

**FINANCIAL ACCOUNTING
FOR
NEW JERSEY CHARTER SCHOOLS**

**THE AUDIT PROGRAM
FY 2008-09**

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

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**THE AUDIT PROGRAM
NEW JERSEY CHARTER SCHOOLS
TABLE OF CONTENTS**

	<u>PAGE</u>
Introduction	Intro – 1
Outline for Comprehensive Annual Financial Report (CAFR)	Intro - 9
Section I General Compliance	
Chapter 1 – Appointment, Scope and Declarations.....	I-1.1
Chapter 2 – Meetings and Minutes	I-2.1
Chapter 3 – Charter School Aid	I-3.1
Chapter 4 – Budget and Transfers	I-4.1
Chapter 5 – Bids & Contracts/Purchasing	I-5.1
Chapter 6 – Chart of Accounts / Expenditure Classifications	I-6.1
Chapter 7 – Reserved	I-7.1
Chapter 8 – Year-End procedures	I-8.1
Section II Specific Compliance	
Fund 10 (General Fund)	II-10.1
Board Secretary and Treasurer Reports	II-10.1
Cash Reconciliations	II-10.1
Petty Cash Funds	II-10.1
Summer Payment Plans.....	II-10.1
SAS #70 Reports	II-10.2
Third Party Disbursements.....	II-10.2
Investments	II-10.2
Tuition	II-10.4
Reporting On-Behalf Payments	II-10.4
Pensionable Wages.....	II-10.5
Refunds	II-10.6
Cancellations	II-10.6
Travel Expenditures.....	II-10.6
Health Insurance Policies.....	II-10.10
Sale and Lease-back Contracts	II-10.11
Fund Balance Classifications	II-10.12
Fund 20 (Special Revenue Fund)	II-20.1
Fund 30 (Capital Projects Fund)	II-30.1
Fund 50 (Permanent Funds)	II-50.1
Fund 60 (Proprietary Funds)	II-60.1
Fund 70 (Internal Service Funds)	II-70.1
Fund 80 (Trust Fund)	II-80.1
Fund 90 (Fiduciary/ Agency Funds)	II-90.1
Capital Assets	II-CA.1
Long-Term Liabilities	II-LT.1
Single Audit	II-SA.1

**THE AUDIT PROGRAM
NEW JERSEY CHARTER SCHOOLS
TABLE OF CONTENTS**

Section III Reporting	
Chapter 1 – Audit Criterion and Submission	III-1.1
Chapter 2 – Sample Opinion Reports	III-2.1
Chapter 3 – Note Disclosures	III-3.1
Chapter 4 – Auditor’s Management Report on Administrative Findings - Financial, Compliance and Performance	III-4.1
Chapter 5 – Audit Summary Worksheet Diskette	III-5.1
Chapter 6 – Audit Checklist and Questionnaire	III-6.1
Chapter 7 – Synopsis and Corrective Action Plan	III-7.1
Chapter 8 – Quality Assessment Review Checklist	III-8.1
 Appendix A	
Sample Charter School Aid calculation and District Payment Schedule	

**SUMMARY OF SIGNIFICANT STATUTORY,
REGULATORY AND POLICY ISSUES**

N.J.S.A. 18A:36A-11(a)

A charter school shall operate in accordance with its charter and the provisions of law and regulation which govern other public schools except that, upon the request of the board of trustees of a charter school, the Commissioner may exempt the charter school from State **regulations** concerning public schools, except those pertaining to assessment, testing, civil rights and student health and safety, if the board of trustees satisfactorily demonstrates to the Commissioner that the exemptions will advance the educational goals and objectives of the schools. **There are no exemptions from State statutes.**

The auditor should take care in evaluating each law that may or may not be applicable to a charter school. As an example, since a charter school does not receive state aid directly, some laws applicable to state aid may not apply to a charter school.

N.J.S.A. 6A:23-9.5 – Enrollment counts, payment process and aid adjustments

Charter schools, by law, are paid a per pupil amount along with all applicable categorical aid for all students enrolled in the charter school. It is imperative that the independent auditors test the submission of the charter school enrollment counts in accordance with instructions given in the Audit Program. Both the Department of Education and the public school districts depend on the reliability of this enrollment data in determining the amount of charter school aid a charter school is entitled to.

SIGNIFICANT CHANGES FOR 2008-2009

FISCAL ACCOUNTABILITY, EFFICIENCY AND BUDGETING REGULATIONS

These regulations (N.J.A.C. 6A:23A) were effective in two phases. Phase I - Subchapters 1, 3, 5, 6, and 9 were effective July 1, 2008. Phase II - Subchapters 2, 4, 7, 8, and 10-15 were effective December 18, 2008. These rules are effective through June 30, 2009. The regulations are posted at <http://www.state.nj.us/education/code/current/title6a/chap23a.htm>.

In compliance with the provisions of P.L. 2007, c.63 and P.L. 2007, c.260, the Commissioner of Education promulgated new rules at *N.J.A.C. 6A:23A*, effective July 1, 2008 through June 30, 2009 (Phase I) to assure the financial accountability. These rules set forth the requirements that must be met in order to receive State aid, including establishment of a policy to minimize the cost of public relations and professional services, participation in the SEMI program, implementation of policies concerning nepotism policy, pay-to-play, travel and internal controls. The initial year of the three year period for the "Verification of payroll check distribution" *N.J.A.C. 6A:23A-5.7* has been postponed to 2009-10. The requirement for "Standard operating procedures for business functions" (*N.J.A.C. 6A:23A-6.6*) and the "Personnel tracking and accounting", i.e., position control roster, (*N.J.A.C. 6A:23A-6.8*) to be in place are being extended to December, 2010.

The following summary taken from a January 2009 memo to chief school administrators and school business administrators reflects the major changes in the December 18 regulations.

- Subchapter 2 – Executive County Superintendent of Schools (ECS). This subchapter outlines the Executive County Superintendent of Schools'. Note that subsection 2.7 was revised to further clarify the role of the ECS in identifying in-district special education placement options. Specifically, the ECS's role is only to provide information on available in-district options for the consideration of the IEP team. Only the IEP team can make placement decisions for students with disabilities.
- Subchapter 7 – Travel Policy and Procedures. This subchapter implements the travel policies and approval requirements under chapter law 53. The definition of "regular business travel" in the final regulations includes in-state professional development events with a registration fee that does not exceed \$150 per event. The final regulations allow the use of a travel agent and clarify the requirement to use the internet, "if possible."
- Subchapter 15 – State Aid Calculations and Aid Adjustments for Charter Schools. This subchapter details the calculation of state aid to be sent to charter schools under the School Funding Reform Act.

In addition to these new subchapters, this filing also amended some sections of the phase I regulations based on comments and clarifications needed. The key amendments to the phase I regulations include but are not limited to the following:

- 6A:23A-5.8, to clarify that the regulation does not prohibit staff awards and honoring staff employees. Specifically, the amended version states the regulation does not prohibit charter schools from honoring employees without a social function (e.g. without a reception or dinner) or using public funds to support reasonable costs of employee recognition awards (e.g. teacher of the year awards). The amended regulation further states that the use of public funds for reasonable costs of employee awards is a local discretionary expenditure.
- 6A:23A-5.9, to require ECS's approval only if the travel event exceeds \$5,000 or is "out-of-state" and the charter school is sending more than five employees and/or board members. The amended regulation does not require ECS's approval of in-state travel, regardless of the number of attendees, unless the cost exceeds \$5,000. All events out of the country, regardless of cost or number of attendees, require prior ECS's approval.
- 6A:23A-6.2, to clarify that under the nepotism policy requirements, any administrator may serve as a technical resource to a negotiating team and may provide technical information when no one else in the charter school can provide such information. The regulation is also amended to permit a charter school to exclude student employees and per diem substitutes from the policy and to clarify where it is not feasible to eliminate a direct or indirect supervisory relationship over a relative, the charter school must put in place appropriate screens and/or alternative supervision and reporting mechanisms.
- 6A:23A-6.10, to provide additional options for the SBA if an invoice exceeds the PO amount, including SBA approval of a revision to the original PO with the reason noted or SBA approval and issuance of a supplemental PO for the difference.

SCHOOL FUNDING REFORM ACT OF 2008

The School Funding Reform Act of 2008 (SFRA), effective January 13, 2008 established a funding formula beginning in the 2008-09 school fiscal year. The state aid categories have been revised to reflect provisions of SFRA and can be found in Section II-SA of this *Audit Program*. SFRA provides for one restricted state aid category, Preschool Education Aid which must be accounted for and reported in the special revenue fund. Carryover of unexpended preschool education aid is permitted. A sample schedule with instructions is in Section II-20.

The Application for State School Aid (ASSA) was revised to collect data required for computing the SFRA formulas. The schedule of audited enrollments has lines for special education – elementary, middle, and high school. The special education tiers are no longer applicable. Two new columns have replaced the section on Limited English Proficient (LEP) – LEP Low Income and LEP Not Low Income.

OTHER CHANGES/UPDATES FOR 2008-2009

The following is a summary of changes/updates:

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

- 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.

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

Introduction

- Included the statute that provides authority for the State Comptroller's request that an electronic copy of the audited CAFR and the AMR be submitted to that office.

Section I-1

- Noted that there are new AICPA risk assessment standards. Auditors should document their assessment.
- Auditors must have an understanding of the charter school's internal controls in order to assess risk.
- Refer to COSO's Internal Control – Integrated Framework.
- Added partial list of recent laws affecting charter school financial operations for risk assessment regarding applicable legal and regulatory requirements.

Section I-3

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

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 charter schools are to be excluded from the calculation for Type A programs in the state single audit.
- Added reference to the law requiring certification of payroll to the Department of Treasury.

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 charter schools 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.
- 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-8

- 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 Charter Schools, (The Audit Program) is updated annually and includes instructions for both charter school management and public school accountants regarding preparing for and performing the annual audit. The full text of The Audit Program is available on the website <http://www.nj.gov/njded/finance/sf/charter/csaudit>.

The Comprehensive Annual Financial Report (CAFR) is the basis of 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 charter schools to follow generally accepted accounting principles (GAAP). These principles are augmented with the release of statements from the Governmental Accounting Standards Board (GASB). The Outline for the Comprehensive Annual Financial Report section at the end of this introduction provides information on the CAFR.

Reference Materials

There are many reference materials published by outside organizations that are available to provide guidance in report preparation. The Government Finance Officers Association (GFOA) has a publication *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 a publication *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 charter school, along with interim financial statements to facilitate management control of financial operations. Financial statements are the responsibility of the charter school's management and are its representation of the financial position at a given point in time and the operations of the charter school during a period of time.

The federal Single Audit Act requires that organizations that expend \$500,000 or more in federal financial assistance have an audit conducted in accordance with guidance provided in the Office of Management and Budget Circular A-133. NJ Circular Letter 04-04-OMB requires that New Jersey charter schools that expend \$500,000 or more in state and/or federal financial assistance in their fiscal year have an annual single audit performed in accordance with the Single Audit Act, OMB Circular A-133 and State policy. *Government Auditing Standards, July 2007 Revision*, commonly referred to as the "Yellow Book", established generally accepted government audit standards (GAGAS) is now 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. For 2008-2009 audits, the statutory submission date is the fifth day after four months after the end of the school fiscal year. Accordingly, the deadline for submission of 2007-2008 audits is Thursday, November 5, 2009. The Commissioner has statutory authority (*N.J.S.A. 18A:23-6*) to appoint auditors for charter schools failing to meet the statutory due date or invoke other administrative actions but the Commissioner does not have discretion to change a statutory requirement, such as the due date.

N.J.S.A. 18A:7A-55, as amended by P.L. 2007, c.53 and approved by the Governor on March 15, 2007, include late submission of the annual audit as one of the conditions for appointment of a state monitor.

1. **The CAFR**

The CAFR is the charter school's official annual report. It should include all of the funds of the charter school. It is organized into three primary sections: 1) an introductory section, 2) a financial section and 2) a statistical section. If a charter school falls under the reporting requirements of the Single Audit Act of 1984, as amended by Single Audit Act Amendments of 1996 and revised OMB Circular A-133 and/or reporting requirements under NJOMB Treasury Circular Letter 04-04, the CAFR will also contain a single audit section. This 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 as they apply to each charter school as well as any additional statements, schedules, and disclosures required under the circumstances of the charter school. The report must also include all applicable single audit opinion letters prepared by the charter school's auditor in the single audit section. The opinion letters must be in conformance with the applicable sample single audit letters located in section III – Chapter 2 of *The Audit Program*.

2. **The Auditors' Management Report on Administrative Findings, Financial, Compliance and Performance**

This separate report will serve as the auditors' 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 State Comptroller's office has the authority to request the AMR be sent. An electronic copy should be submitted to that office.

3. **Audit Summary Worksheet**

The Audit Summary Worksheet (Audsum) diskette must be completed by the auditor and given to the charter school 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 due date of 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 charter school personnel pay particular attention to the accuracy of 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 that is required for conformance with Governmental GAAP. The Auditors' Management Report is the auditor's report to the charter school management 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 charter school is necessary.

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, discrepancy or other nonconformity to the law, together with recommendations to the board of trustees." Accordingly, the Auditor's Management Report must include all findings, including any items contained in the Schedule of Findings and Questioned Costs.

The statutory deadline for submission will be strictly enforced. Charter School aid may be suspended consistent with N.J.S.A. 18A: 55-2 for any charter school with an audit report, including the Auditor's Management Report and the Audit Summary Worksheet Diskette, outstanding after the November 5, 2009 submission date.

The Commissioner will also consider exercising the statutory authority (*N.J.S.A.* 18A: 23-6) to appoint auditors for charter schools failing to meet the statutory deadline or invoking other administrative actions. This will apply to all late audits.

OUTLINE FOR COMPREHENSIVE ANNUAL FINANCIAL REPORT

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

The financial statements are the responsibility of the charter school'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 charter school management and auditors give careful consideration to the independence standard and its impact on the auditors of the charter school financial statements.

Charter schools should reference the NJ Department of Education (NJDOE) website at www.state.nj.us/njded/finance/fp (click on CAFR) for selected sample statements, including the basic financial statements and budgetary comparisons which are in excel files that can be downloaded by charter school 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 charter school 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 GASB 34 implementation can 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 in the Outline on the following pages. If a section or exhibit is not applicable to the charter school, the notation "N/A" should be indicated against that item in the Table of Contents.

The CAFR includes the, 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 charter school and information useful to the reader to evaluate the charter school'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 charter school-wide statements (accrual basis for governmental and business-type activities), fund statements (modified accrual basis for governmental funds, accrual basis for proprietary funds and for fiduciary funds), and notes to financial statements, 4) Required Supplementary Information (RSI) other than MD&A including budgetary comparison schedules, 5) Other Supplementary Information including combining and individual fund statements, and additional schedules. Certain combining schedules may not be applicable. For example, if a charter school has only two programs in the Proprietary Fund, a combining schedule would not be necessary. Indicate by “N/A” when a schedule is not applicable.

OUTLINE FOR COMPREHENSIVE ANNUAL FINANCIAL REPORT

Statistical Section – This section is intended to provide CAFR users with a broader and more complete understanding of the charter school and its financial affairs 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 34 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 charter schools and auditors in preparing this section is posted on that website (click on Audit Information, and 2008-09 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 NJ OMB Circular Letter 04-04.

OUTLINE FOR COMPREHENSIVE ANNUAL FINANCIAL REPORT

INTRODUCTORY SECTION

Letter of Transmittal
Organizational Chart
Roster of Officials
Consultants and Advisors

FINANCIAL SECTION

Independent Auditor's Report

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

Basic Financial Statements

- A. Charter School-wide Financial Statements
 - A-1 Statement of Net Assets
 - A-2 Statement of Activities

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

Notes to the Financial Statements

Required Supplementary Information – Part II

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

OUTLINE FOR COMPREHENSIVE ANNUAL FINANCIAL REPORT

Notes to the Required Supplementary Information

C-3 Budget-to-GAAP Reconciliation

Other Supplementary Information

D. **Not Applicable**

E. Special Revenue Fund:

E-1 Combining Schedule of Revenues and Expenditures
Special Revenue Fund – Budgetary Basis

F. Capital Projects Fund:

F-2 Summary Schedule of Project Expenditures
F-2 Summary Schedule of Revenues, Expenditures, and Changes in Fund
Balance – Budgetary Basis
F-2(x) Schedule(s) of Project Revenues, Expenditures, Project Balance, and
Project Status – Budgetary Basis

G. Proprietary Funds:

Enterprise Fund:

G-1 Combining Statement of Net Assets
G-2 Combining Statement of Revenues, Expenses and Changes in Fund
Net Assets.
G-3 Combining Statement of Cash Flows

Internal Service Fund:

G-4 Combining Statement of Net Assets
G-5 Combining Statement of Revenues, Expenses and Change In Fund
Net Assets
G-6 Combining Statement of Cash Flows

H. Fiduciary Funds:

H-1 Combining Statement of Fiduciary Net Assets
H-2 Combining Statement of Changes in Fiduciary Net Assets
H-3 Student Activity Agency Fund Schedule of Receipts and Disbursements
H-4 Payroll Agency Fund Schedule of Receipts and Disbursements

OUTLINE FOR COMPREHENSIVE ANNUAL FINANCIAL REPORT

I. Long-Term Debt:

- I-1 Schedule of Mortgage Obligations
- I-2 Schedule of Obligations under Capital Leases
- I-3 Debt Service Fund Budgetary Comparison Schedule

STATISTICAL SECTION (Unaudited)

Introduction to the Statistical Section

Financial Trends

- J-1 Net Assets by Component
- J-2 Changes in Net Assets
- J-3 Fund Balances – Governmental Funds
- J-4 Changes in Fund Balances – Governmental Funds

Revenue Capacity

- J-5 – J-9 N/A

Debt Capacity

- J-10 Ratios of Outstanding Debt by Type
- J-11 -13 N/A

Demographic and Economic Information

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

Operating Information

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

SINGLE AUDIT SECTION

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

June 30, 2009

OUTLINE FOR COMPREHENSIVE ANNUAL FINANCIAL REPORT

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SECTION I – GENERAL COMPLIANCE
CHAPTER 1

APPOINTMENT, SCOPE AND DECLARATIONS

Appointment of Auditor

N.J.S.A. 18A: 23-8 requires that an audit of the accounts of a charter school be made only by a registered municipal accountant or a certified public accountant of New Jersey who holds an uncanceled registration license as a public school accountant for New Jersey.

A charter school board of trustees should refer to *N.J.A.C.* 6A:23-2.2(i), for regulations on obtaining audit firm peer reviews (www.state.nj.us/njded/code/title6a/chap23.pdf). The code requires that charter schools engage only licensed public school accountants who have had a peer review performed in accordance with the Government Auditing Standards (Yellow Book) and obtain a copy of the audit firm's peer review. The board of trustees is required to review the report prior to the engagement of the annual audit, and to acknowledge its review of the report in the minutes that authorizes the engagement of the public school accountant. Generally when a request for proposal (RFP) is issued for annual audit services, audit firms will submit their peer review with the RFP. A returning audit firm will generally submit their peer review with the engagement letter.

Government Auditing Standards July 2007 Revision (The Yellow Book) updates the quality control and peer review sections in Chapter 3 and is applicable for financial audits of periods beginning on or after January 1, 2008. Earlier implementation is permitted and encouraged. The *Yellow Book* is available in electronic format at the Government Accountability Office (GAO) web site <http://www.gao.gov/govaud/ybk01.htm>. The website also contains a link to a summary of major changes. Printed versions of the July 2007 Yellow Book can be ordered through the Government Printing Office (GPO) online or by calling 202-512-1800 or 1-866-512-1800 toll free. Guidelines for audits of federal awards include the requirement that generally accepted government auditing standards (GAGAS) be followed when a Single Audit is required (See Section II-SA of this Audit Program for further information on Single Audits).

Rules of Professional Conduct

The public school auditor must follow the rules of professional conduct required by *N.J.A.C.* 13:29-3 et seq. and promulgated by the Board of Accountancy, Department of Law and Public Safety.

Cooperation with the Auditor

Because the compensation of the auditor is determined by the amount of time required to complete the audit, the auditor should not perform routine office work. Charter school personnel are expected to perform the following actions and have certain documents ready in advance of the audit.

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SECTION I – GENERAL COMPLIANCE
CHAPTER 1

Scope of Audit/Risk Assessment/Internal Controls

The audit shall include an audit of the books, accounts and moneys and a verification of all cash and bank balances of the charter school, and of any officer or employee thereof, and of any organization of public school pupils conducted under the auspices of the charter school. The following funds and accounts must be examined:

1. General Fund
2. Special Revenue Funds
3. Capital Projects Funds
4. Permanent Funds
5. Enterprise Funds and Internal Service Funds
6. Trust and Agency Funds
7. Private Purpose Trust and Agency Funds
8. Student Activity Funds

GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*. Auditors should consider the materiality of closely related organizations such as an education foundation or booster club, when determining whether to discretely present the statements of that organization in the charter school's CAFR as a component unit. Paragraph 6 of GASB 39 states, "It is a matter of professional judgment to determine whether the nature and the significance of a potential component unit's relationship with the primary government warrants inclusion in the reporting entity."

The areas of responsibility concerning completion of the audit and timely submission of the CAFR, the Auditor's Management Report, the Data Collection Form (if applicable) and the Audit Summary Worksheet diskette are as follows:

Responsibility for the preparation of the CAFR rests with the charter school. A sample CAFR is available on the website <http://www.nj.gov/education/finance/fp/cafr/>.

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The auditor's responsibility is to perform an audit for the purpose of rendering an opinion on the fairness of the basic financial statements. The audit is to be performed in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; the Single Audit Act of 1984 as amended by the Single Audit Act Amendments of 1996; USOMB Circular A-133, NJOMB Circular Letter 04-04, and audit requirements as prescribed by the Division of Finance, Department of Education, State of New Jersey. The auditor is also

SECTION I – GENERAL COMPLIANCE
CHAPTER 1

responsible for reviewing the unaudited sections of the CAFR. Adjustments required as a result of the audit procedures performed should be reflected in the CAFR issued by the charter school. See Section II-SA for required submission of reports.

Risk Assessment/Internal Controls

The AICPA’s Statement on Auditing Standards (SAS) No. 105 Amendment to Statement on Auditing Standards No. 95, Generally Accepted Auditing Standards supersedes SAS No. 1 section 150. This has been codified as AU 150.02 and states that an auditor “must adequately plan the work and must properly supervise any assistants. The auditor must obtain a sufficient understanding of the entity and its environment, including its internal control, to assess the risk of material misstatement of the financial statements whether due to error or fraud, and to design the nature, timing, and extent of further audit procedures.” SAS No. 99 establishes standards and provides guidance to auditors in fulfilling that responsibility, as it relates to fraud, in an audit of financial statements conducted in accordance with generally accepted auditing standards. Guidance includes additional inquiries of management, not just the business office, additional documentation of the auditor’s work in consideration of fraud, and identifying and assessing risks of fraud – incentives/pressures, opportunities, and attitudes/rationalizations.

The AICPA issued eight new risk assessment standards SAS 104 through SAS 111; collectively known as the Risk Assessment Standards, in March 2006. These standards are effective for the June 30, 2008 charter school audits and a codification is available at:

<http://www.aicpa.org/Professional+Resources/Accounting+and+Auditing/Audit+and+Attest+Standards/Risk+Assessment/>. According to the AICPA, “the primary objective of these Statements is to enhance auditors’ application of the audit risk model in practice by specifying, among other things:

- More in-depth understanding of the entity and its environment, including its internal control, to identify the risks of material misstatement in the financial statements and what the entity is doing to mitigate them.
- More rigorous assessment of the risks of material misstatement of the financial statements based on that understanding.
- Improved linkage between the assessed risks and the nature, timing, and extent of audit procedures performed in response to those risks.”

In May, 2006, the AICPA issued SAS 112 Communicating Internal Control Related Matters Identified in an Audit, first effective for charter school audits of June 30, 2007. The AICPA has noted in an article on their website that “To properly apply SAS No. 112 the auditor has to have a working knowledge of the COSO framework. COSO’s Internal Control-Integrated Framework describes the elements of internal control over financial reporting. SAS No. 112 directs the auditor to evaluate control deficiencies when identified, and communicate certain deficiencies to management and those charged with governance.”

The GAO advises auditors to use the terminology and definitions required by the AICPA Statement of Auditing Standards No. 112 (SAS 112) when reporting on internal control deficiencies. The GAO Yellow Book website <http://www.gao.gov/govaud/ybk01.htm> includes these comments:

SECTION I – GENERAL COMPLIANCE
CHAPTER 1

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Charter Schools that expend \$500,000 or more in federal financial assistance or State financial assistance are required to have an annual single audit performed in accordance with the federal Single Audit Act and the OMB Circular No. A-133 and State policy. Charter Schools that expend \$100,000 or more in State and/or federal financial assistance must have either a financial statement audit performed in accordance with *Government Auditing Standards (Yellow Book)* or a program-specific audit performed in accordance with the Single Audit Act and OMB Circular A-133 and State Policy.

The federal Circular A-133 has included guidance for single audits and defines internal control as a process, effected by an entity's management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- (1) Effectiveness and efficiency of operations
- (2) Reliability of financial reporting and
- (3) Compliance with applicable laws and regulations.

Section 500(c) of Circular A-133 under “Scope of Audit” states (1) “In addition to the requirements of GAGAS [generally accepted government auditing standards] the auditor shall perform procedures to obtain an understanding of internal control over Federal programs sufficient to plan the audit to support a low assessed level of control risk for major programs.”

Circular A-133 further states at (d)(1) - “In addition to the requirements of GAGAS - the auditor shall determine whether the auditee has complied with laws, regulations, and the provisions of contracts or grant agreements that may have a direct and material effect on each of its major programs” and at (d) (4) “The compliance testing shall include tests of transactions and such other auditing procedures necessary to provide the auditor sufficient evidence to support an opinion on compliance.”

Significant deficiencies or material weaknesses must be communicated to the board of education and must be followed up with a corrective action plan prepared by the board. Increased understanding of the audited charter school's internal controls will also enhance management's efficiency and effectiveness.

The *Yellow Book* requires that when an opinion or disclaimer is expressed on financial statements, auditors must also report on internal control over financial reporting and on compliance with laws, regulations and provisions of contracts or grant agreements.

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SECTION I – GENERAL COMPLIANCE
CHAPTER 1

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Fiscal Accountability Legislation

Legislation enacted during 2007 provides measures that must be taken to ensure fiscal accountability. For this auditing period, charter schools are only required to adhere to the travel guidelines. Additional guidelines to ensure fiscal accountability and efficiency of charter schools under N.J.A.C. 6A:23A-22 are currently proposed. If adopted, they will impact audit years 2009-10 and beyond. These proposed regulations can be reviewed at <http://www.state.nj.us/education/code/proposed/title6a/chap23a1622.pdf>.

DECLARATION OF ACCOUNTANT

N.J.S.A. 18A: 23-9. Declaration of Accountant. "No person shall undertake the auditing of the accounts of any charter school unless he shall have qualified as a public school accountant for New Jersey upon proof that he is either a registered municipal accountant or a certified public accountant, of New Jersey, and by subscribing to the following declaration:

- a. That he is fully acquainted with the laws governing the fiscal affairs of charter schools of New Jersey and is a competent and experienced auditor; and
- b. That he will honestly and faithfully audit the books and accounts of any charter school when engaged to do so, and report any error, omission, irregularity, violation of law, discrepancy or other non-conformity to the law, together with recommendations, to the management of such charter school."

SECTION I – GENERAL COMPLIANCE
CHAPTER 1

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SECTION I – GENERAL COMPLIANCE
CHAPTER 1

APPOINTMENT, SCOPE AND DECLARATIONS

Appointment of Auditor

N.J.S.A. 18A: 23-8 requires that an audit of the accounts of a charter school be made only by a registered municipal accountant or a certified public accountant of New Jersey who holds an uncanceled registration license as a public school accountant for New Jersey.

A charter school board of trustees should refer to *N.J.A.C.* 6A:23-2.2(i), for regulations on obtaining audit firm peer reviews (www.state.nj.us/njded/code/title6a/chap23.pdf). The code requires that charter schools engage only licensed public school accountants who have had a peer review performed in accordance with the Government Auditing Standards (Yellow Book) and obtain a copy of the audit firm's peer review. The board of trustees is required to review the report prior to the engagement of the annual audit, and to acknowledge its review of the report in the minutes that authorizes the engagement of the public school accountant. Generally when a request for proposal (RFP) is issued for annual audit services, audit firms will submit their peer review with the RFP. A returning audit firm will generally submit their peer review with the engagement letter.

Government Auditing Standards July 2007 Revision (The Yellow Book) updates the quality control and peer review sections in Chapter 3 and is applicable for financial audits of periods beginning on or after January 1, 2008. Earlier implementation is permitted and encouraged. The *Yellow Book* is available in electronic format at the Government Accountability Office (GAO) web site <http://www.gao.gov/govaud/ybk01.htm>. The website also contains a link to a summary of major changes. Printed versions of the July 2007 Yellow Book can be ordered through the Government Printing Office (GPO) online or by calling 202-512-1800 or 1-866-512-1800 toll free. Guidelines for audits of federal awards include the requirement that generally accepted government auditing standards (GAGAS) be followed when a Single Audit is required (See Section II-SA of this Audit Program for further information on Single Audits).

Rules of Professional Conduct

The public school auditor must follow the rules of professional conduct required by *N.J.A.C.* 13:29-3 et seq. and promulgated by the Board of Accountancy, Department of Law and Public Safety.

Cooperation with the Auditor

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See Section III-6 for a copy of the Board Secretary/Treasurer Checklist. The Auditor Questionnaire incorporates those actions and documents listed in the Board Secretary/Administrator Questionnaire. Irregularities shown by answers given to questions in the Auditor Questionnaire must be covered by a comment and recommendation in the Auditor's Management Report.

SECTION I – GENERAL COMPLIANCE
CHAPTER 1

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SECTION I – GENERAL COMPLIANCE
CHAPTER 1

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CHAPTER 1

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SECTION I – GENERAL COMPLIANCE
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DECLARATION OF ACCOUNTANT

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- a. That he is fully acquainted with the laws governing the fiscal affairs of charter schools of New Jersey and is a competent and experienced auditor; and
- b. That he will honestly and faithfully audit the books and accounts of any charter school when engaged to do so, and report any error, omission, irregularity, violation of law, discrepancy or other non-conformity to the law, together with recommendations, to the management of such charter school."

SECTION I – GENERAL COMPLIANCE
CHAPTER 1

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SECTION I – GENERAL COMPLIANCE
CHAPTER 2

MEETINGS AND MINUTES

Meetings of Public Bodies – The Sunshine Law

In enacting the Open Public Meetings Act, the legislature declared that secrecy in public affairs undermines public faith in government and that the right of the public to witness in full detail all phases of the deliberation, policy formulation and decision-making of public bodies is vital to the proper functioning of the democratic process. (N.J.S.A. 10:4-6 et seq.)

In general, the statute requires that the public be given advance notice of and the right to attend meetings of public bodies and that all discussions and official actions, unless specifically exempted, take place in public.

Minutes must be kept of all meetings, which at a minimum must include the announcement of the presiding person at the commencement of the meeting, the time and place of the meeting, and the names of the members present, the subjects considered, the actions taken and the vote of each member on any items voted upon. The following should be detailed in the minutes:

- a. A list of all employees, salaries and wages approved by the board.
- b. The final approved budget.
- c. Details of the annual organization meeting of the board.
- d. Lists of claims approved for payment by the board.
- e. Summary of monthly financial statements of the board secretary/school business administrator and the treasurer..
- f. Authorization for advertising for bids, with summary of the bids received and subsequent award of same.
- g. Full detail of budget transfers, including affirmative vote by two thirds of board for applicable transfers.
- h. Capital Improvement Authorizations, Proposals, and/or Adoptions.
- i. Loan agreements.
- j. Required Board of Trustees Policies:
Travel and expense reimbursement

SECTION I – GENERAL COMPLIANCE
CHAPTER 2

Minute Records

The proceedings of the meetings of the board of trustees should be recorded in a bound or an acceptable loose-leaf type minute book and signed by the by the charter school management. The auditor should review the minutes. This procedure is necessary to check on the actions of the board of trustees, particularly with respect to the submission of monthly financial reports, the approval of claims, adoption of the budget, budget amendments, advertisements for bids and other financial matters of importance to the auditor. Minutes must include as a minimum the requirements of the “Sunshine Law” per *N.J.S.A.* 10:4-6 et seq.

SECTION I – GENERAL COMPLIANCE
CHAPTER 3

CHARTER SCHOOL AID

Pursuant to 18A:36A-12(b), the school district of residence shall pay directly to the charter school for each student enrolled in the charter school who resides in the district an amount equal to 90% of the sum of the budget year equalization aid per pupil and the prebudget year general fund tax levy per pupil inflated by the CPI rate most recent to the calculation. In addition, the school district of residence shall pay directly to the charter school the security categorical aid attributable to the student and a percentage of the district's special education categorical aid equal to the percentage of the district's special education students enrolled in the charter school and, if applicable, 100% of preschool education aid.

Pursuant to *N.J.S.A.* 18A:36A-12(d), first year charter school students who attended non-public schools and students that were home schooled last year are funded by the state with direct payments to the charter school.

A sample of the charter school aid payment schedule is included in Appendix A.

School Register

The school district of residence must enroll charter school students in the school register and treat them as resident students for purposes of state aid. The charter school's responsibility is to ensure the attendance of those students enrolled in their school in accordance with *N.J.A.C.* 6A:23-9. A student who has been absent 10 days for an unknown reason must be reported as a dropout and the charter school must immediately notify the school district of this condition in writing.

All copies of source documents related to the determination of state aid (i.e. Application for Free and Reduced Meals and Free Milk, workpapers listing bilingual education students) must be maintained in both the school district of residence and the charter school.

The auditor is required to review the charter school's registers, workpapers and supporting documentation for all registered students for accuracy.

SECTION I – GENERAL COMPLIANCE
CHAPTER 3

Enrollment Counts

Pursuant to *N.J.A.C.* 6A:23-9 charter schools are required to conduct enrollment counts on October 15 and the last day of the school year. A charter school shall submit each count through the live web-based Charter School Enrollment System, available through the NJ Homeroom website, for the purposes of determining average daily enrollment. (See Appendix B) Accurate maintenance of the enrollment system is vital so that the resident districts can rely on the accuracy of the payment schedules.

The requirements for the auditors will be to conduct an audit of the two enrollment counts. **The importance of these counts was discussed previously concerning the fact that the school register is the source document for which revenue is derived in a charter school.**

The Schedule of Audited Enrollments is included in the Auditors' Management Report as a supplementary schedule and is subjected to the same auditing procedures applied in the examination of the charter school's basic financial statements.

Charter schools must complete the enrollment count submission, which documents the compilation of register data for the purposes of charter school aid calculation and provides an audit trail for the auditor to use as a basis for testing. Charter schools are required to prepare written internal procedures, which should provide a description of the count process for the four required enrollment counts. The procedures should describe how the count was taken, who was responsible for compiling the data, completing the enrollment count submission, and detail the various assigned responsibilities for collection of the data and the follow-up procedures to identify student information to be corrected in the subsequent count. The workpapers, original supporting documentation and internal procedures should be maintained on file for a period of seven years.

Sampling Methods/Sizes - Audit Procedure

Testing should include samples from each of the enrollment count dates, i.e. October 15, 2007, and the last day of school 2009. The sample selected for the enrollment submission will result in testing all the specifics to the student selected in that sample. The two enrollment submissions are based on actual enrollment into the charter school; therefore, the audit of both counts sampled will be verification of the number of days enrolled and agreement to the school register.

The auditor must audit 100% of the records over the two enrollment counts utilizing a “sampling without replacement” method. This means that once a student record is randomly selected for testing, that record is excluded from the sample pool for the subsequent counts. Utilizing this “non-replacement” method ensures that the auditor examines 100% of the student records. For example, if total charter school enrollment is 500 students, the October 15 sample is 250 out of the 500 records. The last day of school count sample is the remaining 250 students. The auditor should pay particular attention to students that have either enrolled into or transferred out of the charter school during the school year to ensure that they are included in the testing and that the enrolled days are accurate.

SECTION I – GENERAL COMPLIANCE
CHAPTER 3

Note: Since student enrollment is the source data for charter school funding, auditors are advised to be diligent in verifying the accuracy of the information. Any discrepancies are to be documented and reconciled. Enrollment Count Submission (See Appendix B)

On Roll -

Samples from each enrollment count must be tested to verify that the number of pupils enrolled agrees with the associated number reflected on the charter school's workpapers. The auditor will attest to the number of days that the child was enrolled

Through review of transfer cards, the auditor will verify that the enrolled students are in the appropriate district of residence to ensure that the proper school district is reflected in the payment schedule.

For students in grades 9 to 12, auditors are required to inquire as the status of any students enrolled in a county vocational program and verify that the final enrollment count reflects the corresponding reduction in Average Daily Enrollment

Special Ed/ Bilingual -

For each student tested where there was a submission of Special Ed/ Bilingual, the auditor must verify the documentation to support the classification and verify the number of days the services were rendered to that child.

Auditors are required to inquire as to the status of any special education student in outside placements. **NOTE: If a charter school student has been placed in a Private School for the Disabled, the auditor must: 1. Verify that the IEP requires the private placement; 2. Verify that the student is not reflected/listed in the Charter School Enrollment System (CHE) nor on the district's payment schedules.** The financial costs for educating these students are borne by the school district of residence.

SECTION I – GENERAL COMPLIANCE
CHAPTER 3

Low Income Limited English Proficient (LEP) Students (kindergarten through 12) For each student tested where there was a submission of Low Income LEP, the auditor must verify the documentation to support the classification and verify the number of days the services were rendered to that child.

Limited English Proficient (LEP) students (not low income-kindergarten through 12) For each student tested where there was a submission of LEP not low-income, the auditor must verify the documentation to support the classification and verify the number of days the services were rendered to that child.

Changes in the Enrollment Count beginning with October 15, 2008 are related to the School Funding Reform Act (SFRA) calculations for state aid. Special education students are no longer reported according to tier on the Charter School Enrollment System (CHE). Auditors should sample LEP Low Income and LEP Not Low Income categories and follow directions in this chapter for testing low income eligibility as well as LEP eligibility. For LEP students not low income eligible, absence of a valid low income application or an application that does not support low income eligibility is deemed to support the not low income eligible classification.

Special Education Tiers

Educationally disabled students are no longer reported by tier as of October 15, 2008. They are reported by grade – elementary, middle school, or high school. The IEP should be reviewed to determine that the student has been classified as special education and that services are provided, but auditors no longer need to review for classification in tiers.

Auditor’s Note – In respect of the confidentiality provision involving a student’s IEP, we recommend that the auditor not make photocopies of IEPs chosen as part of the test sample. The auditor may suggest that a representative of the charter school be present to ensure compliance with the aforementioned provision. Additionally, the charter school may require the auditor to sign the pupil access record to document the disclosure of this information.

Educationally disabled students who are graded (Resource Center) are reported based on the following grade level table:

<u>Grade Level (as of 10/15/08)</u>	<u>School</u>
K-5	Elementary School
6-8	Middle School
9-12	High School

Educationally disabled students who are un-graded (Self Contained) are reported based on the following age-based table:

SECTION I – GENERAL COMPLIANCE
CHAPTER 3

<u>Grade Level (as of 10/15/08)</u>	<u>School</u>
10 and under	Elementary School
11-13	Middle School
14-21	High School

Private Schools

Pursuant to N.J.S.A.18A:36A-11(b) A charter school shall comply with the provisions of chapter 46 of Title 18A of the New Jersey Statutes concerning the provision of services to handicapped students; except that the fiscal responsibility for any student currently enrolled in or determined to require a private day or residential school shall remain with the district of residence.

NEW

Pursuant to N.J.S.A.18A:36A-11(c) Within 15 days of the signing of the individualized education plan, a charter school shall provide notice to the resident district of any individualized education plan which results in a private day or residential placement. The resident district may challenge the placement within 30 days in accordance with the procedures established by law

Auditors are required to inquire as to the status of any special education student in outside placements. If a charter school student has been placed in a Private School for the Disabled or a residential program, the auditor must: 1. Verify that the IEP requires the private placement 2. Verify that the student record in the Charter School Enrollment System is coded as “Attending a Private School” and that the related Average Daily Enrollment (ADE) is zero. The costs for educating these students are borne by the school district of residence.

Auditor’s Note – In respect of the confidentiality provision involving a student’s IEP, we recommend that the auditor not make photocopies of IEPs. The auditor may suggest that a representative of the charter school be present to ensure compliance with the aforementioned provision. Additionally, the charter school may require the auditor to sign the pupil access record to document the disclosure of this information.

County Vocational School Students

For students in grades 9 to 12, auditors are required to inquire as the status of any students also enrolled in a county vocational program part-time and verify that the final enrollment count reflects the corresponding reduction in Average Daily Enrollment (ADE). The Charter School Enrollment System record of students who were enrolled in the charter school for the entire school year, and who were also attending a vocational program, should reflect an ADE of 0.5. This ADE would be prorated accordingly for students who were only enrolled in the charter school for part of the school year. This reduction should be reflected on the 2008-09 Final Enrollment Count. Any exceptions should be noted in the Schedule of Audited Enrollments.

SECTION I – GENERAL COMPLIANCE
CHAPTER 3

Low-Income Students

Obtain the low-income workpapers (by grade) prepared by the charter school and verify that there are valid "Applications for Free and Reduced Price Meals" or "Free Milk" on file to support the number claimed. The district and the charter school should have the documentation on file for free or reduced lunch information. Low income eligible students are students eligible for free or reduced price meals or free milk under the National School Lunch Act and the Child Nutrition Act as of the last day of school prior to October 16 (October 15, 2008). A valid application is one which contains all the required information and signatures. The paperwork should be filed in the charter school and the district. **It is the responsibility of the charter school to provide the district with the necessary documentation for purposes of state aid and submission of ASSA to the state.**

Errors detected in income classifications during the testing of applications for the school lunch fund/child nutrition audit which impact the low income classifications, should be applied to the low-income count when applicable. Remember these students must be on the enrollment count as of the last school day prior to October 16 (October 15, 2008) to be counted. The verified count must reflect all adjustments discovered during the above procedures. If the workpapers do not agree with the DOEnet reports, these variances must be reported on the Schedule of Audited Enrollments, as well

It will be necessary to include any items of noncompliance or negative comments in the Single Audit section of the report, along with the appropriate recommendation.

Bilingual Education -- Bilingual education programs are provided to students identified as limited English proficient (LEP) to help them develop academic skills while acquiring English language skills. There are currently three programs as follows:

- Bilingual programs with content area instruction in the native language provided when there are 20 or more LEP students of a single language group in a charter school.
- ESL-only (ESL) programs are provided when there are 10 or more LEP students in a charter school.
- English Language Services (ELS) programs are provided when there are at least 1, but fewer than 10, LEP students in a charter school.

Program plans for Bilingual/ESL, ESL-only and English Language Services programs are submitted every three years. The current three-year cycle began in July 2005, and will end in 2008. All programs operate from September to June.

Bilingual education, ESL or English Language Services programs are provided to students identified as limited English proficient (LEP) by a state established standard on an English language proficiency test. The following students, who are enrolled in the charter school as of October 15, 2008, are eligible to be reported:

- Students identified as LEP, in accordance with *N.J.A.C. 6A:15-1.3(c)*, who are participating in an approved bilingual, ESL or ELS program and

SECTION I – GENERAL COMPLIANCE
CHAPTER 3

- Students who continue to need and participate in bilingual, ESL or ELS program services on the basis of multiple indicators as per *N.J.A.C.6A:15-1.10(b)*.

The number of eligible students must be supported by a listing which includes each student's name and the ID number of the register on which they are enrolled. LEP students counted in bilingual education cannot also be counted in a special education tier category.

Based on the total LEP students reported, the auditor should use the table on page I-3.2 to determine an appropriate sample size. Trace the LEP students selected to the registers to ensure that the students were on roll as of October 15, 2008.

Trace the LEP students selected to the registers to ensure that the students were on roll as of October 15 (October 15, 2008). The results of the LEP testing are reported in the Schedule of Audited Enrollments that is required to be included in the Auditor's Management Report.

The auditor should also verify that the charter school submitted a Bilingual, ESL or ELS plan to the department that received approval.

LEP Placement Criteria:

The bilingual education code (N.J.A.C. 6A:15-1.10) states that the process to determine the readiness or inability of the individual student to function successfully in an English only program shall be initiated by the student's level of English proficiency as measured by a Department established standard on one of the accepted English language proficiency tests listed below. The readiness of the student shall be further assessed on the basis of the multiple indicators, also listed below. Thus, students may be retained for program services even though their language proficiency test scores on the LAS, LAS – Links, IPT, MACII, ACCESS for ELLs, CELLA, W-APT are at the standard. Charter Schools may continue to report these students as LEP..

2008-2009 English Language Proficiency Tests:

- Language Assessment Scales (LAS), published by CTB/McGraw Hill
- Language Assessment Scales Links (LAS-Links) published by CTB/McGraw Hill
- IDEA Proficiency Test, published by Ballard & Tighe Publishing Company
- MAC II Test of English Language Proficiency, published by Touchstone Applied Science Associates.
- WIDA ACCESS for ELLS Placement Test (W-APT)
- Assessing Comprehension and Communication in English State to State for English Language Learners (ACCESS for ELLs™)
- Comprehensive English Language Learning Assessment (CELLA), published by Accountability Works, Inc.

The standards for these are outlined below. Additional information for the first four tests above is on the website www.nj.gov/education/bilingual/resources/prof_tests.htm Further information on ACCESS is available at :

<http://www.state.nj.us/nj.gov/education/bilingual/ells/score/standard.htm>

SECTION I – GENERAL COMPLIANCE
CHAPTER 3

Using Multiple Criteria for Program Entry and Exit

Charter schools must use multiple indicators, as specified in code [*N.J.A.C.* 6A:15-1.3(b) and 6A:15-1.10(b)] to determine which students need English as a Second Language (ESL) and/or bilingual program support and which students can function independently in a monolingual English classroom. These indicators must be used for both identification of LEP students and for determining readiness to exit from bilingual/ESL/ELS program services.

Other indicators include the following:

- Reading level;
- Previous academic (classroom) performance;
- Achievement on standardized tests in English; and
- Teacher judgment.

Language Assessment Scales (LAS) – CTB/McGraw Hill

Use the LAS Language Proficiency Index (LPI) to determine program placement.

LPI (RW/O)	Category	Description
1/2	LEPa	low-level R and W skills
1/3		mid-level (limited) L and S skills
1/4	LEPb	low-level R and W skills
1/5		high-level (proficient) L and S skills
2/2	LEPc	mid-level R and W skills
2/3		mid-level (limited) L and S skills
2/4	LEPd	mid-level R and W skills
2/5		high-level (proficient) L and S skills
3/2	LEPe	high-level R and W skills
3/3		mid-level (limited) L and S skills
3/4	FEP	high-level R and W skills high-level (proficient) L and S skills

Standard

Any student that places below the FEP (Full-English Proficient) category and has at least one other indicator as per *N.J.A.C.* 6A:15-1.3(c) is limited English proficient.

SECTION I – GENERAL COMPLIANCE
CHAPTER 3

IDEA Proficiency Test (IPT) - Ballard and Tighe Publishers

Use the IPT designations to determine program placement.

- Oral Tests
 - Non-English Speaker
 - Limited-English Speaker
 - Fluent-English Speaker

- Reading Tests
 - Non-English Reader
 - Limited-English Reader
 - Competent-English Reader

- Writing Tests
 - Non-English Writer
 - Limited-English Writer
 - Competent-English Writer

Standard

Any student who falls in the “limited” category or below, in any of the tests, oral, reading, or writing and has at least one other indicator as per *N.J.A.C.* 6A:15-1.3(b) is limited English proficient.

SECTION I – GENERAL COMPLIANCE
CHAPTER 3

MAC**II Test of English Language Proficiency -Touchstone Applied Science Associates**

Use the Standard Score Cut Points to determine program placement.

Standard Score Cut Points*				
Test Level	Grade	Fall	Spring	SEM**
Red	K	210	220	8
	1	566	588	14
Blue	2	548	564	12
	3	558	574	12
Orange	4	543	559	10
	5	556	569	11
Ivory	6	545	557	10
	7	551	562	10
	8	555	567	10
Tan	9	549	560	10
	10	558	570	11
	11	568	583	11
	12	580	593	11

*For grades 1-12, cut points are set for Total Battery scores. For grade K, cut points are set in terms of total Speaking and Listening scores.

**The standard error of measurement (SEM) of a test is a measure of reliability that represents the amount by which a score may vary due to errors of measurement. Thus, the larger the SEM, the greater the likelihood that a student might be misclassified. The SEM can be used to establish a band within which errors are most probable. For students whose scores fall within the band defined by the cut score plus or minus one SEM (e.g., 539 to 559 for Fall, 9th grade), additional data should be used to corroborate the placements.

SECTION I – GENERAL COMPLIANCE
CHAPTER 3

WIDA-ACCESS Placement Test (W-APT)

The WIDA-ACCESS Placement Test (W-APT)[™] is an adaptive test that can gauge students' proficiency up to and beyond level 5 of the WIDA ELP Standards. Like ACCESS for ELLs®, there are five grade level clusters (Kindergarten, 1-2, 3-5, 6-8, and 9-12). Unlike the ACCESS for ELLs®, all scoring of the W-APT is completed on site by the test administrator. All sections of the test are scored as the test is administered. After completion of the Speaking, Listening, Reading and Writing, the Test Administrator will use the instructions on the scoring sheet to calculate the students' overall Proficiency Level.

Grades 1-12

The regulation mandating the use of multiple criteria for identifying and exiting students from language assistance programs services is still required. For students in grades 1 through 12, a W-APT proficiency level of 4.5 or higher is recommended for exiting a program if multiple criteria support the decision.

Kindergarten

The Kindergarten test is organized into parts (A through E), each progressively more difficult. If the student successfully completes a part (e.g., A) they move on to the next part. The score sheet indicates the criteria for successful completion and will indicate how far the student progresses in the adaptive administration. For example to successfully complete part D of the Listening and Speaking exam, a student must answer at least 3 questions correctly in Part A, 3 questions correctly in Part B, 3 questions correctly in Part C, and 4 questions correctly in Part D.

The W-APT may be used to help determine eligibility of a kindergarten student for language assistance or to help identify when a student is able to exit a language assistance program. Eligibility may be determined at any time during the school year. However, the Reading and Writing sections of the W-APT test are only appropriate during the second half of the Kindergarten year.

For example, eligibility for language assistance program services for a student tested in September is contingent on students NOT successfully completing any Parts A, B, and C of the Listening and Speaking Test. If a student is tested in February, the student will take the Listening and Speaking, Reading and Writing tests. If the student does not successfully complete the appropriate parts in any one of the three tests, the student is eligible for language assistance. Charter schools should consider other indicators in making their placement decision.

To exit a language-assistance program a student is expected to meet the criteria in all three test sections. The following chart demonstrates the standards for program entry and exit in kindergarten

SECTION I – GENERAL COMPLIANCE
CHAPTER 3

Test Section	Eligibility for Language Assistance Kindergarten		Exit Language Assistance
	Administered Before January 1 of the School Year	Administered After January 1 of the School Year	Administered at the End of Kindergarten
Listening and Speaking	Does not successfully complete parts A, B, C, and D	Does not successfully complete parts A, B, C, and D OR	Successfully complete parts A, B, C, and D AND answer at least 3 questions correctly in Part E AND
Reading		Does not successfully complete parts A, B, and C OR	Successfully complete parts A, B, C, and D AND
Writing		Does not successfully complete parts A, B, and C	Successfully complete parts A, B, C, and D

Assessing Comprehension and Communication in English State to State for English Language Learners (ACCESS for ELLs™)

The ACCESS for ELLs English Language Proficiency test is required to be administered annually to all LEP students to measure progress in the English language. The test is administered during a six-week window each spring and scored by an outside vendor. charter schools receive score reports during the summer, and can make tentative placement decisions based on other indicators until the score reports are received. For more information on the ACCESS for ELLS go to the website:

http://www.nj.gov/education/bilingual/ells/score/entry_exit.htm

Comprehensive English Language Learning Assessment (CELLA)

CELLA Proficiency Levels

A student scoring below English Proficient and has at least one other indicator as per N.J.A.C. 6A:15 1.3(c) is considered limited English proficient.

Listening and Speaking Proficiency Levels

Beginning students speak in English and understand spoken English that is below grade level and require continuous support.

SECTION I – GENERAL COMPLIANCE
CHAPTER 3

Low Intermediate students speak in English and understand spoken English that is at or below grade level and require some support.

High Intermediate students, with minimal support, speak in English and understand spoken English that is at grade level.

English Proficient students speak in English and understand spoken English at grade level in a manner similar to non-ELL students.

Reading Proficiency Levels

Beginning students read below grade level text and require continuous support.

Low Intermediate students read at or below grade level text and require some support.

High Intermediate students read at grade level text with minimal support.

English Proficient students read at grade level text in a manner similar to non-ELLS.

Writing Proficiency Levels

Beginning students write below grade level and require continuous support.

Low Intermediate students write at or below grade level and require some support.

High Intermediate students write at grade level with minimal support.

English Proficient students write at grade level in a manner similar to non-ELLS.

Additional Audit Procedures on the Enrollment Count:

In addition to the testing of enrollment reported, the public school accountant should also verify that the charter school maintains written internal procedures that provide a description of the enrollment count process. Source documents include signed registration forms, school register, student IEPs, free/reduced lunch forms.

These written procedures should include the following information:

- 1) How the count was taken,
- 2) Who was responsible for compiling the data and completing the enrollment count,
- 3) The various personnel assigned responsibilities for collecting the data
- 4) Procedures for verification of student registration with the local school district prior to enrollment in the charter school.

SECTION I – GENERAL COMPLIANCE
CHAPTER 3

- 5) Procedures to ensure that all source documents such as signed registration forms, student transfer cards, “application for free or reduced lunch”, verification for eligibility of bilingual services or IEPs are included in student files.
- 6) Student attendance procedures, including the use of the school register.
- 7) A procedure to ensure that the budget is revised to reflect changes in the charter school revenue.
- 8) Procedures for conducting the two enrollment counts, student additions and deletions, security procedures, location of Charter School Enrollment manual, location of DOE final reports, reporting of information to the district and appropriate follow-up.
- 9) Follow-up procedures to identify student information to be corrected in the subsequent count.

The auditor is required to document any enrollment system findings/deficiencies in the Auditor’s Management Report. If the charter school did not use the sample workpapers or develop an alternative audit trail, the auditor shall include a comment that the necessary verifications and sampling could not be performed and a recommendation that the workpapers be used or an alternative audit trail (which is acceptable to the auditor) be established for future audits. The auditor should include a comment and recommendation for any differences noted on the Schedule of Audited Enrollments. If the errors result in an overclaim of charter school aid , the auditor is required to post an adjustment.

SECTION I – GENERAL COMPLIANCE
CHAPTER 3

ADDITIONAL PROCEDURES FOR SCHOOL BASED MEDICAID REIMBURSEMENT PROGRAMS

The State of New Jersey, Department of the Treasury administers two separate and distinct Medicaid school reimbursement programs: Direct Service – Special Education Medicaid Initiative (SEMI) and Medicaid Administrative Claiming (MAC). The Medicaid Administrative Claiming initiative allows for the recovery of costs associated with a wide range of activities eligible for administrative claiming.

Related services, evaluation services, and specialized transportation are SEMI activities for which a charter school may submit claims. A student's IEP is the beginning documentation for determining needed services. In addition, charter schools are required to have all necessary documentation on file for review to support all claims for services performed as indicated in Chapter 4, "Covered Services and Practitioner Qualifications" and Chapter 5, "Service Documentation Requirements" of the SEMI handbook. The SEMI handbook is available through a link to "Special Education Medicaid Initiative" on the NJDOE website (Special Education/Information for Districts and Parents): <http://www.nj.gov/education/specialed/info/>.

The Public Consulting Group (PCG) is the vendor that the Department of Treasury selected to provide billing services for on behalf of charter schools. Effective October 1, 2005, charter schools began documenting services via PCG's Easy TRAC system. EasyTRAC is a web based application used to document certain related services (e.g. occupational therapy, speech therapy, and counseling) and evaluations, when delivered by Medicaid qualified practitioners. See Chapter 5, "Service Documentation Requirements" for the documentation required when using Easy TRAC. The primary contact at PCG is Jessica Rod (609-275-0250, ext. 3951, email jrod@pcgus.com) or Bryan Hawkom (800-210-6113, ext 3931, email bhawkom@pcgus.com).

Audit procedures applied involve testing to determine that such documentation is being maintained by charter schools. Auditors should also consider the Medicaid assistance when planning the single audit. The Schedule of Federal Expenditures of Federal Awards included in the Single Audit chapter of The Audit Program includes the Medicaid Assistance Program as a line in the general fund.

In accordance with *N.J.S.A.* 18A:55-3, charter schools are required to maximize their participation in the Special Education Medicaid Initiative (SEMI). The adopted Accountability Regulations specified in *New Jersey Administrative Code* (N.J.A.C.) 6A:23A-5.3 include programmatic guidelines and standards for charter schools to maximize participation in SEMI.

More information on SEMI can be found at the following link:
<http://www.state.nj.us/treasury/administration/pdf/semi-handbook.pdf>

June 30, 2009

SECTION I – GENERAL COMPLIANCE
CHAPTER 3

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SECTION I – GENERAL COMPLIANCE
CHAPTER 4

BUDGET & TRANSFERS

The Budget

Preparation of the budget is one of the most important functions of the charter school board of trustees. The approved budget should be detailed on the 108 line item budget summary form prescribed by the Department of Education in the New Jersey Charter School Application. All revenue data and expenditure data items and their classifications are explained in a narrative description with the budget summary in the charter school application.

Budget Transfers

Line-item transfers must be made whenever the line item is in danger of going into a deficit condition. A charter school board of trustees may transfer amounts necessary to effectuate the approval of encumbrances or expenditures from line item accounts with available appropriation balances and pursuant to *N.J.A.C. 6A:23A-2.11* and *N.J.A.C. 6A:23A-13.3* (effective December 18, 2008). A board of trustees may by resolution, designate the chief school administrator to approve transfers between meetings of the board. Transfers made by the chief school administrator shall be reported to the board, ratified and duly recorded in the minutes subsequent meeting of the board, but not less than monthly.

In situations where a charter school charges for meals or receives state or federal meal subsidies, the activity of its food service operations must be accounted for in an enterprise fund. Charter schools have been provided accounting guidance in Chapter 14 of the GAAP technical systems manual. All costs related to the program must be shown in the enterprise fund. Any board contribution, including the payment of certain salaries or other identified specific expenditures should be budgeted and expended as a transfer to cover deficit in account 11-000-310-930. A separate line has been provided in the Audsum diskette for this account. For CAFR presentation, the budgeted and actual transfer should be presented as a general fund operating transfer.

No transfers should be made from the general fund to the special revenue fund for expenditures in excess of the grant budget. In this instance, the Board's contribution to the program should be coded to the applicable general fund expenditure account, with the exception of benefits.

No transfer may be made under *N.J.S.A 18A:22-8.2* from appropriations or surplus accounts for:

- (a) Capital Reserve Fund
- (b) Items classified as current expenses
- (c) Items classified as capital projects
- (d) Interest and debt redemption charges
- (e) Items classified as general fund except to other items so classified.

Transfers from appropriations or surplus accounts may be made within the general fund. When specifically approved by the Commissioner, transfers of surplus may be made at any time by board resolution and may be made within the original annual budget. Transfers of appropriations may be made by board resolution at any time during the fiscal year.

SECTION I – GENERAL COMPLIANCE
CHAPTER 4

Interfund balances

Charter school-wide statements (accrual basis)

GASB 34, paragraph 58 requires eliminations of interfund receivables and payables in the *Statement of Net Assets* except for the net residual amounts due between governmental and business-type activities, which should be presented as internal balances. Amounts reported in the funds as receivable from or payable to fiduciary funds should be included in the *Statement of Net Assets* as receivable from and payable to external parties rather than as internal balances. Paragraph 59 requires eliminations in the *Statement of Activities* to remove the “doubling-up” effect of internal service fund activity.

Funds statements (modified accrual basis)

For governmental funds, interfund transfers should be reported as other financing uses in the funds making the transfers and as other financing sources in the funds receiving transfers. In proprietary funds, revenues from transfers should be reported separately after non-operating revenues and expenses. (GASB 34 Paragraph 112).

Interfund Note disclosures:

GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, paragraphs 14 and 15 require specific disclosures on interfund balances and transfers.

“Governments should disclose in the notes to the financial statements the following details about interfund balances reported in the fund financial statements:

- a) Amounts due from other funds by individual major fund, nonmajor governmental funds in the aggregate, nonmajor enterprise funds in the aggregate, internal service funds in the aggregate, and fiduciary fund type
- b) The purpose for interfund balances
- c) Interfund balances that are not expected to be repaid within one year from the date of the financial statements

Governments should disclose in the notes to the financial statements the following details about interfund transfers reported in the fund financial statements:

- a) Amounts transferred from other funds by individual major fund, non-major governmental funds in the aggregate, non-major enterprise funds in the aggregate, internal service funds in the aggregate, and fiduciary fund type
- b) A general description of the principal purposes of the government’s interfund transfers
- c) The intended purpose and the amount of significant transfers that meet either or both of the following criteria:
 - Do not occur on a routine basis – for example, a transfer to a wastewater enterprise fund for the local match of a federal pollution control grant
 - Are inconsistent with the activities of the fund making the transfer – for example, a transfer from a capital projects fund to the general fund.”

SECTION I – GENERAL COMPLIANCE
CHAPTER 5

BIDS & CONTRACTS/PURCHASING

Bids & Contracts

Local Finance Notice LFN 2008-9 was issued in April 2008 by the Department of Community Affairs (DCA) and provides updated information and instructions regarding the use of online auctions to sell personal surplus property. Since the introduction of the pilot program pursuant to P.L. 2001, c.30, DCA's Division of Local Government Services (DLGS) has approved several internet-based vendors for such online auctions. For more detailed information regarding this process, please read the LFN which is available at <http://www.nj.gov/dca/lgs/lfns/08lfns/2008-9.doc> .

The charter schools received LFN 2007-12 last year with updated information regarding prevailing wage laws (see pg 2): <http://www.nj.gov/dca/lgs/lfns/07lfns/2007-12.pdf>.

P.L. 2007, c.42, effective July 1 2007, amended *N.J.S.A.* 18A:18A-5 to eliminate the requirement for specific reporting to the Director of the Division of Local Government Services in those instances in which a board of trustees has determined not to take advantage of a State contract for the purchase of an item because the board can purchase that item at a price which is at least 10% below that available under the State contract. Rather, the bill provides that the purchase order relating to the contract must include a notation that the item was purchased at least 10% below the State contract price. Also, the board will make available to the director, upon his request, any documents relating to the solicitation and award of the contract.

The charter schools received LFN 2007-12 last year with updated information regarding prevailing wage laws (see pg 2): <http://www.state.nj.us/dca/lgs/lfns/07lfns/2007-12.pdf>

P.L. 2006, c.96 (Prompt Payment Law) was signed by the Governor on September 9, 2006. This law concerns the prompt payment of construction contracts and affects construction-related contracts of charter schools that took effect after September 1, 2006. The law is codified as *N.J.S.A.* 2A:30A-1 et seq. and affects all contracts for "improvements" regardless of dollar amount. Further guidance is available through Local Finance Notice 2006-21 at <http://www.state.nj.us/dca/lgs/lfns/06lfns/2006-21.doc>.

P.L. 2005, c 271 (Pay-to-Play Law) was signed into law on January 5, 2006. A key element of the new law allows charter school boards to adopt their own pay-to-play laws. A second, equally important element requires a new disclosure for certain purchases over \$17,500 that are not publicly bid. Local Finance Notice 2006-3 provides guidance to assist boards of trustees and their legal counsel in complying with the law. That notice, and other pay-to-play documents are posted on the DLGS Pay-to-Play website at: www.nj.gov/dca/lgs/p2p.

*N.J.S.A.*18A:18A-1 et seq. (Public School Contracts Law) was amended by P.L.1999, c.440. The associated rules were drafted and promulgated by the Department of Community Affairs (DCA), with consultation from the Commissioner of Education. A copy of the law along with additional materials on the revisions to the law and the associated rules can be found at www.state.nj.us/njded/pscl.

SECTION I – GENERAL COMPLIANCE
CHAPTER 5

Highlights of N.J.S.A. 18A:18A (Public School Contracts Laws)

N.J.S.A. 18A:18A-2 contains definitions for terms used throughout *N.J.S.A.* 18A:18A-1 et seq. and was amended under P.L. 1999, c.440. It includes as subsection (p) the term ‘competitive contracting’, which is defined as “the method described in *N.J.S.A.* 18A:18A-4.1 through 18A:18A-4.5 and in rules promulgated by DCA at *N.J.A.C.* 5:34-4 of contracting for specialized goods and services in which formal proposals are solicited from vendors; formal proposals are evaluated by the purchasing agent or counsel or school business administrator; and the board awards a contract to a vendor or vendors from among the formal proposals received.” Also, subsection (aa) defines the term ‘concession’ to exclude vending machines.

N.J.S.A. 18A:18A-3(a) sets forth the bid threshold and requires award by board resolution. The statute was amended in 1999 to provide for an even higher threshold when there is a “Qualified Purchasing Agent” in the charter school as defined at *N.J.A.C.* 5:34-1.1 and certified upon approval of an application submitted to DCA. Pursuant to *N.J.S.A.* 18A:18A-3(b), the bid threshold was raised to \$21,000, effective July 1, 2005. For charter schools with a qualified purchasing agent, the bid threshold was raised to \$29,000.

“When the cost or price of any contract awarded by the purchasing agent in the aggregate does not exceed in a contract year the total sum of \$17,500 (\$21,000 effective July 1, 2005) the contract may be awarded by a purchasing agent when so authorized by resolution of the board without public advertising for bids and bidding therefore, except that the board may adopt a resolution to set a lower threshold for the receipt of public bids or the solicitation of competitive quotations.”

“If the purchasing agent is qualified pursuant to subsection b. of section 9 of P.L.1971, c.198 (C.40A:11-9), the board may establish that the bid threshold may be up to \$25,000 (\$29,000 effective July 1, 2005). Such authorization may be granted for each contract or by a general delegation of the power to negotiate and award such contracts pursuant to this section.”

N.J.S.A. 18A:18A-3(b) – provides for the base contract period.

“Any contract made pursuant to this section may be awarded for a period of 24 consecutive months, except that contracts for professional services pursuant to paragraph (1) of subsection (a) of *N.J.S.A.* 18A:18A-5 may be awarded for a period not exceeding 12 consecutive months.”

N.J.S.A. 18A:18A-4 sets forth the requirement for advertising, and was amended to address the disqualification of a vendor. This statute permits a board of trustees to disqualify a low bidder of any board or, in the case of a contract for a school facilities project, the New Jersey Economic Development Authority has had a “prior negative experience” with the bidder.

“Every contract for the provision or performance of any goods or services, the cost of which in the aggregate exceeds the bid threshold, shall be awarded only by resolution of the board to the lowest responsible bidder after public advertising for bids and bidding therefore, except as is provided otherwise in this chapter or specifically by any other law.

The board may, by resolution approved by a majority of the board and subject to subsections (b) and (c) of this section, disqualify a bidder who would otherwise be determined to be the lowest responsible bidder, if the board finds that any board, or in the case of a contract for a school

SECTION I – GENERAL COMPLIANCE
CHAPTER 5

facilities project, the New Jersey Economic Development Authority, has had prior negative experience with the bidder within the past 10 years, as reported in a contractor evaluation submitted pursuant to *N.J.S.A.* 18A:18A-15 or in a school facilities project performance evaluation submitted pursuant to regulations of the Department of the Treasury or section 62 of P.L. 2000, c 72 (C.18A:7G-36) as appropriate.”

N.J.S.A. 18A:18A-4.1 provides boards of trustees the ability to use competitive contracting in lieu of public bidding for the procurement of specialized goods and services above the bid threshold for the following purposes:

- proprietary computer software;
- hiring of a non-profit entity or not-for-profit entity under Title 15A;
- services performed by an energy services company;
- telecommunications transmission or switching services;
- specialized machinery or equipment of a technical nature;
- food services

N.J.S.A. 18A:18A-4.4 provides boards of trustees the authority to pass a resolution authorizing the use of competitive contracting. “In order to initiate competitive contracting, the board shall pass a resolution authorizing the use of competitive contracting each time specialized goods or services enumerated in section 45 of P.L. 1999, c.440 are desired to be contracted.”

N.J.S.A. 18A:18A-5 contains exceptions to the requirement for advertising and includes the below exceptions; this section should be referenced by the auditor for more details on these and other changes.

- expenses for travel/conferences;
- support/maintenance of proprietary computer software/hardware;
- purchase of goods/services at rates set by Universal Service Fund – FCC;
- student funded and benefited projects, e.g. yearbooks, class rings, class gift;
- food services pursuant to procedures established by the New Jersey Department of Agriculture; and
- vending machines for food and drink.
- Goods/services for which the lowest of three quotes is at least 10% less than the state contract price (see subsection (e) for award requirements)

N.J.S.A. 18A:18A-7 addresses emergency contracts that exceed the bid threshold, and requires the person in charge of the facility where the emergency occurs to notify the purchasing agent in writing of the circumstances and the need to invoke such action. Pursuant to this statute, charter schools must also comply with the implementing regulations at *N.J.A.C.* 5:34-6.1 and *N.J.A.C.* 6A:26-3.16

N.J.S.A. 18A:18A-10 permits the use of state contracts, and requires a board resolution for authorization for a charter school to do so.

N.J.S.A. 18A:18A-15 addresses general specifications for goods/services and was amended by P.L. 1999 c.440 primarily in the following areas:

- establishes a new requirement for a prospective bidder to challenge bid specifications in writing no less than three business days prior to bid opening.

SECTION I – GENERAL COMPLIANCE
CHAPTER 5

- subsection (c) expands the discrimination clause to include creed, color, ancestry, and marital status, affectional or sexual orientation, etc.
- allows that goods/services purchased by funds from a bequest, legacy or gift that specifies a manufacturer or vendor may be treated as an exception to the bidding requirement.

N.J.S.A. 18A:18A-21 addresses the requirements for advertising bids, and sets forth requirements for notification of revisions or addenda to advertisements or bid documents. P.L. 2005, c.191 amended *N.J.S.A.* 18A:18A-21 and makes uniform the period of notice for revisions or addenda to advertisements for bids for certain contracts. The law provides that notices of revisions or addenda shall be published no later than seven days, Saturdays, Sundays and holidays excepted, prior to the date for acceptance of bids. P.L. 2007, c. 4 (No-Bid Monday Law) prohibits the receipt of bids on Mondays or any day following a State or Federal holiday. The law was signed on January 17, 2007 and amended *N.J.S.A.* 18A:18A-21(a). Auditors and charter school administrators should review the Local Finance Notice at www.nj.gov/dca/lgs/lfn/07fns/2007-4.doc for further guidance.

N.J.S.A. 18A:18A-22 is establishes a list of criteria as bases on which a board may reject all bids.

N.J.S.A. 18A:18A-37 describes the awarding of contracts below the bid threshold. Subsection (a) describes the requirements for awarding contracts below the bid threshold.

“For all contracts that in the aggregate are less than the bid threshold but 15 percent or more of that amount, and for those contracts that are for subject matter enumerated in subsection (a) of *N.J.S.A.* 18A:18A-5, except for paragraph (1) of that subsection concerning professional services and paragraph (3) of that subsection concerning work by employees of the board, the purchasing agent shall award the contract after soliciting at least two competitive quotations, if practicable.”

Subsection (c) describes the requirements for small purchases.

“If authorized by the board by resolution, all contracts that are in the aggregate less than 15 percent of the bid threshold may be awarded by the purchasing agent without soliciting competitive quotations.” This section should be referenced by the auditor for more details on these and other changes.

Charter schools must comply with *N.J.S.A.* 18A:18A-37 and 42.1 and 7 CFR. 210.16 when entering into School Food Service Management Company Contracts.

Pursuant to *N.J.S.A.* 18A:39-3, the threshold for bidding of transportation contracts is \$16,200. 18A:18A:49.1 states “the provisions of this chapter shall not apply to contracts for the transportation of pupils to and from school, which contracts are regulated by Chapter 39 of this Title.”

N.J.S.A. 18A:18A-42 allows contracts of 3 years or less to include extension provisions for no more than one two-year or two one-year extensions, provided the board adopts a resolution complying with a set of conditions. The cost increase in extended contracts is limited to index rate percentages as posted by DCA at www.state.nj.us/njded/psc1. No contract can be extended so that it runs more than a total of five consecutive years.

SECTION I – GENERAL COMPLIANCE
CHAPTER 5

The following are basic categories of such extensions with the corresponding aggregate terms. The statute should be referenced for specific limitations and restrictions.

<u>ITEM</u>	<u>AGGREGATE TERMS (YEARS)</u>
(1) Fuel for Heating	3
(2) Fuel/Oil for Vehicles	3
(3) Thermal Energy (Approved by Board of Public Utilities)	40
(4) Removal of Snow and Ice	3
(5) Garbage Collection	3
(6) Data Processing Services	7
(7) Insurance	3
(8) Leasing of Equipment in accordance with rules and regulations of the State Board of Education	5
(9) Sale and lease-back of textbooks and non-consumable instructional materials	5
(10) Voice, Data, Transmission and Switching Services	5
(11) Driver Education	3
(12) Goods and Services for the purpose of conserving energy	15
(13) Any single project for construction, reconstruction or rehabilitation of any public building for length of time authorized for completion of actual construction.	Length of Time Authorized
(14) Laundry Service	3
(15) Purchases under contract awarded by Division of Purchase and Property in Treasury	Term not to exceed term of Contract

N.J.S.A. 18A:18A-45 addresses manner and method of sale of personal property, and requires, in addition to the board resolution, a sealed bid or public auction process; it also provides that if the estimated value exceeds 15 percent of the bid threshold, it must be sold at public auction. The auditor should refer to this section for additional information and changes.

SECTION I – GENERAL COMPLIANCE
CHAPTER 5

Review of Purchase Orders

Auditors should refer to the Hotline issued by the Department on September 16, 2003 and available at the website: <http://www.nj.gov/njded/finance/fp/audit/0304/po.pdf>. A copy is also in Section I, Chapter 8 of The Audit Program.

As discussed in Section I, Chapter 8, “Year-End Procedures”, charter schools should have ready for the auditor a listing of each type of order:

- 1) those that represent orders for which the goods have been received or the services have been rendered at fiscal year-end but have not been paid (accounts payable);
- 2) those that represent orders which will be honored in the subsequent year within 60-90 days of year end;
- 3) all others.

Orders in category 1 must be charged against the current year budget, the related encumbrances reversed, and a liability (accounts payable) established. Orders in category 2 will be rolled over into the next fiscal year and will be shown in the fiscal year-end general fund balance sheet as a reserve for encumbrances. As a general rule, for other than construction contracts, the liquidation of these orders should be within 60-90 days of year end. In most cases, any other orders should be canceled.

As documentation of the review, charter schools must provide the auditor with separate listings of the category 1 orders and category 2 orders for each governmental fund. The total of each category 1 list must agree with the fiscal year-end balance in the general ledger balance sheet account for accounts payable of the applicable fund. The total of each category 2 list must agree with the fiscal year-end balance in the general ledger balance sheet account for the reserve for encumbrances of the applicable fund. (Note: Additional entries are necessary for outstanding special revenue fund purchase orders as explained in Section I, Chapter 8. Also, for CAFR presentation, in the special revenue fund, the reserve for encumbrances is grouped with deferred revenue in the GAAP balance sheet). Charter school auditors must review the lists and their related documentation and challenge the propriety of the charter school’s classifications. Particular attention must be given to the subsequent liquidation of the orders to determine if an audit adjustment is necessary for additional orders that should be canceled.

(Note: Additional entries are necessary for outstanding special revenue fund purchase orders as explained in Section I, Section 8. Also, for CAFR presentation, in the special revenue fund, the reserve for encumbrances is grouped with deferred revenue in the GAAP balance sheet.)

A purchase order represents a commitment against an appropriation. Purchase orders should not be issued without an underlying contract or actual order of goods or services. Blanket purchase orders should not be issued. The auditor’s review of orders for blanket purchase orders should not be limited to purchase orders outstanding at fiscal year-end. The issuance of blanket purchase orders at any time during the year should be reported by the auditor as a finding and recommendation in the Auditors’ Management Report.

SECTION I – GENERAL COMPLIANCE
CHAPTER 5

Credit Cards

Use of credit cards for purchase of goods or services is prohibited. Statutory requirements direct how boards of trustees may purchase goods and services and establish the procedures to follow in paying for the purchase of goods and services. Purchases made by charter schools must comply with N.J.S.A. 18A:18A-1 et seq., the Public School Contracts Law. The payment of claims by a charter school must comply with N.J.S.A. 18A:19-1 et seq., “Expenditure of Funds; Audit and Payment of Claims.” These regulations are intended to ensure that competitive bidding procedures are followed and certifications regarding the authenticity of claims are received. Pursuant to N.J.S.A. 18:19-13 and N.J.A.C. 6A:23-2.9, a charter school may establish a petty cash fund at the beginning of each fiscal year or as needed, for the purpose of making immediate payments of comparatively small amounts. Large purchases should be made through the contractual order system.

June 30, 2009

SECTION I – GENERAL COMPLIANCE
CHAPTER 5

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SECTION I – GENERAL COMPLIANCE
CHAPTER 6

CHART OF ACCOUNTS/EXPENDITURE CLASSIFICATIONS

Prescribed System of Double-Entry, GAAP Reporting and Bookkeeping Records

N.J.S.A. 18A:4-14 requires charter schools to maintain bookkeeping consistent with the financial accounting and classifications established by the National Center of Educational Statistics (NCES) and with generally accepted accounting principles (GAAP), which includes a double-entry, self balancing set of accounts and records. The New Jersey Administrative Code, *N.J.A.C.* 6A:23, Subchapter 2 prescribes further regulation regarding the accounting.

N.J.A.C. 6A:23-2.2(g) requires that the charter school management adopt a chart of accounts that is prepared in conformity with the guidelines established by the Department of Education consistent with NCES reporting requirements. The minimum level of detail (minimum outline) for expenditure accounts to be maintained in the chart of accounts for compliance with Department of Education and federal reporting requirements is presented in Appendix A of *The Uniform Minimum Chart of Accounts for New Jersey Public Schools(2003 Edition)*. This updated Chart of Accounts (COA) can be found on the web site <http://www.nj.gov/njded/finance/fp/af/coa/> and was effective July 1, 2004.

As in the past, the budget statement contains summarized information related to special projects/grants. The detail reflected in the minimum outline for the special revenue fund (Fund 20) must be maintained in the accounting records of the charter school for these summarized special projects. If a charter school opts to expand beyond the minimum outline in its chart of accounts, there must be a clear trail from the internal accounting records to the information summarized in the format of the minimum outline reflected in the budget statement. In addition, *N.J.A.C.* 6A:23-2.11(a)2 states that when a board of trustees adopts an expanded chart of accounts, the board shall adopt a policy concerning the controls over appropriations for line item accounts which exceed the level of detail required under the minimum outline. If a charter school fails to adopt such a policy, the restrictions regarding overexpenditure of funds apply to line item accounts that exceed the minimum level of detail.

The Department of Education publication entitled *GAAP for New Jersey School Districts, A Technical Systems Manual* must be utilized in the evaluation of a charter school's maintenance of the double-entry system of accounting in accordance with *N.J.S.A.* 18A: 4-14. The Department of Education does not prescribe a standard format for the ledgers and journals used to maintain the accounting records, but instead gives general descriptions of each in the manual. Charter school auditors must be adequately familiar with the publication to perform the annual audit. Additional references for GAAP accounting include the Government Finance Officers Association (GFOA) *Governmental Accounting, Auditing and Financial Reporting*, commonly known as the "Blue Book" and Governmental Accounting Standards Board (GASB) statements and pronouncements.

N.J.A.C. 6A:23-2.7 requires that charter school board of trustees which contract for electronic data processing bookkeeping services obtain an audit of the internal controls of the service company or agency as prescribed by *Statement of Auditing Standards No. 70*, as amended by SAS 88, of the American Institute of Certified Public Accountants.

SECTION I – GENERAL COMPLIANCE
CHAPTER 6

CHART OF ACCOUNTS/EXPENDITURE CLASSIFICATIONS

Expenditure Classifications and Reporting

Expenditures must be reported in the proper fund in the minimum outline format.

Under GASB 34, the *Statement of Revenues, Expenditures, and Changes in Fund Balance* (B-2) reflects the governmental funds (including the general fund and the special revenue fund) revenues and expenditures on the GAAP modified accrual basis.

The *General Fund Budgetary Comparison Schedule* (C-1) reflects the GAAP modified accrual basis for revenues.

The *Special Revenue Budgetary Comparison Schedule* (C-2) reflects revenues and expenditures on a budgetary basis where encumbrances at fiscal year end are recorded as expenditures and corresponding revenue is recognized.

The original budget as well as the final approved budget as of June 30th must be reported in the budgetary comparison schedules. The variance is required by NJ DOE as is the transfer column between the original and the final.

Expenditures must be checked and verified, properly authorized by the board and recorded in the minutes. Expenditure classifications must be in accordance with *The Uniform Minimum Chart of Accounts for New Jersey Public Schools (2003 Edition)* and the terms and conditions of the grant award. New accounts were added to the *Chart of Accounts* effective for July 1, 2009, but charter schools were given the option to adopt the new coding in 2008-2009. Auditors should refer to Appendix F “Minimum Chart of Accounts Descriptions by Budgeting Line Item under Each Program/Function” in the *2008-09 Budget Guidelines* and use it as a reference tool in the coding of expenditures. Also included in the *2008-09 Budget Guidelines* in the section “Detailed Appropriations Grid” and it should also be used as a reference tool.

The auditors’ procedures should include tests of the appropriate classification of expenditures in accordance with the prescribed chart of accounts and supporting guidance (e.g. Appendix F of the *2008-2009 Budget Guidelines*). Improper coding of expenditures is considered noncompliance with *N.J.A.C. 6A:23-2.2(f)* and noted instances must be reported in the Auditor’s Management Report. Auditors are directed to test the proper coding of expenditures during their review of the charter school’s internal controls and the application of standard testing methods, as well as during compliance testing and the performance of single audit procedures. That is, each general fund or special revenue fund expenditure transaction tested for those procedures must also be tested for propriety of classification. Exceptions should not be reported for instances where the department has not given specific coding guidance in the aforementioned documents. The sample should be expanded if significant coding problems are noted.

SECTION I – GENERAL COMPLIANCE
CHAPTER 6

CHART OF ACCOUNTS/EXPENDITURE CLASSIFICATIONS

Reclassification of Miscoding

Auditors are required to include a comment about expenditure coding in the Auditor's Management Report summarizing their sample selection process, conclusions reached and additional procedures performed, if any. Auditors are also required to include a summary of expenditure classification test results in the Audit Questionnaire indicating the dollar value of items tested, dollar value of exceptions noted and the error rate.

When a coding error is noted by the auditor, the expenditure must be reclassified for financial statement presentation, even if the reclassification will put the proper line item account into a deficit position and regardless of materiality of the error. The appropriation would not be reclassified with the expenditure unless there is a clear indication that the charter school had misbudgeted the appropriation. In cases where it is clearly supported by budget development workpapers that a budgeting error was made, the appropriation should be reclassified to the proper line item account. Accordingly, if the reclassification creates a line item deficit, the auditor's finding in the Auditor's Management Report must include an explanation that the deficit was not due to intentional overspending of the line item, but rather was generated due to a reclassification of expenditures to the proper line item account. In cases where there clearly was a miscoding in the development of the budget as well as the expenditure, the finding must include an explanation that the expenditure was miscoded and misbudgeted, and the appropriate entries were made to reclassify both to the proper line item account. Board action is not required. The rationale for and documentation of procedures performed and conclusions reached should be included in the auditor's workpapers and available for review by the department.

In addition, special revenue fund coding errors are not considered questioned costs if the expenditures are approved under the terms and conditions of the grant award. The miscoding must be reported in the Auditor's Management Report in the expenditure coding comment. The comment must clearly state that the expenditures were consistent with the approved award and the changes were the result of miscoding. Charter School final grant close-out reports should reflect the corrected coding of expenditures, including reclassifications of the original budgeted figures, if it was determined that the approved budget was based on the miscoding and the reclassification was made by the auditor in the CAFR. Charter schools should submit with the grant closeout report a copy of the auditors' expenditure coding comment to support the propriety of the reclassification in the closeout report. The charter school does not need grantor approval for the reclassifications made by the auditor. However, if the auditor determines that any expenditure was not consistent with the approved grant award, the cost must be included in the Auditor's Management Report, and if the finding meets the audit finding criteria as defined in Circular A-133 and/or NJOMB Circular Letter 04-04, as applicable, it must be included in the Schedule of Findings and Questioned Costs in the Single Audit Section of the CAFR. Such miscoding will thus appear in two places in the Auditor's Management Report.

Specific to the charter schools, the Budget Summary statement was designed to keep financial reporting requirements at a minimum, while at the same time, enabling charter schools to be in compliance with monitoring standards and maintain comparability to public school financial data. All revenue data and expenditure data items and their classifications are explained in the Budget Summary Key of the Charter School Application. There are four major expenditure categories to be reported in the general fund: Instruction, Administration, Support Services, and Capital Outlay. These four categories are required in reporting expenditures in the budget form and the CAFR. For additional references, refer to the State

SECTION I – GENERAL COMPLIANCE
CHAPTER 6

CHART OF ACCOUNTS/EXPENDITURE CLASSIFICATIONS

Department of Education's publication entitled *The Uniform Minimum Chart of Accounts for New Jersey Public Schools*, which is available from the publication office. The charter school is encouraged to use the account structures and codes referenced in this publication, but it is not considered mandatory. What is mandatory is the reporting of costs in the detail as prescribed in the 108 line item budget summary.

The activity related to each restricted grant, from either local, state or federal sources must be accounted for in the special revenue fund in the minimum outline format. Summarized information related to all state and federal grants and entitlements must be reported in the schedules of expenditures of federal awards and state financial assistance.

The auditor's procedures should include tests of the appropriate classification of expenditures in accordance with the prescribed budget summary. Expenditure coding errors noted will be reclassified for financial statement presentation in accordance with the guidance provided under Section V - Conducting the School Audit. Auditors are required to include a comment about expenditure coding in the Auditors' Management Report.

N.J.A.C. 6A:23-2.11 Overexpenditure of Funds

Auditors should refer to N.J.A.C. 6A:23-2.12 for detailed controls that charter school boards of trustees must implement over budgeted revenue and appropriations.

The budget status certification requirements, which are explained in detail in Division of Finance Policy Bulletin 200-11, must be fully implemented or else appropriate comments and recommendations must be included in the annual audit report.

June 30, 2009

SECTION I – GENERAL COMPLIANCE
CHAPTER 7

RESERVED

June 30, 2009

SECTION I – GENERAL COMPLIANCE
CHAPTER 7

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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 charter schools record transactions on a cash basis. 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 for reporting under GASB 34 for inclusion in the charter school'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 charter schools 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. *The Audit Program* was not meant to be all-inclusive. Charter Schools should reference the aforementioned materials for the specific entries that must be made in other funds. Charter schools 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.

General Procedures for All Funds (Other than Special Revenue)

1) Review the Status of Purchase Orders Open at Year-End:

All prior year purchase orders should be closed or canceled as of fiscal year-end. 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 accounting 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 expenditure against the current year budget and established as an accounts payable at year-end. 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

SECTION I – GENERAL COMPLIANCE
CHAPTER 8

YEAR-END PROCEDURES

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 charter school 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. Auditors are urged to perform a thorough review and analysis of open purchase orders in conformity with the Year-End Encumbrance Hotline issued September 16, 2003. That Hotline is included at the end of this section.

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

Charter schools are instructed to accrue revenues and establish receivables at the beginning of the fiscal year for those revenues whose collection amounts are known. Charter schools may also have established accounts receivable balances in the prior year for items that should have been collected by year-end. 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 year-end in order to bring the accounting records into accordance with GAAP. An example would be interest earned on investments. Charter schools must also determine the collectability of any uncollected accounts receivable balances as of year-end. Uncollected charter school aid balances should be investigated.

3) Analyze Balance Sheet Account Balances:

Charter schools must be able to provide their auditors with the detail of what comprises each balance sheet account at year-end. In other words, for each asset and liability account, the charter school 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 charter school 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 charter school 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 under GAAP is 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 beginning year 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 (pre-closing) fiscal year-end balance in the fund balance account should equal the fiscal year-end balance per the prior year audit.

SECTION I – GENERAL COMPLIANCE
CHAPTER 8

YEAR-END PROCEDURES

Included in the Board Secretary’s audit checklist of documents to have available for the audit, Chapter III-6 of this *Audit Program*, is a schedule of capital assets to support the amount reported on the line “Capital Assets, net” (cost of the assets less accumulated depreciation) in the governmental funds and the business like activities columns of the *Statement of Net Assets (A-1)* . Similarly, the charter school staff is required to maintain a schedule of long-term debt as described in paragraph 81 of GASB Statement No. 34. The schedule of long-term debt supports the balance presented for the current and noncurrent portions of long-term debt on the *Statement of Net Assets (A-1)*.

Charter school 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)*.

June 30, 2009

SECTION I - GENERAL COMPLIANCE



State of New Jersey

DEPARTMENT OF EDUCATION
PO BOX 500
TRENTON, NJ 08625-0500

JAMES E. MCGREEVEY
Governor

WILLIAM L. LIBRERA
Commissioner

HOTLINE

TO: Chief School Administrators
School Business Administrators/Board Secretaries
Public School Accountants

FROM: Richard Rosenberg
Assistant Commissioner, Division of Finance

A handwritten signature in black ink, appearing to be "R. Rosenberg".

SUBJECT: Year-End Encumbrances

DATE: September 16, 2003

For the current 2002-03 fiscal year audit as well as future audits, all public school accountants are asked to give utmost consideration to encumbrances on the school district's books at June 30, 2007 through a thorough review and analysis of open purchase orders.

Open purchase orders at June 30, 2007 should be classified into the following two categories for review and reclassification:

1. Category one represents purchase orders for which the goods have been received or the services have been rendered at June 30th that have not been paid. These purchase orders must be expensed in the current audit period, the related encumbrances reversed, and a liability (accounts payable) established. If the invoice has not been received the amount must be estimated. In accordance with GAAP, an expenditure is recorded when goods are received or services are rendered.
2. Category two represents purchase orders which will be honored in the subsequent year. These purchase orders will be rolled over into the next fiscal year and will be shown in the June 30th general fund balance sheet as a reserve for encumbrances. Per NCGA Statement 1, paragraph 91 "encumbrances outstanding at year-end represent the estimated amount of the expenditures ultimately to result **if unperformed contracts in process at year-end are completed. Encumbrances outstanding at year-end do not constitute expenditures or liabilities.**"

These purchase orders must be checked for validity, which means, the purchase orders must have a valid contractual agreement (i.e. contain an actual order of goods or services) in place at June 30, 2007. Blanket purchase orders do not constitute valid purchase

SECTION I – GENERAL COMPLIANCE
CHAPTER 8

YEAR-END PROCEDURES

Chief School Administrators
School Business Administrators/Board Secretaries
Public School Accountants
Page 2
September 16, 2003

orders. As a general rule, for other than construction contracts, the liquidation of these orders should be within 60-90 days of year-end.

In reviewing the 90-day cut-off period during the year-end audit, purchase orders that existed at June 30, 2007 but were not liquidated by September 30 should be canceled and not included in the June 30 reservation of fund balance, with the exception of capital or other long term projects. Open purchase orders for items that are: 1) no longer considered necessary; 2) not substantiated with a valid contract; or 3) aged (regardless of materiality) and have been on the books for over 90 days should also be canceled and not included in June 30 reservation of fund balance.

In addition, per review of the agreed upon procedures performed by several accounting firms for the Abbott school districts that were recently concluded, on several occasions it was noted that expenditures for 2003-04 were being improperly encumbered in the 2002-03 fiscal year. Districts may not have open encumbrances for items related to the next year such as salaries, insurance premiums, etc.

District's account payable, accruals and year-end expenditure cut-off should be thoroughly reviewed with attention given to ensure that valid expenditures for the current year are captured and expenditures for the subsequent year are recorded in the proper accounting period.

For further guidance on year-end reporting and encumbrances please review, Section I – General Compliance, Chapter 5, “Bids & Contracts/Purchasing” and Chapter 8, “Year-End Procedures” of the 2006-07 Audit Program.

Any question related to this hotline memorandum should be addressed to Beth Brooks of the Office of Fiscal Policy and Planning at 609-633-2766, or via email at beth.brooks@doe.state.nj.us.

RR\BB\Y:\Audit Program\2002-03 Audit Program\Purchase Orders.doc

c: Gordon MacInnes

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County Superintendents

County School Business Administrators

SECTION I – GENERAL COMPLIANCE
CHAPTER 8

YEAR-END PROCEDURES

Standard Adjusting Entries

To Establish Accounts Payable:

(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.)

Dr. Reserve for Encumbrances (XX-753)
Cr. Encumbrances (XX-603)
Reverse Encumbrance (with appropriate reversals made in the expenditure subsidiary ledger)

Dr. Expenditures (XX-602)
Cr. Accounts Payable (XX-421)
Establish Payable (with the appropriate entries being made in the expenditure subsidiary ledger.)

To Cancel Purchase Orders:

Dr. Reserve for Encumbrances (XX-753)
Cr. Encumbrances (XX- 603)
Reverse Encumbrance (With the appropriate entries being made in the expenditure subsidiary ledger.)

To Accrue Revenues:

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

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

Closing Entries

Closing Budgetary Accounts:

Two entries are needed to close the temporary budgetary accounts to fund balance.

- Estimated revenues, budgeted fund balance, and actual revenues are reversed, with the difference being recorded as an increase or decrease in unreserved fund balance.
- Budgeted appropriations, expenditures, and encumbrances are reversed, with the difference being recorded as an increase or decrease in unreserved fund balance.

SECTION I – GENERAL COMPLIANCE
CHAPTER 8

YEAR-END PROCEDURES

As an example, after recording the adjusting entries, 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:

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.

SECTION I – GENERAL COMPLIANCE
CHAPTER 8

YEAR-END PROCEDURES

Other Issues/Entries

Internal Accounting Records

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

Capital Assets and Long Term Debt

Charter schools should refer to the *Codification of Governmental Accounting and Financial Reporting Standards* (GASB Codification), Section 1400 (Reporting Capital Assets), Section 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.

- ♦ School wide Financial Statements (Accrual Basis) - the balance for capital (fixed) assets net of accumulated depreciation is reported in the charter school *Statement of Net Assets* (Exhibit A-1). Depreciation is reported in the *Statement of Activities* (Exhibit A-2). 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. This includes compensated absences. Charter Schools and auditors should refer to GASB Codification C60 for guidance on calculating the liability for compensated absences and reporting the amount due within one year separately from the amount due in more than one year in the Statement of Net Assets.

- ♦ Fund Financial Statements (Modified Accrual Basis) – charter schools will continue to report capital outlay in the governmental fund statements. Liabilities for compensated absences 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. Charter schools and auditors should refer to GASB Codification C60 for additional guidance on reporting in the governmental funds statements.

SECTION I – GENERAL COMPLIANCE
CHAPTER 8

YEAR-END PROCEDURES

Opening Balances

At the beginning of each year, the approved 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 at beginning of year:

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.

Reference Materials

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-8.12 of this document 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

Special Revenue Fund

When doing the year-end adjusting and closing entries, the following points should be noted.

- 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 in the year an order is placed, whereas the GAAP basis does not.
- Budgetary revenues must equal expenditures, as funds are not considered earned until they are obligated.

SECTION I – GENERAL COMPLIANCE
CHAPTER 8

YEAR-END PROCEDURES

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 the general fund budget should be charged for the excess.

Throughout the year charter schools 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* and should be carefully reviewed

Charter schools must perform the year-end review of special revenue fund purchase orders that was discussed earlier in this document and make the necessary entries as illustrated on page I-8.7 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 charter school has received goods and services as of year-end. An additional is needed to record the orders that will be honored in the following year as current year budgetary basis expenditures. 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.

GAAP expenditures are calculated as budgetary expenditures plus prior year-end encumbrances less current year-end encumbrances. (Note: This calculation must be done separately for each of the three expenditure categories included in the *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.

The school wide *Statement of Net Assets* and the *Statement of Activities* (accrual basis) include the special revenue fund 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.

When analyzing balance sheet accounts in the special revenue fund it should be noted that for budgetary basis 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 beginning year deferred revenue and 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. Charter schools 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.

SECTION I – GENERAL COMPLIANCE
CHAPTER 8

YEAR-END PROCEDURES

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 year-end, an entry is also needed to recognize the encumbrances outstanding at year-end 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.)

SECTION I – GENERAL COMPLIANCE
CHAPTER 8

YEAR-END PROCEDURES

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 year-end 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 close-out 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 modified accrual basis *Balance Sheet* and accrual basis *Statement of Net Assets* in the basic financial statements section of the CAFR.

Opening Balances

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 year-end, 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 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 Year

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, charter schools must select a program code from the ranges provided to account for the summer portion of grants that overlap fiscal years. During the year, charter schools should remember to budget and account for grant activity in the appropriate program codes, making

SECTION I – GENERAL COMPLIANCE
CHAPTER 8

YEAR-END PROCEDURES

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.

All Funds

In summary, charter schools should make the appropriate adjusting and closing entries. The public school accountant may suggest changes to the amounts reflected in the charter school's figures based on the results of his/her audit. In those instances, the auditor should provide the charter school with the necessary post-closing adjusting entries to correct the opening balances. Charter schools 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 charter schools have a clear understanding of how to key those adjusting and closing entries into their accounting software package.

June 30, 2009

SECTION I – GENERAL COMPLIANCE
CHAPTER 8

YEAR-END PROCEDURES

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