

SECTION II – SPECIFIC COMPLIANCE
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Board Secretary and Treasurer Reports

In accordance with *N.J.S.A.* 18A:17-9, the board secretary shall report to the board at each regular monthly meeting the amount of total appropriations and the cash receipts for each account, and the amount for which warrants have been drawn against each account and the amounts of orders or contractual obligations incurred and chargeable against each account since the date of the last report. At the close of each fiscal year, the board secretary shall present to the board a detailed report of its financial transactions during such year and file a copy with the county superintendent on or before August 1 of each year.

In accordance with *N.J.S.A.* 18A:17-36, the treasurer shall report to the board monthly a detailed account of all receipts, the amounts of all warrants signed by him/her since the date of the last report and the accounts against which the warrants were drawn, and the balance to the credit of each account.

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

Cash reconciliation

The cash accounts must be reconciled. Reconciliation of payroll and interest accounts are to be made in all charter schools maintaining such accounts and must be permanently recorded and filed for future reference. The auditor must verify the reconciliation of all cash accounts of the charter school.

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

Petty Cash Funds

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

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

Summer Payment Plans

N.J.S.A. 18A:29-3 authorizes a charter school board of trustees to establish a Summer Payment Plan which will provide for withholding 10 percent of the salary of 10-month employees during the academic year. *N.J.A.C.* 6A:23-2.10 states "The charter school board of trustees shall ensure that the amount withheld earns interest and is available to the employee either at the end of the academic year or in installments prior to September 1."

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SAS #70 Reports

Depending upon the nature of the services provided, AICPA Statement on Auditing Standards (SAS) #70 (as amended by SAS #88) reports may be required from software vendors, payroll service vendors, educational management service vendors and other service organizations. SAS #88 clarified SAS #70 by stating that SAS #70 is applicable if an entity obtains services from a service organization that are part of the entity's information system. SAS #88 explains what constitutes "part of the entity's information system". If SAS #70 is applicable, the service organization auditor would issue one of two types of reports, depending on circumstances and requirements:

- Type I – Report on Policies and Procedures Placed in Operation. This report may be an effective and efficient way for the charter school auditor to gain an understanding of the internal controls of the service organization.
- Type II – Report on Policies and Procedures Placed in Operation and Tests of Operating Effectiveness. This report includes a description of the tests of operating effectiveness and the results of those tests. If the controls are present and operating effectively, the charter school's auditor may choose to assess control risk below the maximum for financial statement assertions related to service organization transactions. This is a decision made by the charter school auditor.

Auditors are advised to review Chapter 4, Field Work Standards for Financial Audits, of the *Government Auditing Standards* (Yellow Book 2003 Revision) available electronically at the web site: <http://www.gao.gov/index.html> for further guidance on internal controls.

Third Party Disbursements

N.J.S.A. 52:27D-20.1 Contracts for third-party disbursement services, gave the Local Finance Board, in consultation with the Commissioner of Education, the authority to adopt regulations permitting charter school boards of trustees to contract with third-party disbursement service organizations in order to make payments and execute financial transactions for those purposes.

The rules for third party disbursements can be found in *N.J.A.C.* 5:30-15 et seq. Charter school boards of trustees are advised to review the rules prior to engaging a third party disbursement organization. *N.J.A.C.* 5:30-17 et seq., Electronic Disbursement Controls for Payroll Purposes can be found at <http://www.state.nj.us/dca/lgs/rules/rulesmenu.shtml>.

Investments

Several statutes govern permissible investment of school monies by New Jersey charter schools. *N.J.S.A.* 18A:17-34 gives the treasurer of the charter school the authority to deposit school monies in any bank or banking institutions of this State designated as a depository of school monies. Under *N.J.S.A.* 17:9-41 et seq., the Governmental Unit Deposit Protection Act (GUDPA), a charter school may deposit public funds in a public depository if such funds are secured in accordance with GUDPA. This statute defines a public depository as:

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“a State or federally chartered bank, savings bank or an association located in this state or a state or federally chartered bank, savings bank or an association located in another state with a branch office in this state, the deposits of which are insured by the Federal Deposit Insurance Corporation and which receives or holds public funds on deposit.”

N.J.S.A. 18A:20-37 provides for the specific types of securities that the board of trustees can authorize to be purchased and sets forth general investment practice requirements. It also provides for the specific types of securities which may be purchased and registered in a charter school’s name. While the types of securities and requirements are too extensive to list, the statute includes governmental money markets funds and bonds or other obligations having a maturity date of not more than 397 days from the date of purchase, approved by the Division of Investments in the Department of Treasury for investment by charter schools. The Division does not publish a listing of approved investments, but charter schools may request approval of a specific security by letter sent to the following address:

Director
Division of Investments
P.O. Box 290
Trenton, NJ 08625

The Department of Education does not have the authority to determine compliance with GUDPA or review and approve the types of securities a charter school can utilize. Charter schools should consult with charter school counsel and direct any questions on the permissibility of a specific security pursuant to *N.J.S.A.* 18A:20-37 to the Division of Investments in the Department of Treasury at the above address.

Further information on GUDPA or on banking institutions may be found at the department of Banking and Insurance web site <http://www.state.nj.us/dobi/gudpa.htm>. A charter school which is unsure whether the bank/institution is certified as a depository should request from the bank/institution a copy of the “Notification of Eligibility” or may contact the Department of Banking and Insurance.

Charter Schools were required to implement GASB Statement No. 31, “Accounting and Financial Reporting for Certain Investments and for External Investment Pools,” effective for fiscal years ending in 1998. This statement establishes fair value accounting and financial reporting standards for certain types of investments held by governmental entities other than external investment pools. This should have a limited impact on charter schools. For government entities other than external investment pools, this statement establishes accounting and financial reporting standards for investments in participating interest-earning investment contracts, external investment pools, open-end mutual funds, debt securities, and equity securities, option contracts, stock warrants and stock rights that have readily determinable fair values.

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

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

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

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

Revenues and Receipts

Revenues accruing to the charter school for the period under audit must be verified. Receipts for the year and accounts receivable at the close of the year must be verified as to source and disposition. Revenues must be delineated by type and recorded in the proper fund. Common revenues and the funds in which they are reported are included in *The Uniform Minimum Chart of Accounts Handbook for New Jersey Public School Districts*. The auditor must comment in detail on any irregularity in the method of handling receipts and revenues as a result of audit tests performed.

Tuition

The auditor should verify that the charter school charged no tuition for any student attending the charter school. Examination of before and after school care fees should be performed so as to determine that fees to students in these programs are only the reasonable and necessary amounts for the administration of these programs and must be accounted for the enterprise fund. If the excess revenues over expenditures of before and after school programs are being utilized to offset general fund expenditures, this excess is determined to be tuition fees charged to the students in these programs. The auditor should document this finding in the Auditor’s Management Report and make an appropriate recommendation for the discontinuance of this practice.

Reporting On-Behalf payments

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

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Charter schools should prepare a schedule of the amounts reimbursed by the state for the current year FICA employer contribution for its TPAF members on an accrual basis. The current year amount equals total cash reimbursement received during the current year less the prior year-end receivable amount plus the current year-end receivable balance. **The on-behalf payments will be included in the CAFR as non-budgetary revenue and expenditure items, similar to the reporting of assets acquired under capital leases.** Charter schools are not required to include these amounts in their annual school budgets. These amounts should be excluded from the Type A programs threshold calculation. For further guidance, auditors should refer to Section II-SA.1, Federal and State Audit Requirements, of this Audit Program.

Pensionable Wages

All defined benefit plans administered by the NJ Division of Pensions and Benefits require that employee contributions be remitted regularly to the Division. For charter schools, these include the TPAF and PERS. Charter schools are issued a Quarterly Report of Contributions to report and reconcile employee pension information and monies each calendar quarter. Charter schools may only include pensionable wages as defined by the Division of Pensions and Benefits. The following discussion is provided to assist auditors when testing payroll and pensionable wages.

The Division of Pensions and Benefits defines pensionable wages or creditable compensation as the compensation of a member subject to pension and group life insurance contributions and creditable for retirement and death benefits administered by the Teachers' Pension and Annuity Fund (TPAF). Creditable compensation is limited to "base salary" which is defined under *N.J.A.C. 17:3-4.1*. Base salary means the annual compensation of a member, in accordance with contracts, ordinances, resolutions, or other established salary policies of the member's employer for all employees in the same position, or all employees covered by the same collective bargaining agreement, which is reported in regular, periodic installments in accordance with the payroll cycle of the employer. Creditable compensation does not include "extra compensation" which is defined in *N.J.A.C. 17:3-4.1*. The Board of Trustees may question the compensation of any member or retiree to determine its creditability where there is evidence that compensation reported as base pay includes extra compensation. The examples of extra compensation listed in the citation above are not meant to be all inclusive.

For the Public Employees' Retirement System (PERS), auditors should refer to *N.J.A.C. 17:2-4.1*, for a similar definition of creditable compensation.

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

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

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Refunds

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

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

The Schools and Libraries Universal Service Fund, known as the “E-rate” was created as part of the Telecommunications Act of 1996 to provide affordable access to modern telecommunications and information services to all eligible schools and libraries in the U.S. The School and Libraries Corporation (SLC) was established by the FCC to administer the Schools and Libraries Universal Service Fund. All public and private schools and libraries qualify for funding based on their level of economic disadvantage (based on the percentage of students eligible for the national school lunch program) and their location, rural or urban. Charter Schools will be notified regarding actual funding. The offset to the reduction in the expenditure is either to accounts receivable if a refund is due, or to accounts payable if unpaid at June 30, 2009. Additional information is available at the Department of Education, Office of Technology website at www.state.nj.us/njded/techno/toc.htm and at the School and Libraries website at www.sl.universalservice.org.

Cancellations

<http://www.nj.gov/education/finance/fp/audit/Cancelled> prior year contractual orders are reflected in the audit report as revenues. Cancellations of prior year reserve for encumbrances increase the amount available for expenditure in the current year.

Travel Expenditures

Travel regulations (N.J.A.C. 6A:23A:7.1 et seq.) were issued effective December 18, 2008 and provide rules on charter school travel policies and procedures. Charter school auditors can access this at <http://www.nj.gov/education/code/current/title6a/chap23a.htm>. The following pages contain a reprint of the letter issued by the Commissioner in March 2008 to provide guidance on travel expenditures and a summary of the requirements of N.J.S.A. 18A:11-12. Please note that the travel guidance is applicable to all funds. Charter school auditors should refer to The State Aid/Compliance Supplement for suggested audit procedures related to travel.

June 30, 2009

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State of New Jersey
DEPARTMENT OF EDUCATION
PO Box 500
TRENTON, NJ 08625-0500

JON S. CORZINE
Governor

LUCILLE E. DAVY
Commissioner

March 17, 2008

TO: All Board Presidents
All Chief School Administrators
All School Business Administrators

FROM: Lucile E. Davy 
Commissioner

SUBJECT: Travel Regulations

Last spring the legislature passed the School District Accountability Act (A5 or Chapter Law 53). This act includes several new provisions including the requirement that school district employees and board of education members follow the travel and meal regulations promulgated by the New Jersey Office of Management and Budget (Circular nos. 08-13-OMB and 06-14-OMB). The OMB regulations are written for state employees and agencies. As a result, questions have been raised regarding the interpretation and application of many of the provisions to school districts. Complicating the new requirements was OMB's recent revision to the travel regulations effective November 21, 2007 which contained more stringent requirements for in-state travel events.

I am writing to provide guidance on the recent OMB revisions under the new travel circular as well as provide a summary of the general requirements pursuant to the new law (N.J.S.A.18A:11-12). The significant changes in the travel circular are as follows:

1. There is no reimbursement of lodging and meal costs for overnight travel within the state; and
2. There is no reimbursement of meals for in-state travel.

To address concerns raised by school officials and education associations, the circular has been issued to authorize the Commissioner of Education to grant waivers for overnight travel for school board members and school district employees to attend in-state conferences pursuant to guidelines issued by the Department of Education. The department is in the process of writing regulations that will contain the procedures for submitting a request for waiver. These will be part of the travel regulations soon to be issued with the regulations for A4 and A5.

Pending issuance of the regulations, however, school board members and school district employees may attend in-state conferences and receive reimbursement for lodging and meal costs if a contract with the conference sponsor was executed as of the date of this memo, for a conference that will take place on or before September 1, 2008. Regulations to be issued will be effective by September 1, 2008. Therefore, all conferences after September 1, 2008 will require waivers. Under the law, reimbursement for all overnight travel in-state is no longer permitted except for conferences as noted above.

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Pursuant to N.J.S.A.18A:11-12(o), reimbursement for overnight travel out-of-state or in-state for conferences as permitted above, may exceed the federal per diem rates if the hotel is the site of the convention or conference and the going rate of the hotel is in excess of federal per diem rates. If the hotel at the site of the convention is no longer available, lodging may be paid for similar accommodations at a rate not to exceed the hotel rate for the current event. If there is no hotel at the site of the convention (e.g. the Atlantic City Convention Center), then lodging may not exceed the federal per diem rate.

The following is a summary of the general requirements of the NJOMB circulars that must be followed pursuant to N.J.S.A.18A:11-12:

- Reimbursement for lodging and meals cannot exceed applicable federal per diem rates by location. These rates may be found at www.gsa.gov
- Registration and conference fees are not subject to the federal per diem rate cap.
- Under ordinary circumstances such as staff meetings, no meal expenses are allowed at the school district or within a radius of ten miles from the school district.
- Board meetings are limited to light meals and refreshments for board members not to exceed \$10 per person. Light meals may be served to employees who are required to attend the board meeting and where the employee is required to remain at the district to prepare for the meeting.
- Lunch for training sessions and retreats may be authorized for an amount up to \$7 per person only when it is necessary that employees or board members remain at a site *other than* their school district. Refreshments for breaks may be provided. We confirmed with OMB that this is only allowed if the training is not in the school district and there are no viable options for lunch at the off-site location. Therefore, providing lunch for in-service days or for staff that come from other parts of the district is not permitted. Also, per the statute, board retreats are to be held onsite unless there is no district site available.
- Reimbursement for training to maintain a certification that is not required as a condition of employment is not authorized. The circular provides an example: a CPA will not be reimbursed for attending a training class specifically to obtain CPE credits if that employee is not required to be a CPA for continued district employment.
- Reimbursement may be approved for the cost of an official luncheon or dinner that an employee or board member is authorized to attend (up to \$7 for lunch and \$10 for dinner), where such a meal is scheduled as an integral part of an official proceeding or program related to district business and the employee's responsibilities. Retirement dinners and other employee recognition dinners would not be considered an official luncheon or dinner under this provision and are specifically prohibited in another section of the circular.
- Meals during one-day, out-of-state trips required for school business purposes may be authorized for breakfast, lunch and/or dinner at a cost not to exceed:

Breakfast	\$ 5
Lunch	\$ 7
Dinner	\$10

- All reasonable costs of commencement and convocation activities for students are permitted.
- All costs of student field trips that are part of the instructional program are permitted.

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- All reasonable costs for activities, events or functions provided or held for the benefit of students are permitted.
- Costs for activities, events or functions for dignitaries and other “non-district” employees (e.g. parents), including light meals and refreshments, is permitted. The circular specifically states that it is expected that expenditures for this purpose will be minimal and infrequent.
- The cost of receptions or other social functions held for the sole purpose of honoring any employee or group of employees of the district (retirement, awards, appointments, etc.) are not permitted to be paid with public school funds.
- The cost of meals or refreshments served to participants or guests at any athletic event or other games or contests are not permitted to be paid with public school funds.
- Charges for alcoholic beverages, laundry, valet services, entertainment, reverse telephone charges, third party calls, or personal calls are not permitted to be paid with public school funds.
- All costs and reimbursements must be properly itemized and documented in detail.

The OMB Circular does recognize that employees traveling on district business may not be able to obtain prior approval of the board of education sufficiently in advance of the departure date. In those instances, justification of the emergency must be included with the requisition and prior approval of the superintendent must be obtained. Travel to conferences, conventions and symposiums are not considered to be emergencies and must receive prior board approval.

Lastly, let me remind you that under the statute, a board of education may include in its board policy an amount per employee for regular business travel that does not require prior board approval. The circular includes attendance at meetings in its definition of regular business travel and therefore, the board could include in its definition of regular business travel attendance at regularly scheduled county meetings and department sponsored or association sponsored events provided free of charge.

LED/KPA/Commissioner’s Travel Memo3-17.doc
c: Members, State Board of Education
Senior Staff
Office Directors
County Superintendents
County School Business Administrators
LEE Group
Garden State Coalition
State Monitors

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Health Insurance Policies

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

Charter schools with minimum premium policies commonly have three accounts with the carrier:

- 1) a termination reserve account
- 2) a claims account
- 3) a premium stabilization account

The termination reserve account generally represents funds earmarked for the charter school's liability for claims which have been incurred but not reported (IBNR), also known as the "run-off" liability. The IBNR liability amount is calculated annually by the carrier's actuaries and provided to the policyholder. The claims account is used for the payment of claims filed. The contracted monthly premium estimate is deposited into this account. The monthly deposit may or may not include the administrative fee paid to the carrier. In some cases, the fee is a separate remittance. The premium stabilization accounts are used as a mechanism to smooth insurance premium payments. Commonly, any funds remaining in the claims account at the end of the year are transferred to the premium stabilization account for use in future years in the event of "premium" increases. Premium stabilization funds are often attached to participating and fully funded policies in which rebates are based on a retrospective review of claims filed during the policy period. These funds (rebates) are maintained in an account, in the charter school's name, and are used to smooth future years' premium payments. Payments from these accounts for other than insurance premiums are prohibited and circumvent the budgetary process.

These accounts may have not been reflected in the charter school accounting records or were inaccurately reported as fund balance. Public school accountants should review the terms of charter school policies and statements/monthly activity reports issued by the carrier. If the charter school has a minimum premium policy a confirmation should be issued to the insurance carrier regarding the following:

- The existence of and amount of June 30th balances in accounts in the charter school's name held on their behalf by the carrier*
- Charter school liability for the IBNR claims at June 30th
- Charter school liability for claims that were filed but unpaid at June 30th
- Composition of the accounts (what are the types of underlying investments made on the charter school's behalf)*
- Investment income earned during the year on charter school funds held by the carrier*

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Auditors may wish to obtain confirmation from the carrier that the expenditures made from the claims accounts were for valid claims if direct testing is not possible from charter school records. Items noted with an (*) should be confirmed in situations where it appears that a premium stabilization account exists under a participating or fully funded policy.

The confirmed information as well as the balances in any accounts related to the policies that are held by the charter school itself should be used to determine the proper presentation in the CAFR. The assets (total of the June 30th account balances) will be compared to the related liabilities (total of the June 30th IBNR claims and claims in process at June 30th). Any excess assets should be included in the amount reported as unreserved general fund surplus. If the liabilities exceed the assets, the charter school's unreserved general fund surplus must also be considered. The accrual made for the claims should not put the general fund into a deficit position. That is, the total liabilities should be subtracted from the total of the June 30th unreserved general fund surplus plus the total assets. The amount of liabilities in excess of the total of surplus and assets should be shown as a liability in the charter school wide Statement of Net Assets and the June 30th general fund unreserved surplus reported as zero. For minimum premium policies, the current year expenditures reported for insurance premiums/claims should represent the total of the amount of claims and administrative fees paid in the current year related to the current year, the accrual for the unpaid claims in process, and the change in the June 30th balance in the IBNR liability between the current year and the prior year. For any type of policy, it must not include any excess premium payments transferred to a premium stabilization account.

The funds held by the charter school or the carrier on the charter school's behalf are included in the general fund balance sheet as cash, cash equivalents, or investments.

The June 30th general fund accounts payable balance should include the amount of claims in process as of that date. It should not include the IBNR liability. The IBNR liability should be reported in the general fund balance sheet as an accrued liability labeled "Accrued Liability for Insurance Claims".

The notes to the financial statements should clearly disclose the terms of the policies and provide explanations of the related balance sheet accounts.

Sale and Lease-back Contracts

N.J.S.A. 18A:20-4.2 authorizes charter schools to enter into sale and lease-back contracts on certain instructional material (i.e. textbooks). The charter school can acquire through sale and lease-back textbooks and non-consumable instructional materials provided that the sale price and principal amount of the lease-back do not exceed the fair market value of the textbooks and instructional materials and that the interest rate applied in the lease-back is consistent with prevailing market rates or is less. The leaseback can be for any term not exceeding in the aggregate of five years.

Proceeds from the sale and lease-back of textbooks and non-consumable instructional material shall not be included in the calculation of excess undesignated general fund balance during the budget year in which they are realized.

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Excess Surplus

Auditors are advised to analyze the charter school’s ending fund balance to ensure that the charter school does not accumulate excess surplus. Pursuant to N.J.A.C. 6A:23-9.6(e), after completion of the school year, the district board of education may petition the Commissioner for a lower rate for the charter school's per pupil amount for the specific grade level if the charter school spends significantly less than budgeted and has accumulated a sizable surplus. The Commissioner may reduce the rate based on a determination of excessive surplus. The criteria for excess surplus is determined by the Commissioner pursuant to N.J.S.A. 18A:7F-7. A charter school may submit comments to the Commissioner regarding the petition for a lower rate for the charter school's budget amount per pupil for the specific grade level from the district of residence of the charter school or non-resident district.

Fund Balance Classifications

The proper presentation of fund balance is an important reporting issue. Fund balance in this Schedule reflects the modified accrual basis with the exception of the last state payment. Charter schools must include a Recapitulation of Fund Balance at the end of this Schedule with sufficient detail for a reviewer to determine the nature of any reserve or designation. See the illustration at the end of this chapter and also the guidance in Section III-5 on Audsum.

Fund balance in the governmental funds *Balance Sheet* (Exhibit B-1) reflects the modified accrual basis and should be grouped under two main categories – reserved and unreserved. In the accrual basis *Statement of Net Assets* (A-1), there are three classifications of net assets: Invested in capital assets, net of related debt, Restricted net assets (with a line item for each fund in which the net assets are restricted), and Unrestricted. Auditors and charter school staff should refer to GASB 34, paragraphs 30 – 37 for further clarification of these classifications.

Auditor’s Note – No appropriation of surplus after June 30, 2009 is to be reflected in the June 30, 2009 balance sheet as designated for subsequent year’s expenditures. The department recommends footnote disclosure in the CAFR.

Reserved fund balance classification should only be for encumbrances, or for state or other government imposed legally reserved fund balance restrictions. Beginning in 2003-04, all other legal reserves require Departmental review and approval. The request for approval should state the amount, source, purpose and legal basis for the reserve (i.e. why the funds are not available for appropriation in the subsequent year) and the fiscal year in which it will be appropriated. Charter Schools should submit requests to the Assistant Commissioner of Finance no later than September 30 if approval is required for the audit period under review.

Fund balance – reserved for:

- The **reserve for encumbrances** represents that amount of fund balance related to orders issued in the current year that will be honored in the subsequent year. In general, for other than construction projects, that liquidation must be made within 60 to 90 days of year-end to be a valid reserve at June 30th. This should not include accounts payable, since those orders were charged as expenditures in the current year and should be included in the balance sheet as a liability.

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Separate lines are provided in the Audsum diskette for the reserve for encumbrances at fiscal year end for the general fund and capital projects fund. The department issued a Hotline on September 16, 2003 providing additional guidance on auditor reviews of encumbrances. Charter schools should not be encumbering goods and services that relate to the subsequent year. The Hotline is reproduced in Section I-8 of this Audit Program.

- 1) The **reserved fund balance-legally restricted account**, which is shown in the reserved fund balance equity section, is used to report that portion of the general fund surplus that is legally reserved for specific purposes. In general, funds are legally restricted only when constraints placed on the use are externally imposed by creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. This would include reserves established for register audit recoveries and restricted appropriations such as unspent funds from sale/lease-back reserve *N.J.S.A. 18A:7F-7(e)*.

Legal reserves that are for anything other than state imposed or other government imposed legal restriction must be approved by the Assistant Commissioner of Finance. Examples of state imposed legal restrictions include audited excess surplus, unspent separate proposals, legally established capital, and a reserve established for the sale leaseback of textbooks in the year the proceeds are realized. An example of other government imposed legal restrictions includes court ordered judgments. **The request for approval should be submitted by the charter school to the Assistant Commissioner of Finance by September 30, 2009 for the June 30, 2009 year.** The request should state the purpose and legal basis for the reserve (e.g., the specific “constraint imposed on the use by external parties or by laws or regulations of other governments). Approval will only be granted for those other legal obligations that are in conformity with GAAP.

Under GAAP, few items would constitute a legal reserve. Per GAAP, the basic concept of a legal reserve is that it is not unilaterally established by the charter school and it cannot be removed with the consent of those imposing the restriction or through formal due process. Charter schools do not have the authority to advance fund (accumulate resources) for a potential future liability by setting aside an amount as a legal reserve. Loss contingencies are not legal reserves, but instead would be recorded as accrued liabilities if a loss is probable and reasonably estimable. For funds statements, only the amount due and payable with current resources is accrued. For the charter school-wide statements, the full amount is accrued. Contingent liabilities not required to be accrued should be disclosed in the notes to the financial statements. All significant facts with respect to the situation should be disclosed. GAAP guidance is available in the GASB Codification chapter “Claims and Judgments” (C50).

The notes to the financial statements must contain a discussion of all legally restricted balances, including the amount, source and fiscal year in which it will be appropriated. A separate line is provided in the Audsum data collection for legal reserves - general fund. These balances, if determined prior to the adoption of the budget, should have been anticipated in the 2009-10 “Charter School Budget Statement” and line 1660, “Amount Budgeted in FY 2009-10” in column 6, General Fund (Reserved) Legal Reserves of the Recapitulation of Balances. Amounts not anticipated in the 2009-2010 budget must be shown as a legal reserve in the June 30th CAFR and appropriated in the 2009-10 -budget.

SECTION II – SPECIFIC COMPLIANCE
FUND 10 - GENERAL FUND

Fund Balance – Unreserved

All other fund balance is considered **unreserved**. Charter schools may reflect management’s intent for use of the unreserved fund balance as separate lines in the equity -section of the balance sheet under the heading unreserved fund balance. Each designation should be explained in the notes to the financial statements. All other unreserved fund balances should be presented as unreserved – undesignated. The amount of unreserved fund balance that has been included in the upcoming year’s general fund budget as budgeted fund balance should be reported in the unreserved fund balance equity section as **designated for subsequent year’s expenditure**. If the budgeted fund balance amount included in the certified budget contains an amount that has been shown in the reserved fund balance section of the balance sheet, do not include it as part of the unreserved designated for subsequent year’s expenditure amount. **Separate lines are provided in the Audsum data collection for unreserved – undesignated general fund balances and unreserved fund balance that is designated for subsequent year’s expenditure. Include on the designated fund balance line only those amounts which were included in the 2009-10 certified budget as budgeted fund balance on lines 121, 122 and 123 that have not already been included on a reserved fund balance line. Include in the unreserved-undesignated line all other unreserved fund balance.**

SECTION II – SPECIFIC COMPLIANCE
FUND 20 - SPECIAL REVENUE FUND

TPAF Reimbursement

N.J.S.A. 18A: 66-90 requires that each charter school reimburses the state for the employer share of pensions, group life insurance, FICA and other benefits of the Teachers' Pension and Annuity Fund (TPAF) for TPAF members carrying out and paid from federally funded programs. Auditors should refer to the updated letter and downloadable form on the NJDOE website: <http://www.nj.gov/education/finance/ba/tfaf.pdf>.

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

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

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SECTION II – SPECIFIC COMPLIANCE
FUND 30 - CAPITAL PROJECTS FUND

Capital Projects Fund

The proper accounting procedures related to capital projects are included in Chapter 11 of the GAAP Technical Systems Manual.

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

- a. Capital reserve account
- b. Items classified as general fund except to other items so classified or to the capital projects fund to supplement the proceeds from lease purchase agreements

Transfers from appropriations or surplus accounts may be made within the general fund. When specifically approved by the Commissioner, charter schools may transfer surplus from the general fund to the capital projects fund to supplement the proceeds from a lease purchase agreement upon application to and a formal finding by the Commissioner that the transfer is in the best interests of both the students and the charter school after consideration of alternative correction actions.

Overexpenditures

A number of situations have been reported to the department where charter schools overexpended a capital projects fund authorization and in some cases used unauthorized methods to fund the overexpenditure. In managing capital projects, the Business Administrator must certify the availability of funds before the board can award contracts and/or a change order on a capital project that increases the cost of the project. (*N.J.A.C.* 6A:26-4.9(a)(3)). In no instance can approval of change orders increase the cost of the project above the bond referendum approved amount.

Overexpending a capital project authorization has serious consequences. Under the New Jersey Code of Criminal Justice, it is a crime for a public official or employee to knowingly disburse, order, or vote for the disbursement of moneys or incur obligations in excess of appropriations or an amount limited by law (See *N.J.A.C.* 6A:26-4.5 and Division of Finance Policy Bulletin 200-11 issued July 1991). The Department will notify the Office of the Inspector General and may notify the Director, Division of Criminal Justice if an over-expenditure/deficit is detected in a capital project. A charter school over-expending the capital projects fund may also be subject to a reduction in its state aid and other actions pursuant to *N.J.A.C.* 6A:23-2.12 and *N.J.A.C.* 6A:26-14.1 et seq. if applicable.

In the event that a charter school overexpended capital projects funds or otherwise violated the procedures described by *N.J.A.C.* 6A:23-2.12 and Division of Finance Policy Bulletin 200-13 issued October 1992, auditors must include appropriate comments and recommendations and the amount in the Auditor's Management Report.

June 30, 2009

SECTION II – SPECIFIC COMPLIANCE
FUND 40 – DEBT SERVICE FUND

This section not applicable to charter schools

SECTION II – SPECIFIC COMPLIANCE
FUND 50 – PERMANENT FUNDS

The permanent fund is used to report resources that are legally restricted so that only the earnings they generate, and not the resources themselves, may be used to support the charter school's programs. Resources reported as non-expendable trust funds prior to GASB 34 should be reported as a permanent fund if the charter school has an ownership interest in the assets.

Examples of resources accounted for and reported in a permanent fund include:

- The charter school has received a large bequest from the estate of a wealthy benefactor. The corpus of the donation cannot be spent, but instead is required to be invested to provide earnings that are restricted for a special use identified by the benefactor, e.g. maintenance of the libraries.
- A local resident has donated investments with the stipulation that only the earnings of the investments may be used to purchase musical instruments for the schools.

A permanent fund does not include private-purpose trust funds, which are used to report situations in which the charter school is required to use the principal or earnings for the benefit of those outside the charter school (individuals, private organizations, or other governments), not for charter school purposes. See II-60 for treatment of trust funds in the fiduciary fund section of the financial statements.

June 30, 2009

SECTION II – SPECIFIC COMPLIANCE
FUND 50 – PERMANENT FUNDS

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SECTION II – SPECIFIC COMPLIANCE
FUND 60 - PROPRIETARY FUNDS

Proprietary Funds

Proprietary funds are used to account for charter school activities that are similar to business operations in the private sector. They are not used to account for the normal operations of a charter school regardless as to whether the operations include services provided to outside parties that are offset by revenues. There are two categories of proprietary funds -- enterprise funds and internal service funds. The use of these fund types should be consistent with GAAP (GASB Codification 1300.104). Guidelines for charter schools using the internal service fund to account for shared services are outlined in *N.J.A.C. 6A:23-2.16*.

There is little change in the proprietary financial statements resulting from GASB 34. Capital contributions are not reported as a separate component of net assets in the *Statement of Net Assets*, but continue to be reported as such in the funds statements. Charter school staff and auditors should refer to GASB 34, paragraphs 91 through 105 for guidance on proprietary fund financial statements.

Enterprise Funds:

Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business operations. Examples of enterprise funds in New Jersey Charter Schools are those established to account for the food services program of the charter school; latch-key programs (before/after school programs) and non-mandated transportation programs. **All the expenses of these operations are accounted for in the funds. Any board of trustee contribution to cover a deficit in the Food Service Fund is shown as a transfer to cover deficit in the general fund and as an operating transfer in the enterprise fund.**

Auditor's Note – The Transfer to Cover Deficit in the Food Service Fund included in the general fund **must** reconcile to the Operating Transfer – Board Contribution reflected in the Enterprise Fund. The department has included an edit in the Audsum diskette to identify any discrepancy between the reported amounts and recommends completing the Audsum diskette prior to filing the CAFR. The Transfer to Cover Deficit should be reflected as an Other Financing Use on Exhibit B-2 in the general fund column of the Governmental Funds *Statement of Revenues, Expenditures, and Changes in Fund Balances* and an operating transfer out on the C-1 *General Fund Budgetary Comparison Schedule*.

Non Mandated Transportation – Enterprise Fund:

In accordance with N.J.S.A. 18A:39, public schools are prohibited from using public school funds to pay for non-mandated transportation (courtesy busing) of students. This service must be fully supported through fees collected from participating families or fundraising revenue. Transfers from the general fund to cover deficits in this fund are prohibited. Auditors are advised to review all invoices and payroll accounts to ensure that all non mandated transportation-related expenditures are properly accounted for in the Enterprise Fund. For additional information regarding eligibility for transportation, refer to the following website: <http://www.state.nj.us/education/parents/transportation.htm>

Auditor Note: Total non mandated transportation costs paid with public school funds must be treated as a disallowed cost.

SECTION II – SPECIFIC COMPLIANCE
FUND 60 - PROPRIETARY FUNDS

Food Service - Enterprise Funds

Boards of trustees may contract with food service management companies (FSMC) to equip, supply and operate cafeterias without profit to the charter school pursuant to *N.J.S.A.* 18A: 33-3. Every contract for the services of a food service management company should meet federal standards and procurement requirements pursuant to Title 7 of the Code of Federal Regulations pursuant to *N.J.S.A.* 18A: 18A-42.1. All charter schools rebidding their FSMC Contract must rebid their new contract pursuant to the Public School Contracts Law, *N.J.S.A.* 18A:18A-1 et seq. as amended .

The most widely used contract method in New Jersey is referred to by the *Accounting Guide for Government Contracts* as the "cost plus a fixed fee (management fee) contract." The food service management company receives a set fee for managing the food service operation and the board is liable for the reimbursement of all costs incurred. Regardless of the contract method, the charter school management is considered the School Food Authority. Federal regulations prohibit contracts that permit all receipts and expenses to accrue to the food service management company. Even if federal reimbursements are not received, schools using management companies and retaining liability for costs incurred are considered the School Food Authority.

As School Food Authorities, daily cash sales and State and Federal reimbursements are school moneys and subject to the State's school laws. Management companies may handle the preparation of food, placing of orders for food and supplies and other associated administrative duties but they are not permitted under state law to administer or hold school funds.

The following procedures should be implemented in order to comply with state laws for administering school moneys.

1. The income from daily cash sales and State and Federal reimbursements must be under the control of the treasurer of school moneys in any bank or banking institution of this state designated by the charter school management as a depository of school moneys. Such funds may be deposited in the Board's general operating account. A separate food service account is not required. (*N.J.S.A.* 18A: 17-34)

Receipts and disbursements of food service funds must be separately accounted for in the records of the treasurer and board secretary. The board secretary should maintain the cash records, in accordance with the *Uniform Minimum Chart of Accounts (2003 Edition)*.

When the board of trustees budgets funds in its general fund budget in account 11-000-310-930, Transfers to Cover Deficit, those funds may be transferred to the Enterprise Fund at the end of the year for the actual amount, if any. If made prior to the end of the year, any amount of the transfer not needed for a deficit may be refunded to the general fund.

SECTION II – SPECIFIC COMPLIANCE
FUND 60 - PROPRIETARY FUNDS

2. The board of trustees may by resolution designate the board secretary or another person to approve payments without board approval to expedite the payment process. All such payments must be issued on properly signed warrants and subsequently ratified by the board. The board's resolution may limit the authorization to certain purposes such as the school food service reimbursements and may also limit the dollar amount per payment or month. (*N.J.S.A.* 18A: 19-1, 2, 4 and 4.1)
3. Loans or advances from the board to a food service management company are prohibited. All claims and demands must state that articles have been furnished or services rendered before payment can be made. (*N.J.S.A.* 18A: 19-3)
4. Food service management companies may negotiate the cost reimbursement dates with the board. However, no interest may be charged on payments which are not made within the negotiated dates.
5. The food service management company must provide itemized claims for services and goods to the charter school management for reimbursement.
 - a) The food service management company should process payroll data in such a way that the charter school management can reimburse it in time for payroll checks to be issued. A one-week lag between payroll period and check disbursement should provide sufficient time for all necessary verifications and payments.
 - b) The food service management company must submit an itemized claim for reimbursement for all goods and services. Reimbursement claims for payroll should include either a copy of the company's payroll for those employees providing service to the charter school or an itemized listing of employees, check numbers and date, hours worked or earnings. In the latter scenario, payrolls and support documentation must be made available whenever requested by the charter school management and for the annual audit.

When the food service management company purchases specifically for the charter school, reimbursement claims for goods should list invoice numbers, dates, vendor names and amounts (sample 1 in Section II-60.5). If the food service management company purchases food in bulk for a number of charter schools, it may use the above method allocating invoice amounts between charter schools based on the percentage of each charter school's student enrollment (or participation) to the total enrollment for all schools (sample 2 in Section II, 60.6). It may also use a per-meal cost calculation based on the total amount of the invoices divided by the total meals served to all charter schools. Each charter school's pro-rata share of the costs would be the per meal cost multiplied by the meals served in each charter school (sample 3 in Section II, 60.8)

When a food service management company submits an itemized claim for reimbursement, it is not necessary to provide vendor invoices. However, they must be made available whenever requested by the charter school management and for the annual audit.

SECTION II – SPECIFIC COMPLIANCE
FUND 60 - PROPRIETARY FUNDS

6. The charter school board of trustees and the food service management company should work closely to minimize the time of reimbursements and to avoid cash flow problems. However, a food service management company may need to establish a line of credit if the timing of reimbursements is not sufficient to make its payrolls. Interest paid is an allowable cost of the contract in such situations.

The foregoing procedures are recommended by the department to comply with the state's statutes for administering school funds. However, these procedures do not replace but rather supplement the requirement contained in 7 CFR 210.16 that all books and records of the food service management company pertaining to the school food service program shall remain the property of the charter school. Auditors must include appropriate comments and recommendations in the event that funds are not properly administered as described in Division of Finance Policy Bulletin 200-12.

SAS #70 Reports

In accordance with SAS #70, as amended by SAS #88, charter school auditors may evaluate the internal controls of a food service management company by relying upon the opinions of a "service auditor" of the food service management company's internal control system. To that end, Charter Schools must only contract with food service management companies that can provide an audit opinion on said company's system of internal control. All food service management company bid specifications, contracts and/or addenda must include this requirement as a condition of bid qualification.

June 30, 2009

SECTION II – SPECIFIC COMPLIANCE
FUND 60 - PROPRIETARY FUNDS

SAMPLE 1

Foodland Food Services
123 Broad Street
Anytown, NJ 08000
609-123-4567

October 15, 200X
Invoice #123456

Any Charter School
Highland Street
Old Town, NJ 08111

For reimbursement of costs incurred related to the provision of food services for the Any Charter School during the month of September 200X. The costs incurred are listed below:

<u>Invoice #</u>	<u>Date</u>	<u>Vendor Name</u>	<u>Amount</u>
06932	8/31/0X	Bakeland	\$2,398.61
12555X	9/02/0X	Murray's Meats	6,779.38
431182	9/03/0X	Polly's Produce	796.54
218812	9/07/0X	Dan's Dairy	877.32
06988	9/07/0X	Bakeland	531.89
12682X	9/07/0X	Murray's Meats	153.90
431906	9/13/0X	Polly's Produce	591.83
219601	9/24/0X	Dan's Dairy	877.32
		Total	<u>\$13,006.79</u>

Please remit the above amount by November 15, 200X. The listed invoices are available for audit and review. I certify that the within invoice is correct in all its particulars, that the described goods or services have been furnished or rendered and that no bonus has been given or received on account of said invoice.

Franklin Chief
President
Foodland Food Services

SECTION II – SPECIFIC COMPLIANCE
FUND 60 - PROPRIETARY FUNDS

SAMPLE 2 (2 of 2)

NEW CITY CHARTER SCHOOL FOOD SERVICES ALLOCATION

Invoice #	Date	Vendor Name	New City	Upper	Lower	Middle	Total
			19.7%	14.1%	27.8%	38.4%	100.0%
6932	8/31/200x	Bakeland	\$208.09	\$148.94	\$293.65	\$405.61	\$1056.29
12555X	9/2/200x	Murray's	689.23	493.31	972.62	1,343.48	3498.64
		Meats					
431182	9/3/200x	Polly's	176.45	126.29	249.00	343.94	895.68
		Produce					
218812	9/7/200x	Dan's Dairy	632.22	452.50	892.17	1,232.35	3,209.24
6988	9/7/200X	Bakeland	118.77	85.01	167.61	231.51	602.90
12682D	9/7/200x	Murray's	692.86	495.91	977.75	1,350.55	3,517.07
		Meats					
431906	9/13/200x	Polly's	112.21	80.31	158.34	218.71	569.57
		Produce					
219601	7/13/200x	Dan's Dairy	477.38	341.68	673.66	930.52	2,443.24
		Total	\$3,107.21	\$2,223.95	\$4,384.80	\$6,056.67	\$15,772.63

No. of Students Participating	Percentage
New City - 630	19.7%
Upper - 452	14.1%
Lower - 889	27.8%
Middle - 1,230	38.4%
Total - 3,201	100.00%

June 30, 2009

SECTION II – SPECIFIC COMPLIANCE
FUND 60 - PROPRIETARY FUNDS

SAMPLE 3 (1 of 2)

Foodland Food Services
123 Broad Street
Anytown, NJ 08000
609-123-4567

October 15, 200X
Invoice #123456

Any Charter School
Highland Street
Old Town, NJ 08111

For reimbursement of the Any Charter School pro-rata share of costs related to the shared food services program provided by our company. See the attached per meal cost calculation supporting the amount charged.

For the month of September 200X	
1,598 meals @ \$2.45 meal	\$3,910.60

Please remit the above amount by November 15, 200X. The invoices listed on the per meal cost calculation are available for audit and review. I certify that the within invoice is correct in all its particulars, that the described goods or services have been furnished or rendered and that no bonus has been given or received on account of said invoice.

Franklin Chief
President
Foodland Food Services

SECTION II – SPECIFIC COMPLIANCE
FUND 60 - PROPRIETARY FUNDS

SAMPLE 3 (2 OF 2)

NEW CITY CHARTER SCHOOL FOOD SERVICES ALLOCATION

Invoice #	Date	Vendor Name	Invoice Amount
6932	8/31/200x	Bakeland	\$ 2,398.61
12555x	9/2/200x	Murray's Meat	6,779.38
431182	9/3/200x	Polly's Produce	796.54
218812	9/7/200x	Dan's Dairy	877.32
6988	9/7/200x	Bakeland	531.89
12682X	9/7/200x	Murray's Meat	153.90
431906	9/13/200x	Polly's Produce	591.83
219601	7/13/200X	Dan's Dairy	877.32
		Total	\$ 13,006.79

<u>Charter School</u>	<u>No. of Meals</u>	<u>Price/Meal</u>	<u>Amount</u>
New City	1,598	\$ 2.45	\$ 3,910.60
Upper	1,299	2.45	3,178.89
Lower	1,243	2.45	3,041.85
Middle	<u>1,175</u>	<u>2.45</u>	<u>2,875.44</u>
Total	5,315	\$ 2.45	\$13,006.79

SECTION II – SPECIFIC COMPLIANCE
FUND 60 - PROPRIETARY FUNDS

Child Nutrition Program Requirements

NJ OMB Circular 04-04 requires audits of recipients in accordance with the Single Audit Act, Amendments, OMB Circular No. A-133 Revised (OMB A-133) and State policy, or a financial statement audit performed in accordance with Government Auditing Standards (Yellow Book) depending on the amount of funds expended. NJ Circular 04-04 states “Auditors should use the same risk based approach to audit and monitor State financial assistance, as used for federal programs. This approach is described in OMB A-133 Revised. The charter’s independent auditor should refer to OMB A-133 paragraphs .520 and .525 to calculate whether the Child Nutrition Cluster programs meet the federal major program determination criteria. Auditors should follow the federal Compliance Supplement (Department of Agriculture) for the Child Nutrition Cluster (CFDA 10.553 School Breakfast Program, CFDA 10.555 National School Lunch Program, CFDA 10.556 Special Milk Program for Children, and CFDA 10.582 Fresh Fruit and Vegetable Program, and CFDA 10.559 Summer Food Service Program for Children). The federal Compliance Supplement can be obtained at <http://www.whitehouse.gov/omb/circulars/index.html>. The Bureau of Child Nutrition Programs’ audit policy complies with OMB A-133 published in the Federal Register, June 27, 2003. The procedures below reflect the Compliance Supplement but are not intended to be all inclusive.

Charter schools and their auditors should also refer to the sample Proprietary Fund statements (Exhibits B-4, B-5, and B-6) on the NJDOE web site. <http://www.state.nj.us/njded/finance/fp/cafr/>. When a charter school has more than two programs in the Proprietary Fund, combining statements should be prepared. Please refer to the sample format for School Food Service Fund Exhibit F-1, F-2 and F-3 in Financial Reporting for New Jersey School Districts, A Sample Comprehensive Financial Report, The CAFR (Issued August 1999) for combining statements. The Proprietary Fund combining statements follow the same format but are labeled G-1, G-2 and G-3.

Auditors should report on the condition of the financial transactions and statistical records of the School Food Service Fund, including a review of monthly reimbursement vouchers, meal count records, Edit Check Worksheets, and eligibility applications. **Determine whether there are controls providing reasonable assurance that all meals reported to the state agency for reimbursement are based on accurate counts and are served to eligible children.**

Please Note: 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. This on-line system provides payment status, payment logs and a monthly report summarizing meals claimed by site. The auditor may request these reports from the charter school.

SECTION II – SPECIFIC COMPLIANCE
FUND 60 - PROPRIETARY FUNDS

1. Suggested audit procedures to ensure that reimbursement received is supported by source documents.
 - a) **ELIGIBILITY APPLICATIONS** - Review eligibility applications to evaluate completeness of required information and verify eligibility determination. Form number 63 provides guidance for the application approval process and is available on the New Jersey Department of Agriculture website at <http://www.state.nj.us/agriculture/applic/forms/#6>. Any incomplete free or reduced price applications should be placed in the Paid (denied) category, and an overclaim must be assessed on the Schedule of Meal Count Activity. Incorrectly determined applications should be placed in the correct category, and the resulting overclaim/underclaim must be identified on the Schedule of Meal Count Activity. Additionally, audit findings related to the free and reduced eligibility determination must be reported in the Auditor’s Management Report (AMR) in the School Food Service section. Eligibility may also be determined through the Direct Certification Process. Please refer to the May 2007 Memo “Important School Nutrition Program Information/Updates” and the July 13, 2007 Memo “Annual Application Process for Provisions I and II”.

NOTE:

Eligibility is also required to be determined through the Direct Certification Process. Please refer to the March 31, 2008 memo on Direct Certification Workshops and the July 7, 2008 Direct Certification memo. Copies of these memos should be available at the charter school. Schools can directly certify students as eligible for free school meals by uploading their student database via the SNEARS web-based system and the date is matched against the data from Food Stamps/TANF for the selected municipalities.

Schools participating in Provision 1 or 2 are not required to collect eligibility applications annually. Please refer to eligibility requirements set forth in the July 30, 2008 Memo, “Annual Application Process for Provisions I and II

Eligibility Application: Household Application for Free and Reduced Price Meals and/or Milk. Auditors should verify for the sample selected that the correct eligibility applications have been utilized, fully completed, and properly supported and maintained.

- Household applications are the only eligibility applications in use for this school year. Since a foster child is considered a family of one, he/she should be the only child listed on a separate household application. For example, a family with five children (3 of their own and 2 foster children) is required to complete three household applications – one application inclusive of their three children, plus individual applications for each of the two foster children.
- Household applications must be maintained centrally. (The Department of Agriculture has strongly recommended that a representative from the charter school attend a Determining Official Workshop).

SECTION II – SPECIFIC COMPLIANCE
FUND 60 - PROPRIETARY FUNDS

- Household applications must be on the correct state approved format for the school year being reviewed.
- Eligibility determination of a household application is effective for the entire school year with the exception of an income listed as zero. Zero income applications are placed on temporary status and must be updated as additional documentation is received by the charter school.

- Every household member listed on the application must either have an income reported or the box indicating zero income for that individual must be checked. Income must be listed by the amount received by each household member and the frequency of which the member received the income. Frequency is determined as weekly, every two weeks, twice monthly, or monthly. If more than one frequency is provided the total household income must be converted to annual.
- There is a section on the household application used to identify children who are homeless, migrant or runaway and categorically eligible. Charter Schools must designate an Educational Agency Liaison for the homeless. This liaison and the Migrant Coordinator are the only approved sources of supporting documentation for the application of homeless, migrant or runaway children.

MEAL COUNT RECORDS - Review meal count records on a school-by-school basis to verify meals claimed on reimbursement vouchers. Edit Check Worksheet(s) must be completed for every lunch reimbursement claim submitted and the required comparisons made before completing the reimbursement claim. Edit Check Worksheet(s) are optional for the breakfast program. Any meals denied free or reduced priced eligibility should be credited at the paid rate of reimbursement and overclaim/underclaim identified on the Schedule of Meal Count Activity.

A sample Schedule of Meal Count Activity is presented on page III-4.22 of this Audit Program and instructions for completion are as follows:

1. Most column headings are self-explanatory.
2. When less than 100% of the meals claimed for a program in any category (Paid, Reduced or Free) have been tested by the auditor, eligibility application exceptions/reclassifications discovered must be factored into the “Verified” column over 180 operating days or, where known, the exact number of meals served to the reclassified student. For example, an auditor has tested less than 100% of meals claimed for the National School Lunch program and has found an error resulting in the reclassification from the “Free” category to the “Reduced” category for one student. The reclassification must be reflected in the “Meals Verified” column over 180 operating days or the number of actual meals served to that student, and will result in an adjustment to column 8 in both the “Free” and “Reduced” categories.
3. Column six (Difference) is the difference between the Meals Tested column and the Meals Verified column for each program.

SECTION II – SPECIFIC COMPLIANCE
FUND 60 - PROPRIETARY FUNDS

4. Column eight is the over/underclaim calculated as the Difference times the Rate for each program. A net over/underclaim for all meal programs combined is presented at the bottom of the (Over)/Under Claim column..

Unsupported reimbursement must be cited as a finding of noncompliance and a financial assessment identified on the Schedule of Meal Count Activity (Overclaim/Underclaim). Provide pertinent detail, i.e. school, month.

NOTE: Schools participating in the Seamless Summer Option feed all children at the free rate of reimbursement.

2. Verification Regulations issued by the United States Department of Agriculture require pricing sponsors of the National School Lunch and School Breakfast Programs to verify a minimum number of approved applications on file as of October 1st of each school year. Sample selection and verification may begin earlier based on projections done by school officials. The independent auditor's review of eligibility applications should include an examination of the internal verification process and internal sampling records.
3.
 - Sample Selection Method for Internal Verification of Applications is:
 - a) Use all approved applications on file at October 1, 2008 to determine the appropriate sample size and to select the applications for verification (audit testing). Note that sample size depends on the number of paper applications, NOT the number of children represented.
 - b) The required sample size is the LESSER of:
 1. 3% of all approved applications*, or
 2. 3,000 approved "error prone" applications

*Applications included in the sample must be selected from the pool of "error prone" applications, to the extent possible. If there are not a sufficient number of "error prone" applications to complete the sample, the remaining applications should be randomly selected from the pool of "non-error prone" applications.

 - c) "Error prone" applications are those applications characterized by:
 - Annual income within \$1,200 of the annual income guidelines
 - Monthly income within \$100 of the monthly income guidelines
 - Twice a month income within \$50 of the twice a month income guidelines
 - Every two weeks income within \$50 of the every two weeks income guidelines
 - Weekly income within \$25 of the weekly income guidelines.
 - d) Fractional sample size calculations are always rounded upward, increasing the sample size. Example: 340 approved applications are on file at October 1st, 2008. (340 x 3% = 10.2 applications; sample size must be 11).

Note to auditor: Internal verification procedures must require that each application selected for internal verification be reviewed for accuracy by charter school personnel other than the

SECTION II – SPECIFIC COMPLIANCE
FUND 60 - PROPRIETARY FUNDS

individual who made the initial approval determination. The auditor should verify that the process used by the charter school resulted in approved applications being classified in the charter school records as “approved applications” considered in the internal audit sampling pool as described in (b) above. Verify that incorrectly approved applications discovered during the internal sampling process have been removed from the internal sampling pool of “approved applications”; the eligibility status changed, a formal notification sent to the family of a change in eligibility, and instructions for resubmission of their application including information regarding acceptable forms of income in support of their application.

All verification activity must be completed by November 15 of each school year. The charter school must electronically report the results of their verification activities to the Bureau of Child Nutrition Programs by March 1. Failure to complete verification will result in reimbursement being withheld by the Bureau. The auditor's review of eligibility applications should include a review of the verification file to ensure that the verification process was completed on a timely basis.

3. Expenditures of school food service revenues should be limited to allowable school food service direct and indirect costs. Review vendor invoices and verify labor costs. Determine that inventory records on food and supply items are currently maintained. Review time sheets and verify labor cost. Verify that payroll records are maintained.
4. A School Food Authority is required to maintain a nonprofit School Food Service. The nonprofit status of the School Food Service is determined by evaluating net cash resources. Net cash resources are defined as all monies that are available to, or have accrued to a School Food Authority's nonprofit school food service at any given time, less cash payable. Such monies may include, but are not limited to, cash on hand, cash receivable, earnings on investments, cash on deposit and the value of stocks, bonds, or other negotiable securities. Net cash resources may not exceed three months average expenditures. In the event that net cash resources exceed three months average expenditures for the School Food Authority's nonprofit school food service, the State Agency may require the School Food Authority to reduce children's prices, improve food quality or take other actions designed to improve the nonprofit school food service. (REF 7CFR 210:15)
5. The auditor should comment on whether Food Distribution Program (formerly U.S.D.A.) commodities were received. If the charter school is utilizing a vendor to provide meals, review evidence that the market value of Food Distribution Program donated commodities was credited on monthly invoice statements.
6. Auditors should verify that financial arrangements and other provisions in the Food Service Management contract have been complied with; if not, cite exception.
7. The United States Department of Agriculture does not permit increases in reimbursement for revised vouchers received after the 60 days without proper verification. However, payment can be considered if the underclaim is verified in an audit or administrative review. Auditors are instructed to verify any underclaims (identify in the Schedule of Meal Count Activity) as a result of late revisions. Please note that such payment is subject to approval.

SECTION II – SPECIFIC COMPLIANCE
FUND 60 - PROPRIETARY FUNDS

8. Requirements effective for 2008-2009 base year contracts with FSMC (federal procurement regulations published in the Federal Register, Vol. 72, No. 210, October 31, 2007):
- FSMC must either identify allowable and unallowable costs, OR must exclude all unallowable costs and certified that only allowable costs are submitted to the charter school for payment.
 - FSMC must identify the amount of each discount, rebate and other applicable credit on bills and invoices presented to the charter school for payment. FSMC determines in contract the frequency of reporting such information (may not be less than annually).
 - FSMC must identify the specific method(s) used to report discounts, rebates and other applicable credits that are not reported prior to conclusion of the contract.
 - FSMC must maintain documentation of costs and discounts, rebates, and other applicable credits and must furnish such documentation upon request to the charter school, state agency or USDA.

SECTION II – SPECIFIC COMPLIANCE
FUND 60 - PROPRIETARY FUNDS

The following memorandums and attachments for the school year 2008-09 are available at charter school offices to be referenced by the auditor:

- 1) November 14, 2007 Food Service Management Company (FSMC) Registration for School Year 2008-2009.
- 2) December 18, 2007. Food Service Privatization: Securing Food Service Management Company (FSMC) Contracts.
- 3) February 14, 2008 Procurement Requirements for 08-09 Core Contracts.
- 4) February 29, 2008 New Jersey directory of Registered Food Service Management Companies/Regulation Changes for 2008-2009 Base Year Contracts.
- 5) March 24, 2008 New Procurement regulations Affecting Food Service Management Company contracts.
- 6) March 31, 2008 Workshops on the Required Fiscal Year 2009 Direct Certification Process.
- 7) March 31, 2008 Fresh Fruit and Vegetable Program Application
- 8) April 14, 2008 Seamless Summer Option.
- 9) May 2008 Free and Reduced Price School Meals Household Application Workshop and Schedule for Determining Officials.
- 10) May 22, 2008 Annual Child Nutrition Program Documents for 08-09
- 11) June 20, 2008 Training on Navigating the School Nutrition Electronic application and Reimbursement System.
- 12) July 7, 2008 Direct Certification.
- 13) July 15, 2008 Annual Application Process for Provisions I and II.
- 14) July 30, 2008 Allowable Costs for Meals in Accordance with N.J.A.C. 6A:23-4.5(a)(20)
- 15) August 2008 Fiscal Year 2009 Verification Workshop Schedule.
- 16) August 27, 2008 Important Reminders for Child Nutrition Programs.
- 17) September 2008 Application for Jets “Eat Right Move More” Program
- 18) November 17, 2008 Preschool Program Food Service Related Issues – Q&A.
- 19) January 5, 2009 Separate Accounting of Milk Reimbursement Funds.

SECTION II – SPECIFIC COMPLIANCE
FUND 60 - PROPRIETARY FUNDS

- 20) January 5, 2009 HACCP Trainings.
- 21) January 5, 2009 E-Rate Audits by the FCC
- 22) January 12, 2009 On-Site Accountability Reviews for the NSLP.
- 23) January 20, 2009 Additional HACCP Trainings
- 24) February 9, 2009 Fair and Open Competition in Securing FSMCs
- 25) February 17, 2009 Important Reminders for School Nutrition Programs.
- 26) March 2009 Timely Submission of Reimbursement Vouchers
- 27) March 30, 2009 Food Service Equipment Assistance Grant Application
- 28) Maximum Price Schedule School Year 2008-09.
- 29) Food Service Management Company Contract Required Language Checklist, School Year 2008-2009 (Form #17).
- 30) Food Service Management Company Addendum Required Language Checklist, School Year 2008-2009 (Form #18)

SECTION II – SPECIFIC COMPLIANCE
FUND 60 - PROPRIETARY FUNDS

JULY 1, 2008 – JUNE 30, 2009

REIMBURSEMENT RATE BREAKDOWN

NATIONAL SCHOOL LUNCH RATES

REGULAR RATE			
SFAs w/less than 60% of Free and Reduced Lunch			
	FEDERAL	STATE	TOTAL
FREE	2.57	0.10	\$2.67
REDUCED	2.17	0.10	\$2.27
PAID	0.24	0.04	\$0.28

HIGH RATE (EXTRA 0.02 CENTS)			
SFAs w/more than 60% of Free and Reduced Lunch			
	FEDERAL	STATE	TOTAL
FREE	2.59	0.10	\$2.69
REDUCED	2.19	0.10	\$2.29
PAID	0.26	0.04	\$0.30

SCHOOL BREAKFAST PROGRAM

REGULAR RATES			
	FEDERAL	STATE	TOTAL
FREE	1.40	0.10	\$1.50
REDUCED	1.10	0.10	\$1.20
PAID	0.25	0.10	\$.35

SEVERE NEED RATES			
	FEDERAL	STATE	TOTAL
FREE	1.68	0.10	\$1.78
REDUCED	1.38	0.10	\$1.48
PAID	0.25	0.10	\$.35

AFTER SCHOOL SNACKS

AT RISK/ AREA ELIGIBLE	0.71
NON- AREA ELIGIBLE	
FREE	\$0.71
REDUCED	\$0.35
PAID	\$0.06

SPECIAL MILK PROGRAM

FREE	Average cost per half pint * Based on Individual SFA's costs
PAID	0.1825

Commodity Value \$0.2075

SFA = SCHOOL FOOD AUTHORITY

7/10/08

SECTION II – SPECIFIC COMPLIANCE
PROPRIETARY FUNDS
FUND 70 – INTERNAL SERVICE FUNDS

Internal Service Funds

Charter schools should use internal service funds to account for the financing of goods or services provided by one department or office to other departments or offices of the charter school, or to other school boards of education and governmental units, on a cost-reimbursement basis. Internal service funds are cost accounting and distribution entities, and are intended to "break even" annually and/or over a period of years (*N.J.A.C. 6A:23-2.13*). The use of an internal service fund does not provide additional revenue or expenses to the charter school but acts as a means to document the sharing of the costs. Use of this fund replaces the prior common practice of "refunding" expenditure accounts for shared services. Some activities that may be accounted for in an internal service fund are central purchasing and warehousing, central motor pools, central printing and duplicating or central data processing departments.

Arrangements for sharing the costs of administrative and other non-instructional personnel and related costs under joint agreements where the employees remain under the employment of one lead school would also be accounted for in an internal service fund in the records of the lead school. Each of the "sharing" schools, including the employing school, should reflect their agreed-upon portion of the costs in the general fund. For the employing school, that cost would be budgeted as salary expenditure. The "sharing" schools would account for the payments made to the lead school as a contracted service under the appropriate function. If the shared employees have employment contracts with each of the schools involved, each school's share of the employees' salary and related costs would be budgeted and expended against the appropriate salary and other accounts and there would be no need for any of the schools involved to establish an internal service fund.

- The charter school board of trustees providing the shared service shall allocate the costs on a user charge basis to all participating entities on an annual basis at a minimum.
- User charges should be reported by entities or funds being serviced by the Internal service fund in the applicable line item account for the goods or services received.
- Sales and purchases of goods and services for a price approximating their External exchange value should be reported as revenues ("Services Provided To Other Funds"). The total user charges should approximate the total costs of the internal service fund.

Self-insurance (Risk Financing):

Self insurance is the practice of a charter school controlling and self-directing the costs of administering an insurance program while retaining a risk of loss. GASB Statement Number 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, as amended by GASB 30, *Risk Financing Omnibus*, provides the accounting and financial standards for risk financing and self-insurance related activities. If a charter school accounts for all of its risk financing activities in a single fund, it is recommended that the Internal Service Fund be used. GASB Statement 10 paragraph 63 permits either the use of the internal service fund or the general fund for such purposes. The NJDOE has recommended using the internal service fund. The Government Finance Officers Association's publication *Governmental Accounting, Auditing, and Financial Reporting* (the "Blue Book") references GASB 10 paragraph 66 and states on page 101, "If a government chooses to use an internal service fund to account

SECTION II – SPECIFIC COMPLIANCE
PROPRIETARY FUNDS
FUND 70 – INTERNAL SERVICE FUNDS

for its risk financing activities, interfund premiums should be classified as service fund to account for its risk financing activities, interfund premiums should be classified as interfund services provided (a reciprocal interfund activity). As a result, premiums received by the internal service fund should be reported as revenues. Unless excess revenues are justified, premiums in excess of probable and measurable losses incurred must be reported as an operating transfer (a nonreciprocal interfund activity) rather than as revenue.”

The Internal Service Fund reports on the accrual basis and per GASB 10 paragraph 53 should limit liability recognition to probable and measurable losses as of the balance sheet date. For example, worker’s compensation losses that have been incurred but not reported (event occurred, but no claim has been asserted at the balance sheet date), are accrued if a reasonable estimate of the loss can be made.

SECTION II – SPECIFIC COMPLIANCE
FIDUCIARY FUNDS
FUND 80 – TRUST FUND

Assets that are held in a trustee or agency capacity for external parties and that cannot be used to support the government's own programs are reported as fiduciary funds. Trust and agency funds are used to account for resources held and administered by a charter school when it acts in a fiduciary capacity. Trust funds may be distinguished from agency funds by the existence of a trust agreement, a higher degree of management involvement, and a longer holding period of the fund resources. Agency funds report resources held by the reporting government in a purely custodial capacity.

Fiduciary trust and agency fund activity is not included in the charter school-wide financial statements (the Exhibit A series) but is reported in the fund statements (Exhibit B7 and B8) as described below. Inclusion of the trust or agency fund resources in the school-wide financial statements might mislead the reader about the financial position of the charter school since these funds are not available for use by the charter school.

Trust Funds:

These are the three classes of trust funds:

- Pension and other employee benefit trust
- Investment trust funds
- Private-purpose trust funds

Pension and other employee benefit trust funds account for resources held in trust for the members and beneficiaries of the charter school's employee benefit plans. Investment trust funds report the resources of a combined investment effort among charter schools. Private-purpose trust funds encompass other trust fund arrangements for which principal and income benefit individuals or agencies outside of the charter school. Examples of a private purpose trust fund are a scholarship fund or a fund that reports the resources of an awards program, funded by contributions from local businesses to provide small cash awards to qualifying high school seniors.

When funds are legally restricted to the extent that only the earnings, and not the principal, may be used to benefit the charter school, those resources are reported in the permanent fund.

There are two required trust fund financial statements under GAAP:

- *Statement of Fiduciary Net Assets*
- *Statement of Changes in Fiduciary Net Assets*

Refer to the *Statement of Fiduciary Net Assets* and the *Statement of Changes in Fiduciary Net Assets* (Exhibits B-7 and B-8), the sample fiduciary fund statements, in the Sample Statement section on the NJDOE web site: <http://www.state.nj.us/njded/finance/fp/cafr/>.

SECTION II – SPECIFIC COMPLIANCE
FIDUCIARY FUNDS
FUND 80 – TRUST FUND

Unemployment Trust Fund

When a charter school elects the reimbursement method (also called the payment in lieu of contributions or pay as you go, i.e., the state pays the claim and invoices the charter school for the amount due) for unemployment compensation, the accumulation of funds is reported in a trust/fiduciary fund in the CAFR.

Effective January 1, 1999, a portion of the employee’s deductions for unemployment compensation are required to be deposited in the unemployment Compensation Insurance Trust Fund. This applies to charter schools that fund New Jersey Unemployment Compensation Insurance under the “Benefit Reimbursement Method”. The percentage breakdown for the worker contributions is as follows:

As of July 1, 2004

Worker Unemployment Contributions:

0.125% Submit with Quarterly Contributions Report
0.300% *Deposit into individual trust account*
0.425%

Charter schools that fund New Jersey Unemployment Compensation Insurance under the “Contributory Method” (Agency fund) will continue to remit the entire employee deduction to the Commissioner of Labor. If you have questions that pertain to withholding and/or filing, it is recommended that you contact the New Jersey Department of Labor at (609) 633-6400.

Section 457 Deferred Compensation Plans

N.J.S.A. 18A:66-127 through 129 as amended by P.L. 2003, c.155 permits boards of trustees to establish tax-sheltered deferred compensation plans under section 457 of the federal Internal Revenue Code. Additionally, the act grandfathers any section 457 plan established by a board of trustees prior to the effective date of this law.

GASB Statement No. 32, Accounting and Financial Reporting fro Internal Revenue Code Section 457 Deferred Compensation Plans as amended by GASB Statement No. 34 provides authoritative guidance on the reporting of 457 plans. Generally, the charter school Board of Trustees must determine whether or not the Board is acting in the capacity as trustee for the plan. Factors such as whether the Board has retained the power to make investment decisions for the plan, approves loans made from plan assets, and approves withdrawals for unforeseen emergencies suggest the Board is acting in the capacity of a trustee.

If the Board is acting as a plan trustee, then the assets of the plan are reported in the fiduciary fund under the category “pension and other employee benefit trust funds.” If the charter school has established a 457 plan and does not hold the assets in a trustee capacity, do not include the assets in the charter school’s fiduciary fund financial statements.

SECTION II – SPECIFIC COMPLIANCE
FIDUCIARY FUNDS
FUND 90 – AGENCY FUNDS

Agency funds report resources held and administered by the reporting charter school in a purely custodial capacity for other governments, organizations and/or individuals. These funds typically involve only the receipt, temporary investment, and remittance of the resources to external parties. Common examples of agency funds are payroll and student activity funds.

Agency funds are included in a separate column in the *Statement of Fiduciary Net Assets*. Because an agency fund does not have net assets, it is not included in the *Statement of Changes in Fiduciary Net Assets*. The charter school will continue to present the *Student Activity Agency Fund Schedule of Receipts and Disbursements* in Other Supplementary Information (Exhibit H-3).

Payroll funds: Where a charter schools uses a central payroll system and reports all payroll deductions in an agency fund, the unremitted balances in the agency fund at year-end are reported by the agency fund as liabilities. Refer to Section II-10.3 for discussion on regulations related to third party disbursements (payroll service organizations). The regulations (*N.J.A.C. 5:30-17 et seq.*) are available at <http://www.nj.gov/dca/lgs/rules/rulesmenu.shtml>.

Student Activity funds: are reported as agency funds within the CAFR. An arrangement between a student organization and the charter school whereby the charter school maintains the cash raised by the student organization is a common example of a student activity fund.

Organizations under the Auspices of the School

Any organization which is officially recognized by the school as part of the activity program of the charter school, places at least indirect responsibility for supervision and control of that organization with the board of trustees. The board should formally approve each fund in the charter school. If any fund is an activity carried on by the board, an officer or employee of the board, or an organization of public school pupils conducted under the auspices of the board, the board must assure that financial and bookkeeping controls are established.

The State Board of Education has not prescribed a uniform system of bookkeeping for the activities funds of charter schools. *N.J.A.C. 6A:23-2.14* states, “Each district board of education and charter school board of trustees shall ensure through adoption of a formal board policy that all financial and bookkeeping controls are adequate to ensure appropriate fiscal accountability and sound business practices.” This policy shall include but not be limited to, the following minimum requirements:

- 1) Receipts shall be detailed showing date, resources, purpose and amount. All receipts should be promptly deposited in the bank. Bank deposits must agree with the receipts in the cash receipt book and must be traceable to definite receipts or groups of receipts.
- 2) Disbursements shall be recorded chronologically showing date, vendor, check number, purpose and amount. All disbursements should be made by check and supported by a claim, bill or written order to persons supervising the fund. Checks should bear two or more authorized signatures.
- 3) Book balances shall be reconciled with bank balances. Canceled checks and bank statements must be retained for examination by the auditor as part of the annual audit.

SECTION II – SPECIFIC COMPLIANCE
FIDUCIARY FUNDS
FUND 90 – AGENCY FUNDS

- 4) Student activity funds shall be classified by school.
- 5) Borrowing from the student activity fund is prohibited.

Charter school auditors should refer to Chapter 15 of the *GAAP Technical Systems Manual*.

Fund Raising in Schools by Outside Organizations

Organizations such as the United Fund, March of Dimes, etc., may request that moneys be collected. These funds are not subject to audit. Boards of trustees may give permission for the collection to be made in schools. Any teacher or pupil who serves as a collector does so as a private citizen and not as an employee of the board. Accurate records must be kept but responsibility is to the organization and not to the board of trustees for the money collected.

In order to avoid misunderstanding, we advise that boards of trustees that give permission for soliciting in a school building by outside organizations make it clear that the board is not directing the teachers and pupils to collect funds, but merely granting permission to do so. The board is further advised to disclaim any responsibility for the protection of, and the accounting for, the funds to the outside organizations.

Any collector should understand that he/she is collecting voluntarily as a citizen and not as a teacher or pupil, and that the board of trustees has no responsibility for the protection of moneys so collected.

Some boards may have given permission for depositing funds collected in drives in a school activity account and the issuance of checks thereon to the outside organization. Although this might be a convenience to school personnel who are handling the money collected, it causes an undesirable commingling of funds for which the board should have no responsibility. The commingling of such funds is legally suspect. However, if it occurs the commingled funds are subject to audit by the boards' auditors.

Funds of Teacher Organizations and Parent/Teacher Organizations

The law provides that the books, accounts and moneys of any officer or employee of the board shall be audited. This does not mean that every time a school employee serves as treasurer of an organization that the account must be audited. It is only when money is held for which the board is directly or indirectly responsible that the accounts must be audited. The board has no responsibility for the funds of teacher organizations. A school employee who serves as a treasurer of such an organization does so as a citizen and not as an employee of the board. If moneys were deposited in a central school fund, they would be subject to audit.

Funds Collected by Teachers from Pupils for Immediate Purchase of Items

Teachers may receive money from children to buy magazines, tickets, etc. in bulk to save the children money. It is our opinion that in so doing, the teacher represents the children and not the board of trustees and assumes and assumes full responsibility for the transactions.

Refer to Section I, Chapter I for information on GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*.

SECTION II – SPECIFIC COMPLIANCE
CAPITAL ASSETS

Overview

Capital assets include land and land improvements, buildings, furniture, fixtures and equipment, infrastructure items, works of art and historical treasures.

Effective July 1, 2001, the capitalization threshold used by charter schools in the State of New Jersey is increased to \$2,000. This is a policy set for financial reporting and accounting purposes. Charter schools may use a lower threshold for asset management and insurance purposes.

The Uniform Minimum Chart of Accounts for New Jersey Public Schools (2003 Edition) (COA) was issued effective for July 1, 2004 and eliminated GFAAG to be consistent with GASB 34 and the National Center for Education Statistics Chart of Accounts. Charter schools are required to record the capital assets and may designate a numeric or alpha fund number in their general ledger which is suitable for their software system(e.g., 100, 99, or CA) or use a separate fixed asset module. The fixed asset ledger should be updated monthly for internal control purposes.

Reporting Capital Assets

Capital assets are reported at historical cost, including ancillary charges necessary to place the asset into its intended location and condition for use. “Ancillary charges include costs that are directly attributable to asset acquisition – such as freight and transportation charges, site preparation costs, and professional fees. Donated capital assets should be reported at their estimated fair value at the time of acquisition plus ancillary charge, if any.” (GASB 34, par. 18, as amended by GASB 37, par. 6).

The chart below highlights which statements report capital assets. “N/A” means that statement is not issued for that particular fund type, whereas “No” means that statement is issued for that particular fund type but capital assets are not reported.

Class of capital asset	Charter School-wide Statements	Funds statements	Budgetary comparison schedules
Governmental	Y	No	No
Proprietary	Y	Y	N/A
Fiduciary	N/A	Y	N/A

Statement of Net Assets

Report these assets within the governmental activities column in the charter school-wide *Statement of Net Assets*. Capital assets of proprietary funds are reported in the business-type activities column of the *Statement of Net Assets*.

SECTION II – SPECIFIC COMPLIANCE
CAPITAL ASSETS

Funds Statements

Capital assets used in governmental activities are not reported as assets in governmental funds statements since the governmental funds statements follow the modified accrual basis of accounting and capital assets are not current financial resources. Proprietary fund capital assets are reported in the fund statements since this fund uses the accrual basis of accounting (economic resources). Capital assets of fiduciary funds are reported in the fund level since the fiduciary funds statements use the accrual basis of accounting. The fiduciary assets are not considered available to the charter school and therefore are not reported on the charter school-wide statements.

Capital outlays of the governmental funds are reported as a reconciling item in the *Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities*, which reconciles the net change in government fund balances to the change in net assets of governmental activities.

Charter school staff and auditors may refer to the NJDOE CAFR web site for sample statements noted above <http://www.state.nj.us/education/finance/fp/cafr/outline/>. Charter school staff and auditors should also refer to the Section II-30, Capital Projects Fund of this Audit Program for related subjects.

Capital Leases

Assets acquired under a capital lease would be recorded at the inception of the lease. In order to convert the fund financial statements from a modified accrual basis to an accrual basis for the preparation of the government-wide financial statements, the expenditure must be capitalized, any related depreciation expense must be recorded, and the debt must be recognized along with the accrual of any related interest expense.

Construction in Progress

Assets under construction are tracked through Construction in Progress until completion. *N.J.S.A. 18A: 18A-42* provides that purchase orders for construction, reconstruction, or rehabilitation of any public building are valid for the length of time authorized for completion of the actual project.

SECTION II – SPECIFIC COMPLIANCE
CAPITAL ASSETS

Sample Format for the Capital Asset Subsidiary Ledger

As noted in Chapter I-1 of this Audit Program, schedules of capital (fixed) assets should be prepared prior to audit. The following is a suggested minimum format for charter schools' use in maintaining records of capital assets, including accumulated depreciation (Accum. Depr.) and depreciation (Depr.):

Classification	N1	N2	Date Placed in Service	Acquisition Cost	Method of Depr.	Life	6/30/06 Accum. Depr.	7/1/06-6/30/07 Depr. Expense	6/30/07 Accum. Depr.
Buildings:									
School #1			7/1/97	\$5,000,000	S/L	35 yr	\$1,285,715	\$142,857	1,428,572
Furniture:									
Desks	B2	P5	7/4/97	\$5,000	S/l	10 yr.	\$4,500	\$500	\$5,000

N1 – Assets should be tagged and maintained by physical location.

N2 - Assets that can be specifically identified to a program or function should be noted with the program code. If assets are not specifically identifiable, the charter school should note “N/A” in the program column.

N3 – Charter Schools may refer to the table of estimated useful lives (International ASBO) included in Section III-6 of this Audit Program.

Refer to III-6.8 (Audit Checklists and questionnaire) for capital asset schedule requirements.

Depreciation Expense

The GASB 34 Implementation Guide dated April 2000 provides guidance on depreciation expense which is to be reported as a direct expense of the function served. As the number of functions served by an asset increases, the ease, practicality and usefulness of assigning depreciation to those functions decreases. Therefore, depreciation of assets serving many or essentially all functions is not required to be included in the direct expense of those many functions. Depreciation of a shared capital asset used by only a few functions can be allocated to those functions using an objective measure for the assignment of cost. For example, building depreciation may be allocated based on square footage assigned to the respective functions. The department recommends charter schools use the straight line method of depreciation.

June 30, 2009

SECTION II – SPECIFIC COMPLIANCE
CAPITAL ASSETS

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SECTION II – SPECIFIC COMPLIANCE
LONG-TERM LIABILITIES

Overview

Long-term liabilities generally include debt issuances, the non-current portion of lease-purchase agreements, capital leases, operating leases with scheduled rent increases, compensated absences, claims and judgments, early retirement incentive programs, and mortgages.

The Uniform Minimum Chart of Accounts for New Jersey Public Schools (2003 Edition)(COA) was issued effective for July 1, 2004 and eliminated the GLTDAG to be consistent with GASB 34 and the National Center of Education Chart of Accounts. Charter schools must continue to record the long-term liabilities in the general ledger and may designate a numeric or alpha fund number which is suitable for their software system, e.g. 100, 99 or LT. The ledger should be updated on a periodic basis (e.g., monthly), for internal control.

Note: Pursuant to N.J.A.C. 6A 11-7.3(b), unless backed by a mortgage, all charter school loans are to be temporary debts in anticipation of the receipt of funds and must be repaid by the end of each fiscal year.

Statement of Net Assets

General long-term liabilities include, bonds, notes and other long-term liabilities that are not directly related to and expected to be paid from proprietary and trust funds. Liabilities of the proprietary fund are reported in the proprietary fund *Statement of Net Assets*; liabilities of the trust fund are reported in the *Statement of Fiduciary Net Assets*. General long-term liabilities of the charter school should be reported in the governmental activities column of the charter school-wide *Statement of Net Assets*. Similar to the presentation of assets, liabilities are reported in the order of liquidity. “Liabilities with average maturities 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” (GASB 34, par. 31).

Interfund liabilities, even if non-current, are not long-term liabilities. Charter school staff and auditors should refer to the revised GASB Codification 1500.

Governmental Funds Statements

Governmental funds reporting focuses on current financial resources, hence the fund financial statements do not include long-term liabilities. The fund statements are intended to present a more detailed short-term view of basic education services with the most readily available assets and current liabilities. The governmental funds balance sheet includes a reconciliation of total governmental funds balance to the net assets of governmental activities. Long-term liabilities are a common reconciling item. The purpose of the reconciliation is to assist the reader to understand how the short-term financial information in the governmental funds statements differs from the more comprehensive financial information in the charter school-wide statements.

Disclosures

Refer to GASB 34, GASB 38, and the GASB Implementation Guides for guidance on disclosures including provisions for year-end accrual of interest, and inclusion for discussion within the Management Discussion and Analysis.

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Compensated Absences

Statement No. 16 of the Governmental Accounting Standards Board (GASB), “Accounting for Compensated Absences”, changed the method for calculation of a charter school’s liability for compensated absences (e.g., vacation, sick leave). This Statement supersedes the instructions shown on pages 13.4 and 13.5 of the GAAP Technical Systems manual regarding calculation of this liability for inclusion in the general long-term debt account group. By memo of May 15, 1995, this department advised School Administrators and Public School Accountants of the change. Auditors should refer to GASB 16 and the Codification of Governmental Accounting and Financial Reporting Standards, Section C60, for further explanation and illustrations of calculations of vacation leave and sick leave.

The inclusion of the long term portion of compensated absences in the charter school-wide Statement of Net Assets may generate a deficit in unrestricted net assets. This occurs because the pre-GASB 34 fund balance is based on current resources, whereas the GASB 34 net assets is based on economic resources and includes both long term assets and long term liabilities. When the long-term portion of compensated absences exceeds all other unrestricted net assets, a deficit will occur.

Pension and Other Postemployment Benefits (OPEB)

For purposes of the charter school’s accrual and modified accrual statements, the annual pension (PERS) expense/expenditures is generally equal to the charter school’s contractually required contributions to the plan defined as the “contributions assessed by a cost-sharing pension or OPEB plan to the participating employers for the periods to which the contractual requirement relates.” GASB issued Technical Bulletin (TB) 2004-2, *Recognition of Pension and Other Postemployment Benefit (OPEB) Expenditures/Expense and Liabilities by Cost-Sharing Employers*, in December 2004 to clarify the application of requirements regarding accrual issues related to GASBs 27 and 45. GASB 45 has phase-in periods for implementation beginning with reporting periods after December 15, 2006 and based on the criteria used for GASB 34. Examples of OPEB include healthcare benefits, life insurance, and long-term care. Due to the technical nature and level of detail of GASB 45, charter school staff and auditors should refer to TB 2004-02 and the GASB 45 available through GASB’s website (www.gasb.org) for further guidance.

Early Retirement Incentive Program (PERS/TPAF and Other Offers)

Legislation enacted in 1991, 1993 and 2002 provided early retirement incentives (ERIP) for certain members of TPAF and PERS who met certain age and service requirements and who applied for retirement between certain dates in that fiscal year. The ERIP was subject to Board approval. Charter Schools are assessed annually for their actuarially determined contribution to fund this program. Each participating charter school was given several options as to the length of time it desired to fund this liability.

Under GAAP, the charter school ERIP liability is considered a contractual obligation. The liability is calculated for each participating charter school and billed to the charter school separately from its normal pension obligation, if any. In the *Statement of Net Assets*, the unpaid principal portion of the liability is to be included as part of the charter school’s long term liabilities. For fund statement purposes, advance payments made against that contractual obligation are considered GAAP expenditures in the year of

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payment. The department recommends proper footnote disclosure and a supplemental exhibit identifying the annual maturities.

Termination Benefits

Termination benefits may be voluntary (early-retirement incentives) or involuntary (severance benefits). GASB Statement 47 *Accounting for Termination Benefits* was issued in June 2005, and is effective for periods beginning after June 15, 2005 for termination benefits offered outside of an existing defined benefit or other postemployment benefit (OPEB) plan. Benefits affecting an employer's obligations for defined benefit pension or other postemployment benefits should be accounted for and reported under the requirements of GASB 27, *Accounting for Pensions by State and Local Governmental Employers*, or GASB 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions (OPEB)*.

June 30, 2009

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Federal and State Audit Requirements

Federal Single Audit Act

The Single Audit Act Amendments of 1996 (Act) establishes uniform requirements for audits of Federal awards administered by non-Federal entities. The Act promotes sound financial management, including effective internal controls, with respect to Federal Awards administered by non-Federal entities. The Federal Office of Management and Budget (USOMB) Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations* provides the government wide guidelines and policies on performing audits to comply with the Single Audit Act and requires the use of Generally Accepted Government Auditing Standards (GAGAS). Non-federal entities that expend \$500,000 or more in a year in Federal awards are required to have a Single Audit in accordance with provisions in Circular A-133. The revised version of Circular A-133 is available through the web site, http://www.whitehouse.gov/omb/circulars_a133_compliance_09toc/.

The Act requires that GAGAS be followed in audits of state and local governments. *Government Auditing Standards (The 2007 Revision)* issued by the Comptroller General of the United States addresses the standards and guidance generally known as GAGAS. This document is commonly known as the Yellow Book and is available in electronic format through the GAO website www.gao.gov. A printed copy of the document can be purchased from the Government Printing Office (GPO) – by calling the Superintendent of Documents at (202) 512-1800 or via the GPO website at <http://bookstore.gpo.gov>.

When auditing federal programs for the fiscal year ending in 2009, auditors are required to follow the provisions of *OMB Circular A-133* at http://www.whitehouse.gov/omb/circulars_a133/ and the March 2009 *OMB A-133 Compliance Supplement* (Supplement) available at http://www.whitehouse.gov/omb/circulars_a133_compliance_04_04toc/. Auditors should select from a list of departments in Part 4 of the Supplement (e.g., Dept. of Agriculture, Dept. of Education, Dept. of Health and Human Services) to determine compliance requirements for a specific program or grant. Appendix 5 of the document contains a list of changes in the 2009 Supplement. The *2009 Compliance Supplement* is available for sale from the Government Printing Office by calling (202) 512-1800. The stock number for this document is 041-001-00667-2.

The 2009 Supplement, Appendix VII “Other OMB Circular A-133 Advisories”, section I. “American Recovery and Reinvestment Act” (ARRA) contains background and guidance on how ARRA funds impact single audits. The following excerpts from Appendix VII are available on this website: http://www.whitehouse.gov/omb/assets/a133_compliance/app_7.pdf

Background

- ♦ The ARRA imposes new transparency and accountability requirements of Federal awarding agencies and their recipients
- ♦ During the first audit periods using this Supplement (e.g. fiscal year ending June 30, 2009) the ARRA expenditures are expected to be significantly less than in later periods.
- ♦ Auditors should be alert to determine whether auditees have properly identified ARRA awards.
- ♦ OMB plans to issue addenda to the 2009 Compliance Supplement to provide additional guidance, as appropriate. Such addenda will include effective dates. Auditors performing OMB Circular A-133 audits (federal single audits) should look first to Appendix VII and

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then to the OMB Management website: <http://www.whitehouse.gov/omb/management/> under the heading of Grants Management for any addenda.

CFDA Numbers

- ♦ Federal agencies will use new CFDA numbers for the new ARRA programs or for existing programs for which the ARRA provides for compliance requirements that are significantly different for the ARRA funding. ARRA awards to existing Federal programs may or may not have a new CFDA number.

Cluster of Programs

- ♦ Many ARRA awards will have new CFDA numbers even though they are additions to and share common compliance requirements with the existing program. Therefore, the OMB will update the clusters of programs described in Part 5 of the Supplement. Any changes will be posted on the OMB Management website: <http://www.whitehouse.gov/omb/management/> under Grants Management as addenda to the Supplement.
- ♦ The auditor is responsible for using the cluster list that matches the auditee's fiscal year end. For example, OMB plans to post an addendum for changes to clusters applicable to an audit of the fiscal period ending June 30, 2009 and post it on the OMB Management website under Grants Management for that date.

Effect of Expenditures of ARRA awards on Major Programs Determination

- ♦ Due to the inherent risk with the new transparency and accountability requirements over expenditures of ARRA awards, the auditor should consider all Federal programs with expenditures of ARRA awards to be programs of higher risk in accordance with §__.525(c)(2) and §__.525(d) of OMB Circular A-133, Accordingly, when performing the risk-based approach under §__.520(c)(1) of OMB Circular A-133, Type A programs with expenditures of ARRA awards should not be considered low-risk except when the auditor determines and clearly documents the reasons that the expenditures of ARRA awards is low-risk for the program.
- ♦ Clusters to which a Federal program with a new ARRA CFDA number has been added should be considered a new program and would not qualify as a low-risk Type A program under §__.520(c) (1) of OMB Circular A-133 (i.e., the cluster will not meet the requirement of having been audited as a major program in at least one of the two most recent audit periods as the Federal program funded under the ARRA did not previously exist.)
- ♦ Due to the timing of the enactment of the ARRA and the issuance of the Supplement, compliance requirements unique to the ARRA are not included in the Supplement. Auditors should:
 - 1) Review the award documents, including the terms and conditions;
 - 2) Check the OMB Management website under Grants Management for any addenda to the Supplement , and
 - 3) Use the framework provided by the Supplement (e.g., in Parts 3, 4, 5 and 7) as guidance to identify ARRA compliance requirements material to the Federal program and determine the appropriate audit procedures.

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The NJ Department of Education website: <http://www.state.nj.us/education/arra/> includes the April memo from the Commissioner, charter school allocations and the Commissioner May memos for ARRA-Title I and ARRA-IDEA, charter school allocations for SIA Part A, the request for approval for summer programs under ARRA Title I and ARRA IDEA and links to the U.S. Department of Education ARRA documents and guidance.

The applicable Catalog of Federal Domestic Assistance (CFDA) number for a federal grant or federal aid can be found on the New Jersey Department of Education (NJDOE) Contract. A listing of grants available through NJDOE with their CFDA numbers is in this chapter of the Audit Program (Section II-SA) and the auditor can look up a program at the CFDA web site: <http://www.cfda.gov> .. Click the heading “Search for Assistance Programs (HTML).” Here there are several ways to search for programs including by number, or if necessary you can click on the heading of All Programs Listed Numerically.

State of New Jersey Single Audit Act

NJ State Office of Management and Budget (NJOMB) *Circular Letter 04-04, Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid* (NJOMB 04-04) supersedes NJOMB 98-07 and establishes State policy and procedures regarding audits of grant and State aid recipients, and outlines the responsibilities of state agencies and grant recipients to ensure that recipient audits are performed according to Federal and State requirements. NJOMB 04-04 is available on the website: <http://www.state.nj.us/infobank/circular/cir0404b.htm>. The revision raises the threshold for a single audit to \$500,000 or more expended in federal financial assistance or State financial assistance within the recipient’s fiscal year. This revision did not change the requirement that recipients which expend less than the threshold of \$500,000 in federal or State financial assistance within their fiscal year, but expend \$100,000 or more in State or federal financial assistance within their fiscal year, 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 Act, Amendments, OMB A-133 Revised and State policy. Compliance requirements for the Department of Education (and other departments) are contained in the State Grant Compliance Supplement which is published to assist auditors in testing recipient compliance with state grant and State aid financial assistance programs and applicable laws and regulations which is available on the Internet at <http://www.state.nj.us/treasury/omb/> (see Highlights).

AICPA Single Audit Guidance

The AICPA audit guide, *Government Auditing Standards and Circular A-133 Audits (Guide)* provides guidance on the auditor’s responsibilities when conducting a single audit or program specific audit in accordance with the Single Audit Act Amendments of 1996 and USOMB Circular A-133. The Guide for Federal Awards incorporates guidance from the following:

- The Single Audit Act Amendments of 1996,
- OMB Circular A-133,
- AICPA Statement on Auditing Standards (SAS) No. 74, *Compliance Auditing Considerations in Audits of Government Entities and Recipients of Governmental Financial Assistance*,
- *Government Auditing Standards*,
- OMB Circular A-133 Compliance Supplement

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Risk-Based Approach

Revision of the single audit threshold to \$500,000 or more expended in federal financial assistance or State financial assistance within the recipient's fiscal year did not impact major program determinations. Section .520 of Circular A-133 requires auditors to utilize the following criteria to identify major programs:

§ ____.520 Major program determination.

a) **General.** The auditor shall use a risk-based approach to determine which Federal programs are major programs. This risk-based approach shall include consideration of: Current and prior audit experience, oversight by Federal agencies and pass-through entities, and the inherent risk of the Federal program. The process in paragraphs (b) through (i) of this section shall be followed.

b) **Step 1.**

- 1) The auditor shall identify the larger Federal programs, which shall be labeled Type A. programs. Type A programs are defined as Federal programs with Federal awards expended during the audit period exceeding the larger of:
 - i. \$300,000 or three percent (.03) of total Federal awards expended in the case of an auditee for which total Federal awards expended equal or exceed \$300,000 but are less than or equal to \$100,000 million.
 - ii. \$3 million or three-tenths of one percent (.003) of total Federal awards expended in the case of an auditee for which total Federal awards expended exceed \$100 million but are less than or equal to \$10 billion.
 - iii. \$30 million or 15 hundredths of one percent (.0015) of total Federal awards expended in the case of an auditee for which total Federal awards expended exceed \$10 billion.

c) **Step 2.**

- 1) The auditor shall identify Type A programs which are low-risk. For a Type A program to be considered low-risk, it shall have been audited as a major program in at least one of the two most recent audit periods (in the most recent audit period in the case of a biennial audit), and, in the most recent audit period, it shall have had no audit findings under § ____.510(a). However, the auditor may use judgment and consider that audit findings from questioned costs under § ____.510(a)(3) and § ____.510(a)(4), fraud under § ____.510(a)(6), and audit follow-up for the summary schedule of prior audit findings under § ____.510(a)(7) do not preclude the Type A program from being low-risk. The auditor shall consider: the criteria in § ____.525(c), § ____.525(d)(1), § ____.525(d)(2), and § ____.525(d)(3); the results of audit follow-up; whether any changes in personnel or systems affecting a Type A program have significantly increased risk; and apply professional judgment in determining whether a Type A program is low-risk.

The Type A Programs Worksheets, which are required as part of the CAFR Reporting Package, were developed to ensure the accuracy of the Type A major program threshold calculations and to verify that major programs were audited within the required time period, either during the current year or the two

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most recent audit periods. The Worksheets can be accessed from the internet by clicking on the following link: [Type A Programs Worksheet](#).

If a charter school is being audited for the second time under Circular A-133 the auditor must follow the risk-based approach to determine major programs in accordance with section .520 of Circular A-133. Section .520(i) of Circular A-133 allows auditors to deviate from the use of the required risk-based approach when determining major programs during the first year that an entity is audited under the revised Circular A-133 or the first year of a change of auditors. The AICPA's Guide *Government Auditing Standards and Circular A-133 Audits* and the USOMB Circular A-133 (Section .520) should be referenced for further guidance on this approach.

NJOMB Circular Letter 04-04 also requires the use of the same risk based approach to audit and monitor State financial assistance as used in federal programs. However, the inclusion of on-behalf pension contributions should not result in the exclusion of other programs as Type A programs. Since the department publishes the dollar amounts provided by the NJ Division of Pensions of on-behalf pension contributions for all charter schools on an annual basis and no other audit procedures are performed, these amounts should be excluded from the Type A programs threshold calculations. This does not impact the compliance requirements for Reimbursed TPAF Social Security Contributions.

Schedules of Expenditures of Federal Awards and State Financial Assistance

All special projects including those funded by pass-through monies, other than those funded locally under the general fund, must be separately accounted for in the charter school accounting records. The CAFR must include a separate *Schedule of Expenditures of Federal Awards* (Schedule A) and a separate *Schedule of Expenditures of State Financial Assistance* (Schedule B). The format of the schedules included in the sample CAFR was designed to provide the history of a grant from its initial award to the final disposition of the funds through either their expenditure or their refund to the grantor. Instructions regarding schedule preparation are included in this section of the Audit Program. Please note the titles of these schedules are as indicated in the USOMB Circular A-133 and NJOMB Circular Letter 04-04.

Federal Awards: Carryover/Deferred Revenue/Due Back to Grantor

In the event that the budgetary expenditure incurred by the charter school is less than the amount of federal aid cash received (special revenue only), the charter school shall apply for carryover where permissible by statute after completion of the project period. Excess cash received is reported as deferred revenue on the *Schedule of Expenditures of Federal Financial Assistance* (Schedule A) in the single audit section of the CAFR, in the column titled "Deferred Revenue". For many federal grants, the grant period ends August 31, therefore, deferred revenue at June 30 may still be used during July and August.

Upon approval of the final report by the NJDOE Office of Grants Management (OGM), any unexpended funds a charter school elects to carry over are identified as prior year carryover funds and are brought forward into a separate line in the Allocation section of the subsequent year grant application on the EWEG system. At this point, if the subsequent year application has final NJDOE approval, the charter school must submit an amendment application to budget the prior year carryover funds.

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When the charter school elects not to carryover the unexpended current year balance approved through the final report, or when prior year carryover funds are expired,, the funds shall be refundable to the department and shall be reported on Schedule A, column entitled "Due to Grantor." All funds that have been refunded during the fiscal year shall be shown on Schedule A, column entitled "Repayment of Prior Year Balances."

In January 2009, the NJDOE moved to a reimbursement method of payment. If a charter school submits for reimbursement of current year (2008-2009) expenditures and has carryover from prior year (2007-2008) grant, the balance of the prior year carryover funds is offset against the reimbursement until the prior year carryover funds have been fully expended. Generally, a charter school submits for reimbursement by the 15th of the month for expenditures incurred as of that date or anticipated to be incurred by the end of the month. The reimbursement for that month will be made in the subsequent month. When the amount of cash received is less than budgetary expenditures, a receivable shall be shown as a negative amount on Schedule A, in the column entitled "(Accounts Receivable)." No negative cash balances are permissible in the balance sheet. There should be an interfund payable set up to reflect advances from the General Fund.

Example:

An NCLB award for the period September 1, 2007 to August 31, 2008 must be obligated by August 31, 2008 and liquidated by November 30, 2008. Funds that were unexpended or unencumbered at June 30, 2008, should have been reported as deferred revenue in the June 30, 2008 *Schedule of Expenditures of Federal Awards*. Unexpended/unencumbered funds remaining at August 31, 2008 (the end of the grant period) are considered carryover. When the final report for the 2007-2008 grant period is approved by OGM, the carryover automatically is brought forward into the current year (2008-2009) grant application in the NJDOE EWEG system. At this point the charter school amends the current year application to budget the prior year carryover funds. The carryover funds are considered expended first during the current grant period. In the rare situation where a charter school does not obligate the full amount of the prior year carryover (2007-2008) by August 31, 2009 and liquidate the full amount of the prior year carryover (2007-2008 grant) by November 30, 2009, the difference will be due back to the grantor. If payment has not been made by June 30, 2010, the amount should be reported in the June 30, 2010 *Expenditures of Federal Awards* as Due to Grantor and every year until the funds are repaid to the grantor.

The following state/federal guidelines are applicable for grant close-out procedures:

Code of Federal Regulations: Title 34 Education (Part 80 – Sec.80.50 Closeout)

(d)(2): "The grantee must immediately refund to the Federal agency any balance of unobligated (unencumbered) cash advanced that is not authorized to be retained for use on other grants."

The No Child Left Behind Act (NCLB) of 2001 (P.L. No. 107-110) reauthorizes the *Elementary and Secondary Education Act of 1965* (ESEA). NCLB contains fiscal compliance issues including, but not limited to, supplement not supplant, commingling of funds, allowable costs, administrative costs caps, maintenance of fiscal effort, comparability, transferability, and schoolwide programs. NCLB Policy Guidance is available at <http://www.nclb.gov>. The New Jersey NCLB Reference Manual includes fiscal guidance in Section IV "Fiscal Regulations and Responsibility" of the FY 2008 NCLB Application available at <http://www.nj.gov/njded/grants/entitlement/nclb>.

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It should be noted that pursuant to the *Elementary and Secondary Education Act* (ESEA) as amended by the NCLB, the U.S. Department of Education has provided guidelines for preparing the schedule of expenditures of federal financial awards when grantees transfer amounts between ESEA programs, consolidate administrative funds of ESEA programs or combine ESEA funds in school-wide program.

For pre-NCLB programs, the ESEA statute is available at <http://www.ed.gov/legislation/ESEA>.

Preparing the Schedule of Expenditures of Federal Awards and State Financial Assistance

Two separate schedules, the *Schedule of Expenditures of Federal Awards* and the *Schedule of Expenditures of State Financial Assistance* are prepared from the charter school records and must include all active (i.e. - not closed) financial assistance programs in which a charter school is participating regardless of the fund in which they are accounted . Each schedule must reflect the current fiscal year's activity as well as total disbursements by program in the format as presented later in this chapter of the Audit Program (II-SA.14-15). The information presented on these schedules must agree with the amounts reported in the *Budgetary Comparison Schedules* and the *Combining Schedule of Program Revenues and Expenditures, Special Revenue Fund – Budgetary Basis*. Explanations of the information required to be included are presented below.

These schedules are prepared using budgetary expenditures which must be reconciled to the *Balance Sheet – Governmental Funds* on the *Budget to GAAP Reconciliation in the Notes to RSI*. The adjustment for encumbrances in the special revenue fund will be reported as reconciling items. See Section I-8 and III-3 for additional guidance.

The schedules of expenditures of federal awards and expenditures of state financial assistance must be in the same format as those shown in the sample schedules in this chapter, including all columns, even if left blank. The prior year carryover grant funds and current year grant funds may be combined on a single line of the *Schedule of Expenditures of Federal Awards* if the final report has been approved. The carryover portion of the approved grant amendment is considered expended first. See the guidance and illustration in the beginning of this chapter under the header Carryover/Deferred Revenue/Due Back to Grantor. Schedules must be subtotaled by grantor and reflect grand totals for the following columns: Budgetary Expenditures, (Intergovernmental Accounts Receivable), Deferred Revenue and Due to Grantor. The value of noncash assistance must be included on the applicable schedule or a note in the schedule. In addition, federal programs included in a cluster of programs must be listed individually.

Definitions/Headers

- 1. Grantor/Program Title:** This column designates the original grantor department/agency (grantor) of the financial assistance and the name of the assistance program. Programs are classified by grantor and are further delineated within grantor as to direct or pass-through programs. The schedule must identify the program as direct or pass-through. When there are several active grants within the same program they will be presented separately within the schedule.
- 2. Federal CFDA Number:** Applicable to *Schedule of Expenditures of Federal Awards* only. Represents the federal program number, which is obtainable from the Catalog of Federal Domestic Assistance (CFDA). When the CFDA number is not available, this fact should be

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noted and the program should be identified by another identifying number, if available.

3. **Grant (Contract) or State Project Number: (State Aid NJCFS Number):** This is applicable to the *Schedule of Expenditures of State Financial Assistance* only and is the state identifying number that can be obtained in a latter page of this chapter of the Audit Program (II-SA) or from the NJ State Appropriations Handbook. It is used by the Department of Education for monitoring and reconciling state awards.
4. **Grant Period:** Represents the initial period for which the program was awarded.
5. **Program/Award Amount:** Designates the amount of the initial program award. The full amount of the award or grant agreement should be reported in this column. **Noncash awards such as a state grant for facilities (EDA/SCC funds) which are paid directly by the EDA/SCC to the vendors are included in this column and may be notated (NC).**
6. **Balance at June 30, 2008:** This is used to present deferred revenue, intergovernmental accounts payable (due to grantor), or intergovernmental accounts receivable for those prior year programs, which have balances as of the end of the prior fiscal year. On the *Schedule of Expenditures of Federal Awards* these amounts are shown netted in one column, but the charter school may separate them into multiple columns. On the *Schedule of Expenditures of State Assistance* a separate column is presented for Due to Grantor . A charter school may report accounts receivable and deferred revenue in either a single column or a separate column. A positive amount reflects deferred revenue or intergovernmental accounts payable. A negative amount for unrestricted revenue sources represents an intergovernmental accounts receivable. The budgetary receivable included in the 2007-2008 *Schedule of Expenditures of State Assistance* is not included in this column.
7. **Carryover/(Walkover) Amount:** Reflects the movement of award proceeds, which have been approved for carryover into a carryover program code. Note that any walkover amount must be reflected as a negative amount on the line from which it was transferred, and a positive amount on the grant/aid program line to which it was transferred. Prior year state restricted formula aids would be reflected in this column.
8. **Cash Received:** Reflects the amount of cash received during the current fiscal year for the applicable financial assistance program.
9. **Budgetary Expenditures:** Represents the total costs chargeable to the program during the current fiscal year on a budgetary basis. These amounts must agree with the amounts reported in the *Budgetary Comparison Schedules (General Fund (GAAP) and Special Revenue Fund(Grant Accounting))* and the *Budgetary Comparison Schedule, Note to RSI* and the *Special Revenue Combining Schedule of Program Revenues and Expenditures – Budgetary Basis*.
10. **Adjustments:** In instances where a grant period overlaps fiscal years and the grant has not closed out as of the end of the current fiscal year, favorable differences incurred in the liquidation of encumbrances charged as budgetary basis expenditures in the prior year should be included in the *Schedules of Expenditures of Federal Awards (Schedule A)* and *Schedule of Expenditures of Expenditures of State Financial Assistance (Schedule B)* in a column entitled “Adjustments.” This column would not be used for differences in the liquidation of encumbrances on grants, which have closed out as of the end of the current fiscal year since these differences would affect

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current year expenditures. Reporting this information separately from current year expenditures will provide a clearer indication of the grant activity during a period of time. Any amount reported as an adjustment in the Schedule A or Schedule B must be fully explained in the *Notes to the Schedules of Expenditures of Awards and Financial Assistance*, including the reason for the adjustment and the period to which it pertains. The charter school should include a column for Adjustments only if it is applicable.

11. Repayment of Prior Years' Balances:

Repayments made during the current fiscal year to a grantor for unexpended funds on a program whose grant period has expired and no carryover was granted or allowed. Do not list Repayment of Prior Years' Balances unless refunds have been sent to the Grantor during the current year. The charter school should include a column for Repayment of Prior Years' Balances only if it is applicable. The column is not shown on the sample Schedule B, but would be inserted after the Expenditures (or Adjustments if applicable) column.

12. Intergovernmental Receivable June 30, 2008: Amounts due from the grantor as of fiscal year end are reflected here. These amounts must agree with the amounts reported in the Balance Sheet (Exhibit B-1) for the governmental funds or with the Food Service column in the Statement of Net Assets (Exhibit B-4) for the Proprietary Funds.

13. Deferred Revenue at June 30, 2009: Unexpended award proceeds as of fiscal year end which are expendable in the subsequent fiscal year are reflected here. These amounts must reconcile to the amounts reported in the *Basic Financial Statements*.

14. Due to Grantor at Fiscal June 30, 2009: Unexpended award proceeds, which are due back to the grantor as of fiscal year end, are listed here. These amounts are reflected in the general ledger as Intergovernmental Accounts Payable and should reconcile to the amounts reported in the *Basic Financial Statements*. This column will be utilized by the Department of Education to identify and collect moneys due to the state for federal and state programs. If the charter school has amounts due back to the grantor at the end of the fiscal year, that amount must appear in the Due to Grantor column of the current fiscal year, and also in each subsequent year's CAFR as a balance at June 30 of the prior year until the amount is ultimately repaid. If the charter school has no unexpended award proceeds due back to the grantor, show the column heading and leave the column blank. See the discussion on pages II-SA.4 and 5.

15. Budgetary Receivable: The amount reported in the first MEMO column on Schedule of Expenditures of State Financial Assistance is computed using the Program/Award amount less the cash received. A deficit in a program cannot exceed this amount.

16. Cumulative Total Expenditures: This column is a memo only column, used on the *Schedule of Expenditures of State Financial Assistance*, and reports the cumulative expenditures of a grant. If the grant crosses fiscal years, the amount may differ from the budgetary expenditures since the budgetary expenditures represent expenditures for only the current fiscal year. These amounts will most likely be the same for most forms of state aid reported by NJ charter schools.

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Specific Program Information

The award amount and budgetary expenditure figures for general fund state aids other than TPAF/Social Security reimbursements should be equal and agree with the amount shown as revenues for the applicable state aid in the financial statements. This also applies to on-behalf TPAF Pension amounts that must be included in the *Schedule of Expenditures of State Financial Assistance*.

TPAF/Social Security reimbursements must be reflected on the *Schedule of Expenditures of State Financial Assistance*. Any receivable outstanding from the prior year should be shown on a separate line. The current year award and expenditure amount represents the total of the amounts submitted for reimbursement during the current year. The uncollected balance (cash received minus amount billed) is shown as intergovernmental accounts receivable at year end.

Food Distribution Program (Formerly USDA Commodities) should be presented in the schedule at the full cash equivalent value. The award and cash received amounts should be the value of the commodities distributed during the year. The budgetary expenditures amount is the amount of inventory consumed and the deferred revenue amount is the ending inventory amount.

The expenditures for Federal awards under ARRA should be reported separately on the schedule of Expenditures of Federal Awards (SEFA) and the Data Collection Form (SF-SAC). The prefix: "ARRA" should be used to identify the name of the Federal program of the SEFA and as the first characters in item 9d of Part III on the SF-SAC.

Audit Findings

The identification of major programs with an asterisk (*) in the schedule of expenditures of federal awards and state financial assistance is not required. This information is included in the Schedule of Findings and Questioned Costs prepared by the auditor.

The Auditors Management Report and the Schedule of Findings and Questioned Costs must indicate whether the charter school has complied with federal and state regulations in a timely manner. Grant refunds are to be submitted with the Final Expenditure Reports. Discretionary grant refunds are required by the department upon approval of the final expenditure report. If grant periods extend beyond the audit deadline of June 30th, unexpended funds should be listed as Deferred Revenue and refunded with the Final Expenditure Reports. Do not list Repayment of Prior Years' Balances unless refunds have been sent to the Grantor. If the Charter School Schedule of Finding and Questioned Costs or Audit Findings indicate that refunds are due, the refunds are to be submitted promptly with an explanation regarding the findings.

Corrective Action Plans filed by the charter school with the grantor indicate non-compliance issues. Auditors should review the Charter School's Findings, and the Schedule of Findings and Questioned Cost and the schedules listed above. When a Corrective Action Plan has been adopted by the charter school, the auditor must consider the impact of the potential non-compliance with the grant terms on the financial statements (CAFR).

SECTION II – SPECIFIC COMPLIANCE
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**FEDERAL PROGRAM NUMBERS
FROM CATALOG OF FEDERAL
DOMESTIC ASSISTANCE
(List Not All Inclusive)**

CFDA #

10.553	School Breakfast Program
10.555	National School Lunch Program
10.556	Special Milk Program for Children
10.558	Child and Adult Care Food Program
10.579	ARRA – National School Lunch Program Equipment
10.559	Summer Food Service Program for Children
10.582	Fresh Fruits and Vegetable Program
84.010A	Title I Part A Grants to Local Educational Agencies
84.011A	Title I, Part C Education of Migrant Children
84.027	Individuals with Disabilities – States Grant
84.040	Impact Aid – Facilities Maintenance
84.041	Impact Aid
84.048A	Perkins Vocational Education - Basic Grants
84.173	Preschool Grants for Children with Disabilities
84.186A	Safe and Drug-Free Schools and Communities (SEA Portion)
84.196	Education for Homeless Children and Youth
84.213C	Title I, Part B Even Start

SECTION II – SPECIFIC COMPLIANCE
SINGLE AUDIT

FEDERAL PROGRAM NUMBERS cont'd.

CFDA #

84.243A Perkins Voc Tech Prep Education
84.282 Public Charter Schools
84.287C 21st Century Community Learning Centers
84.293C Foreign Language Assistance Grants
84.318X Enhancing Education through Technology (Title IID)
84.357A Reading First
84.365A English Language Acquisition (Title III)
84.367A Improving Teacher Quality State Grants (Title II Part A)
84.377A School Improvement Grants
84.388 ARRA – Title I SIA-A
84.389 ARRA – Title I Part A
84.391 ARRA – IDEA Part B
93.778 Medical Assistance Program
93.938 Comprehensive School Health/HIV
94.004 Learn and Serve

SECTION II – SPECIFIC COMPLIANCE
SINGLE AUDIT

STATE AID AND STATE GRANT
STATE ACCOUNT NUMBERS

GENERAL FUND

09-495-034-5120-078	Equalization Aid
09-495-034-5120-083	Education Adequacy Aid
09-495-034-5120-089	Special Education Categorical Aid
09-495-034-5120-084	Security Aid
09-495-034-5120-085	Adjustment Aid
09-495-034-5120-068	School Choice Aid
09-495-034-5120-014	Transportation Aid
09-495-034-5120-077	Adult and Postsecondary Education Grants
09-495-034-5120-005	Payment for Institutionalized Children - Unknown District of Residence
09-495-034-5095-001	Teacher's Pension and Annuity Fund - Post Retirement Medical
09-495-034-5095-002	Social Security Tax
09-495-034-5095-006	Teacher's Pension and Annuity Fund
09-495-034-5095-007	Teachers' Pension & Annuity Fund – Non-contributory Insurance
09-495-034-5062-032	Vocational Education
09-495-034-5120-071	Charter School Aid

SPECIAL REVENUE
FUND

09-100-034-5120-064	N.J. Nonpublic Textbook Aid
09-100-034-5120-066	N.J. Nonpublic Handicapped Aid
09-100-034-5120-067	N.J. Nonpublic Auxiliary Services Aid
09-100-034-5120-068	N.J. Nonpublic Auxiliary/Handicapped Transportation Aid
09-100-034-5120-070	N.J. Nonpublic Nursing Services
09-100-034-5120-373	N.J. Nonpublic Technology Initiative
09-100-034-5120-074	Educational Information and Resource Center (EIRC)
09-100-034-5062-032	Vocational Aid

DEBT SERVICE FUND

09-100-034-5120-017	Debt Service Aid - State Support
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ENTERPRISE FUND

09-100-010-3350-021	State School Breakfast Program
09-100-010-3350-022	Nonpublic Nutrition Aid
09-100-010-3350-023	State School Lunch Program

SCHEDULE A
Exhibit K-3

ANYTOWN CHARTER SCHOOL
Schedule of Expenditures of Federal Awards
for the Fiscal Year ended June 30, 2009

Federal Grantor/Pass-Through Grantor/ Program Title	Federal CFDA Number	Grant or State Project Number	Program or Award Amount	Grant Period From To	Balance at June 30, 2008	Carryover/ (Walkover) Amount	Cash Received	Budgetary Expenditures	Adjustments	Repayment of Prior Years' Balances	Balance at June 30, 2009		
											Accounts Receivable	Deferred Revenue	Due to Grantor

The accompanying Notes to Schedules of Expenditures of Awards and Financial Assistance are an integral part of this schedule.

SCHEDULE B
Exhibit K-4

ANYTOWN CHARTER SCHOOL
Schedule of Expenditures of State Financial Assistance
for the Fiscal Year ended June 30, 2009

State Grantor/Program Title	Grant or State Project Number	Program or Award Amount	Grant Period From To	Balance at June 30, 2008			Balance at June 30, 2009			MEMO										
				Deferred Revenue (Accts Receivable)	Due to Grantor	Carryover/ (Walkover) Amount	Cash Received	Budgetary Expenditures	Adjustments/ Repayment of Prior Years' Balances		(Accounts Receivable)	Deferred Revenue/ Interfund Payable	Due to Grantor	Budgetary Receivable	Cumulative Total Expenditures					

The accompanying Notes to Schedules of Expenditures of Awards and Financial Assistance are an integral part of this schedule.

SECTION II – SPECIFIC COMPLIANCE
SINGLE AUDIT

_____ CHARTER SCHOOL
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 20__

Section I --Summary of Auditor's Results

Financial Statements

(Reference – Section .510 and .520 of Circular OMB-133)

Type of auditor's report issued: _____

Internal control over financial reporting:

- 1) Material weakness(es) identified? _____ yes _____ no
- 2) Significant deficiencies identified that are not considered to be material weaknesses? _____ yes _____ none reported

Noncompliance material to basic financial statements noted? _____ yes _____ no

Federal Awards

Internal Control over major programs:

- 1) Material weakness(es) identified? _____ yes _____ no
- 2) Significant deficiencies identified that are not considered to be material weaknesses? _____ yes _____ none reported

Type of auditor's report issued on compliance for major programs: _____

Any audit findings disclosed that are required to be reported in accordance with section .510(a) of Circular A-133? _____ yes _____ no

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
_____	_____
_____	_____
_____	_____
_____	_____

Dollar threshold used to distinguish between type A and type B programs (.520): \$ _____
Auditee qualified as low-risk auditee? _____ yes _____ no

SECTION II – SPECIFIC COMPLIANCE
SINGLE AUDIT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 20__
(continued)

Section I --Summary of Auditor's Results (cont'd.)

State Awards

Dollar threshold used to distinguish between type A and type B programs: (520) \$ _____

Auditee qualified as low-risk auditee? _____ yes _____ no

Type of auditor's report issued on compliance for major programs: _____

Internal Control over major programs:

1) Material weakness(es) identified? _____ yes _____ no

2) Significant deficiencies identified that are not considered to be material weaknesses? _____ yes _____ none reported

Type of auditor's report issued on compliance for major programs: _____

Any audit findings disclosed that are required to be reported in accordance with NJOMB Circular Letter 04-04? _____ yes _____ no

Identification of major programs:

<u>State Grant/Project Number(s)</u>	<u>Name of State Program</u>
_____	_____
_____	_____
_____	_____
_____	_____

Note to Preparer: When a Federal or State single audit is not required -- do not include that Awards Section.

SECTION II – SPECIFIC COMPLIANCE
SINGLE AUDIT

_____ CHARTER SCHOOL
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 20__
(continued)

Section II – Financial Statement Findings

[This section identifies the significant deficiencies, material weaknesses, and instances of noncompliance related to the general-purpose financial statements that are required to be reported in accordance with paragraphs 5.18 through 5.20 of *Government Auditing Standards*. See the AICPA Audit Guide *Government Auditing Standards and Circular A-133 Audits* for further guidance on this schedule.]

(Note to Preparer -- Identify each finding with a reference number and present in the following level of detail, as applicable. If there were no findings, state that no matters were reported)

Finding XX-X

Criteria or specific requirement:

Condition:

Questioned Costs:

Context:

Effect:

Cause:

Recommendation:

Views of responsible officials and planned corrective actions:

SECTION II – SPECIFIC COMPLIANCE
SINGLE AUDIT

_____ SCHOOL
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 20__
(continued)

Section III -- Federal Awards and State Financial Assistance Findings and Questioned Costs (cont'd.)

STATE AWARDS

Finding XX-X

Information on the state program (1):

Criteria or specific requirement:

Condition (2):

Questioned Costs (3):

Context (4):

Effect:

Cause:

Recommendation:

Management's response (5):

- (1) Provide the federal program (CFDA number and title) and state program (NJCFS number) and agency, the federal/state awards number and year, and the name of the pass-through entity, if applicable.
- (2) Include facts that support the deficiency identified in the audit finding.
- (3) Identify questioned costs as required by section .510(a)(3) and .510(a)(4) of Circular A-133 and NJOMB Circular Letter 04-04.
- (4) Provide sufficient information for judging the prevalence and consequences of the finding, such as the relation to the universe of costs and/or number of items examined and quantification of audit findings in dollars.
- (5) To the extent practical, indicate when management does not agree with the finding and/or questioned cost. For further guidance, auditors should refer to Government Auditing Standards, par. 5.26 through 5.30, Chapter 4 and par. 12.34 and 12.38 of the AICPA Guide Government Auditing Standards and Circular A-133 Audits.

SECTION II – SPECIFIC COMPLIANCE
SINGLE AUDIT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Charter Schools, which are required to have a federal and/or state single audit conducted in accordance with USOMB Circular A-133 and/or NJOMB 04-04, are responsible for preparing the summary schedule of prior audit findings and the corrective action plan as part of the Reporting Package required to be submitted to the Federal Clearinghouse and/or State funding departments. Charter Schools should refer to USOMB Circular A-133 ¶ .315 for guidance on preparing these schedules.

As reference, the following excerpts from USOMB Circular 133 are provided:

- OMB 133, .500(e) “The auditor shall follow-up on prior audit findings, perform procedures to assess the reasonableness of the summary schedule of prior audit findings prepared by the auditee in accordance with ¶315(b) and report, as a current year audit finding, when the auditor concludes that the summary schedule of prior audit findings materially misrepresents the status of any prior audit finding. The auditor shall perform audit follow-up procedures regardless of whether a prior audit finding relates to a major program in the current year.”
- OMB 133, .315 (b)(1) states, “If the audit findings were fully corrected, the summary schedule need only list the audit findings and state that corrective action was taken.”
- OMB 133.315, (b) (2) states, “When the audit findings were not corrected, or were only partially corrected, the summary schedule shall describe the planned corrective action as well as any partial corrective action taken.”
- OMB 133, .315 (b)(2) state, “When corrective action taken is significantly different from corrective action previously reported in a corrective action plan or in the Federal agency’s or pass-through entity’s management decision, the summary schedule shall provide an explanation.”

Below is a sample of the summary schedule of prior audit findings.

_____ CHARTER SCHOOL
**SUMMARY SCHEDULE OF PRIOR-YEAR AUDIT FINDINGS
AND QUESTIONED COSTS AS PREPARED BY MANAGEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 20__**

[This section identifies the status of prior-year findings related to the general-purpose financial statements and federal and state awards that are required to be reported in accordance with Chapter 6.12 of *Government Auditing Standards*, USOMB Circular A-133 (¶ .315 (a)(b)) and NJOMB Circular 04-04.]

(Note to Preparer – Identify each prior-year finding with its prior-year reference number and present in the following level of detail. The NJ Department of Education requests that repeat audit findings be cross-referenced to the current year number. If there were no findings, state that no matters were reported.)

STATUS OF PRIOR YEAR FINDINGS

Finding # _____

Condition

Current Status

June 30, 2009

SECTION II – SPECIFIC COMPLIANCE
SINGLE AUDIT

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