary's report may be prepared using preliminary amounts. Districts do not have to include final adjusting and closing entries in the report. The report should include normal monthly adjusting entries. Districts must remember to run final reports, ledgers, journals, etc. prior to posting the closing entries for the year.

Pre GASB 34 Model

To be in conformance with GAAP and receive a clean opinion on the financial statements, the general fixed assets account group, and if applicable, the general long-term debt account group must be included in the CAFR. The general long-term debt account group should be reviewed to determine that the proper amounts have been included for compensated absences and capital leases. Districts should reference NJDOE memo of May 15, 1995 for guidance regarding the calculation of the long-term liability for compensated absences under GASB 16. The memo supersedes the calculation contained in the GAAP Technical Systems Manual and is effective for fiscal years ending June 30, 1995 and forward.

GASB 34 Model

The general fixed assets account group and the general long-term debt account group are not applicable for districts using the GASB 34 reporting model. GASB 34 has amended GASB 16 referred to above. Districts should refer to the 2001-2002 GASB Codification, GASB 34 Edition, Section 1400 (Reporting Capital Assets), 1500 (Reporting Liabilities) and Section C60 (Compensated Absences) for further guidance. The following discussion is a brief overview and is not intended to address the conversion at the end of the year.

District-wide Financial Statements

The balance for capital (fixed) assets net of accumulated depreciation is reported in the district wide *Statement of Net Assets*. Depreciation is reported in the *Statement of Activities*. Liabilities whose average maturities are greater than one year should be reported in two components – the amount due within one year and the amount due in more than one year in the *Statement of Net Assets*.

Fund Financial Statements

Districts will continue to report capital outlay and bond proceeds in the governmental fund statements. The following paragraph on compensated absences is an excerpt from the 2001-2002 GASB Codification which should be referenced for the accounting treatment of compensated absences in the governmental fund statements.

“Entities that report compensated absences in governmental funds should recognize compensated absences expenditures each period using the modified accrual basis of accounting. That is, the amount of the compensated absences recognized as expenditures in these funds should be the net amount accrued during the year that normally would be liquidated with expendable available financial resources. Compensated absences liabilities are normally liquidated with expendable available financial resources, and a governmental fund liability and expenditures should be recognized, as payments come due each period upon the occurrence of relevant events such as employee resignations and retirements. The accumulation of earmarked net assets in a governmental fund for eventual payment of unmatured general long-term indebtedness, including compensated absences, does not constitute an outflow of current financial resources and should not result in the recognition of an additional governmental fund liability or expenditures.” (2001-2002 Codification of Governmental Accounting and Financial Reporting Standards as of June 30, 2001, Statement 34 Edition, C60.111)

At the beginning of each year, the certified budget amounts are adjusted for the outstanding purchase orders from the prior year that will be honored in the subsequent year. This is done by making the following entries on July 1:

Dr. Encumbrances (XX-603)
Cr. Appropriations (XX-601)

Dr. Reserve for Encumbrances - Current Year (XX-753)
Cr. Reserve for Encumbrances - Prior Year (XX-754)

(With the appropriate entries being made in the expenditure subsidiary ledger.)

These entries increase the budgeted appropriations, reestablish the encumbrances as a restriction of the adjusted current year appropriations, and transfer the reserve for encumbrances balance from the current year account into the prior year account. The entries have no impact on the available balance and there is no need to issue new purchase orders for these prior year items.

The below listed pages in the Technical Systems Manual should be referenced for specific examples of adjusting and closing entries in the various funds. As previously noted, the closing entries for the general fund as shown in the Technical Systems Manual on page 5.16 were revised in Q.153 of the June 11, 1993 questions and answers papers. The sample entries on page I-8.4 of this Audit Program reflect the revised entries.

General Fund	pp. 5.14 to 5.16, 5.18, 5.20 to 5.21, 5.23 to 5.24
Special Revenue Fund	pp. 9.12 to 9.13
Capital Projects Fund	pp. 11.8 to 11.10
Debt Service Fund	p. 10.3
Enterprise / Internal Service Fund	pp. 14.12 and 14.15
Trust and Agency Funds	pp. 15.2 to 15.4, 15.7 and 15.10

Pre GASB 34 Model

Districts should also reference Chapters 12 and 13 of the Technical Systems Manual for the entries necessary in the general fixed asset account group and the general long-term debt account group to properly reflect the year-end balances in the CAFR.

GASB 34 Model

Districts will be recording book entries for the capital assets and debt in the account groups as in the past. However, for the district-wide statements, entries will be needed to convert from the modified accrual basis to the full accrual basis. As noted above, schedules of both capital assets and long-term debt will enable the district to record these balances on the district-wide statements. The capital asset balance, net of accumulated depreciated is reported and the offsetting entry would be to “Net Assets, Invested in Capital Assets, Net of Related Debt”. Similarly, debt related to the capital assets is reported as a liability, and the offset is to the Net Assets, Invested in Capital Assets, Net of Related Debt”. Other long-term liabilities (e.g., compensated absences) are reported in the liabilities section of the *Statement of Net Assets*, and the offset is either “Unrestricted Net Assets”, or “Restricted Net Assets” if the accrual is expected to be paid using restricted funds.

Special Revenue Fund

There are several things to remember about the special revenue fund when doing the year-end adjusting and closing entries. First, the special revenue fund is unique as the accounting records are maintained on the budgetary basis rather than on the GAAP basis. The budgetary basis differs from GAAP in that the budgetary basis recognizes encumbrances as expenditures whereas the GAAP basis does not. Second, revenues must equal expenditures as funds are not considered earned until they are obligated.

The accounting treatment for expenditures in excess of the grant award differs from the manner explained on page 9.1 of the Technical Systems Manual. **There are no transfers from the general fund to the special revenue fund for excess expenditures.** The appropriate account in general fund budget should be charged for the excess.

Throughout the year districts record grant revenue on a cash basis. As such, in addition to the standard accruals for revenues and expenditures at year end, additional entries are needed to adjust the revenues recorded when the cash was received for any amounts that are deferred to the next fiscal year and any amounts that are due back to the grantor. Entries may also be necessary to establish receivables for grants where the expenditures have been funded through interfund loans and reimbursement has not been received from the grantor. Examples of the calculation of these amounts are included in Chapter 9 of the Technical Systems Manual systems manual and should be carefully reviewed.

Districts must perform the year-end review of special revenue fund purchase orders that was discussed earlier in this chapter and make the necessary entries as illustrated on page I-8.3 to cancel any unnecessary orders and to reverse the reserve for encumbrances and record the expenditures and the accounts payable related to the unpaid orders for which the district has received good and services as of June 30. An additional entry will be needed to record the orders that will be honored in the following year as current year budgetary basis expenditures. Remember that under the budgetary basis used in the

special revenue fund, an item is chargeable to the grant and considered an expenditure when it becomes an obligation.

Pre GASB 34 Model

Two sets of financial data are presented in the CAFR for the special revenue fund - budgetary basis and GAAP. The Combined Statement of Revenues, Expenditures and Changes in Fund Balances, All Governmental Fund Types reflects special revenue fund revenues and expenditures on a GAAP basis. The Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual reflects special revenue fund revenues and expenditures on a budgetary basis. A reconciliation between the two amounts is a required footnote disclosure. GAAP expenditures are calculated as budgetary expenditures plus 6/30 prior year encumbrances less 6/30 current year encumbrances. (Note: Although this calculation is shown in total in the footnote, it must be done separately for each of the three expenditure categories included in the Combined Statement of Revenues, Expenditures and Changes in Fund Balances: instruction, undistributed expenditures, and capital outlay.) The balance sheet figures are GAAP. No reserve for encumbrances is shown. Any balance in that account should be grouped with deferred revenue for CAFR presentation. The final general ledger balances are budgetary basis amounts. Entries are not made to the general ledger to derive GAAP amounts. Again, the examples contained in Chapter 9 of the Technical Systems Manual should be reviewed.

GASB 34 Model

The district wide *Statement of Net Assets* and the *Statement of Activities* include the special revenue fund, accrual basis, in the governmental activity column. The modified accrual basis special revenue fund is included in the governmental funds *Balance Sheet* and *Statement of Revenues, Expenditures, and Changes in Fund Balances*. The *Budgetary Comparison Schedule – Special Revenue Fund* will reflect the revenues and expenditures of this fund on the budgetary basis. Encumbrances will be a reconciling item in the Note to Required Supplementary Information – *Budget to GAAP Reconciliation* which reconciles the budgetary basis revenue and expenditures to the amounts reported in the governmental funds *Statement of Revenues, Expenditures, and Changes in Fund Balances*.

When analyzing balance sheet accounts in the special revenue fund it should be noted that there is no fund balance in the special revenue fund. Any excess of cash received over expenditures is either deferred revenue or due to grantor. Adjustments should have been made to the certified budget to spend the July 1 deferred revenue and the deferred revenue subsequently recognized as revenue during the year. An example of the journal entries necessary to budget and recognize the deferred revenue is provided in Chapter 9 of the Technical Systems Manual and should be carefully reviewed.

A credit balance appearing in the cash account must be investigated to determine if interfund loans need to be recorded. Districts should also ensure that certificates of debit and credit have been properly recorded during the year. It should be ascertained that any necessary adjustments have been recorded.

Special Revenue Fund Adjusting Entries

The following entries assume that grant revenue was recorded on a cash basis throughout the year.

Assuming that the cash received exceeds the total of the expenditures and the encumbrances, the entry would be as follows:

- If carryover is allowed:
- Dr. Revenue (20-302)
- Cr. Deferred Revenue (20-481)

- If carryover is not allowed:
 Dr. Revenue (20-302)
 Cr. Intergovernmental Accounts Payable (20-41X)

(With the appropriate entries being made in the revenue subsidiary ledger.)

In situations where the total of the expenditures and encumbrances exceeds the cash received, the entry would be:

Dr. Intergovernmental Accounts Receivable (20-14X)
 Cr. Revenue (20-302)

(With the appropriate entries being made in the revenue subsidiary ledger.)

In addition to the entries necessary to establish the accounts payable for the goods/services that were received as of June 30, an entry is also needed to recognize the encumbrances outstanding at June 30 as expenditures for the preparation of budgetary-basis financial statements:

Dr. Expenditures (20-602)
 Cr. Encumbrances (20-603)

(With the appropriate entries being made in the expenditure subsidiary ledger.)

Special Revenue Fund Closing Entries

The general ledger will be closed based on preliminary amounts. Adjustments which arise as a result of the liquidation of the June 30 encumbrances during applicable close-out periods will be reflected in the CAFR, however, the adjusting entry will be recorded in the subsequent year's general ledger. The Technical Systems Manual should be referenced for examples of the liquidation of encumbrances during the closeout period. The closing entries to be recorded in the special revenue fund are as follows:

Dr. Appropriations (20-601)
 Cr. Estimated Revenues (20-301)

Dr. Revenues (20-302)
 Cr. Expenditures (20-602)

(With the appropriate entries being made in the revenue and expenditure subsidiary ledgers.)

Special Revenue Fund - Other Issues/Entries

As mentioned earlier, when preparing the GAAP financial statements, the reserve for encumbrances does not appear in the balance sheet, but instead is grouped with (added to) the deferred revenue amount and appears on that line of the GAAP basis combined balance sheet in the general purpose financial statements of the CAFR. **For the GASB 34 model, this reclassification to deferred revenue is still applicable in the basic financial statements (district-wide statements and the governmental funds statements).**

On July 1 an entry is required to transfer the reserve for encumbrances balance from the current year to the prior year account as illustrated below. The reserve for encumbrances - prior year (20-754) account is used to track the liquidation of the prior year encumbrances that were outstanding as of June 30, acting similar to accounts payable. The rollover of these orders does not require an adjustment to the subsequent year's certified budget since the orders were charged as expenditures during the current year under the budgetary basis.

To transfer the reserve for encumbrances balance from the current year to the prior year account the entry would be:

Dr. Reserve for Encumbrances - Current Year (20-753)
Cr. Reserve for Encumbrances - Prior Year (20-754)

Grant revenues and expenditures must be identifiable based on award year and as to original, summer, or carryover allocation. The chart of accounts is structured to allow for unique program codes to be assigned to the various grant allocations that may be running simultaneously. Although specific program codes are not listed for summer programs, districts must select a program code from the ranges provided to account for the summer portion of grants that overlap fiscal years. During the year, districts should remember to budget and account for grant activity in the appropriate program codes, making adjustments to the revenue and expenditure subsidiary ledgers to account for budget revisions necessary as a result of the shift of funds between the original, summer, and carryover allocations. This information is necessary for the completion of the Schedules of Financial Assistance included in the Single Audit Section of the CAFR. Chapter 9 of the Technical Systems Manual provides an illustration of the shift of funds into a carryover period. The same entries apply to the shift of funds to a summer program.

In summary, districts should make the appropriate adjusting and closing entries. The public school accountant may suggest changes to the amounts reflected in the district's figures based on the results of his/her audit. In those instances, the auditor should provide the district with the necessary post-closing adjusting entries to correct the July 1 opening balances. Districts are reminded that the entries shown above represent what should be recorded in the accounting records. How those entries are actually made differ from software system to software system. It is advised that districts have a clear understanding of how to key those adjusting and closing entries into their accounting software package.