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

Internal Service Funds (*N.J.A.C.* 6A:23A-16.11)

Districts 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 district board of education, or to other district 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. The use of an internal service fund does not provide additional revenue or expenses to the district 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. Joint transportation agreements where the lead district uses its own employees and buses are accounted for in an internal service fund. Joint transportation agreements where the lead district contracts with a vendor are accounted for in the general fund.

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 district would also be accounted for in an internal service fund in the records of the lead district. Each of the "sharing" districts, including the employing lead district, should reflect their agreed-upon portion of the costs in the general fund. For the employing district, that cost would be budgeted as a salary expenditure. The "sharing" districts would account for the payments made to the lead district as a contracted service under the appropriate function. If the shared employees have employment contracts with each of the districts involved, each district'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 districts involved to establish an internal service fund.

- The district board of education 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.

Local school district auditors should refer to Chapter 14 of the GAAP Technical Systems Manual for additional guidance. As a reminder, the costs of instructional programs, including regular, special, or adult education, should be accounted for in the general fund. The one exception would be those districts which contract with the Department of Education to run its Regional Day Schools.

Self-insurance (Risk Financing):

Self-insurance is the practice of a school district controlling and self-directing the costs of administering an insurance program while retaining a risk of loss. GASB Statement No. 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. GASB 10 paragraph 63 permits the use of either the internal service fund or the general fund for such purposes. 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 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 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 district-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 district-wide financial statements might mislead the reader about the financial position of the district since these funds are not available for use by the district.

Trust Funds:

There are 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 district's employee benefit plans. Investment trust funds report the resources of a combined investment effort among school districts. Private-purpose trust funds encompass other trust fund arrangements for which principal and income benefit individuals or agencies outside of the school district. 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 district, 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 Statements section on the NJDOE web site: http://www.state.nj.us/education/finance/fp/cafr/ .

Unemployment Trust Fund

When a district elects the reimbursement method (also called the payment in lieu of contributions or pay as you go method, i.e., the state pays the claim and invoices the district 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 districts 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%

The special reimbursable accounts rates indicated above are subject to change after the publication of this Audit Program and should be verified with the Department of Labor and Workforce Development at: http://lwd.dol.state.nj.us/labor/employer/handbook/chap1/chap1sec4ContributionReports.html#7

Districts 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 and Workforce Development 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 education 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 education prior to the effective date of this law.

GASB Statement No. 32 Accounting and Financial Reporting for 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 district Board of Education 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 district has established a 457 plan but does not hold the assets in a trustee capacity, then those assets are not included in the district's fiduciary fund financial statements.

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

Agency funds report resources held and administered by the reporting district 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 district 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 district 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-10.2 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 on the DCA website.

Health Insurance Withholding

P.L.2010, c. 2 was signed into law on March 22, 2010 and effective May 21, 2010. This law changed various provisions of the State Health Benefits Program and the School Employees Health Benefits Program. Withholding from employees for this purpose should be accounted for in the Payroll Agency Fund as an employee payroll deduction. The withholding is not revenue to the district but offsets the cost of health benefits paid by the district. The Division of Pensions issued guidance in a Frequently Asked Questions and answer memo that can be found at http://www.state.nj.us/treasury/pensions/chapter2-faq.shtml. Other information from the division can be found in communication sent to certifying officers at http://www.state.nj.us/treasury/pensions/coltr10.shtml#ch2faq. Local Finance Notice (LFN) 2010-12 highlights important elements of the law, and has a Frequently Asked Questions document (FAQ) attached. LFN can be accessed at the link title Chapter 2 Health Benefits Reform Guidance at the Division of Community Affairs website http://www.state.nj.us/dca/lgs/. For clarification of provisions of the law, please contact the Division of Pension's Office of Client Services at (609) 292-7524, or email the Division at pension.nj@treas.state.nj.us.

P.L. 2011 c.78, effective June 28, 2011, changes the health care contribution standards set in Chapter 2 of 2010 by increasing the share of health benefits premiums paid by public employees and retirees who receive employer paid health benefits. Section 80 of the law allows employers time for necessary administrative actions to implement the increased employee contributions without retroactive impact. For 2011-12, each employee's health benefit cost contribution is the higher of 1.5% of base salary (Chapter 2) or Chapter 78, s.39 (subject to phase-in requirements of the law) or any locally or contractually required contribution that applies to an employee. Local Finance Notice 2011-20R provides guidance on the implementation of the 2011 health benefit reforms and is available at: http://www.nj.gov/dca/divisions/dlgs/resources/lfns_2011.html

For 2011-12, guidance was issued that health care costs budgeted in appropriations object code 270 should be recorded net of projected employee withholding. Actual withholdings from employees' payroll for this purpose should be recorded in the payroll agency fund as employee withholdings. Regarding the remittance of premiums to the insurer, districts were offered the flexibility to issue one general fund check comprised of both the employer and employees' share of health benefit cost, or to remit the employer share from the general fund and the employees' share from the payroll agency fund.

<u>Section 125 Flexible Spending Accounts</u>
P.L. 2011 c.78 requires boards of education to establish a cafeteria plan for employee medical or dental expenses not covered by a health benefits plan. This may be accomplished through a Flexible Spending Account (FSA), which allows an employee to voluntarily set aside a portion of their earnings to pay for expenses qualified under the plan to include the use of pre-tax dollars to satisfy the employee's required contributions to health benefits costs under the law.

A Flexible Spending Account may require the district board of education to pre-fund a portion of the employee accounts at the inception of the program and annually at the beginning of each plan/budget year. The pre-funding is necessary to have funds available to pay/reimburse claims during the initial period until employee salary deductions are sufficient to pay these claims. The prefunding may be repaid to the district by the plan provider once sufficient funds are accumulated through the deduction process.
In the event the district's program required pre-funding, an interfund transfer is the appropriate method of providing the short-term funding for the program to become operational. The transfer should be reversed once the fund achieves a level sufficient to maintain itself.

At the end of the plan/budget year (including any grace period) the employer retains the unexpended balance of the employees' contributions. These funds may be used to pre-fund the following year's plan, to pay the employer's administrative costs, or to recoup the pre-funding amount at the start of the year.

Refer to Local Finance Notice 2011-34 *2011 Health Benefit Reform Supplemental Guidance* available on the DCA website at: http://www.state.nj.us/dca/divisions/dlgs/resources/lfns_2011.html

<u>Student activity funds</u> are reported as agency funds within the CAFR. An arrangement between a student organization and the district whereby the district 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 school district, places at least indirect responsibility for supervision and control of that organization with the board of education. The board should formally approve each fund in its school district. 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 school districts. *N.J.A.C.* 6A:23A-16.12(c) 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, sources, 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.

(4) Student activity funds shall be classified by school.

(5) Borrowing from the student activity is prohibited.

Local school district 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 <u>are not subject to audit</u>. Boards of education 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 education for the money collected.

In order to avoid misunderstanding, we advise that boards of education 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 education 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 school board and assumes full responsibility for the transactions.
Refer to Section I Chapter 1 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 school districts and charter schools in the State of New Jersey is increased to $2,000. This is a policy set for financial reporting and accounting purposes. Districts 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 the GFAAG to be consistent with GASB 34 and the National Center for Education Statistics Chart of Accounts. Districts are still required to record 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	District-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 capital assets within the governmental activities column in the district-wide *Statement of Net Assets*. Capital assets of proprietary funds are reported in the business-type activities column of the *Statement of Net 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 <u>current</u> financial resources. Proprietary fund capital assets <u>are</u> 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 district and therefore are not reported on the district-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.

District 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/ . District 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 are 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.

Reporting of Capital Assets Acquired Through Non-cash Grants

Capital assets acquired through non-cash grants are reported only in the district-wide Statement of Net Assets at fair market value. This is applicable to buildings constructed for a district by the Economic Development Authority/School Construction Corporation (SDA). Districts are to obtain the June 30 value of SDA constructed assets from the SDA.

Sample Format for the Capital Asset Subsidiary Ledger

As noted in Chapter I-1 of this Audit Program, schedules of capital assets should be prepared prior to audit. The following is a suggested minimum format for districts' 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 N3	6/30/xx Accum Depr.	7/1/xx-6/30/xx Depr. Expense	6/30/xx Accum. Depr.
Buildings:									
School #1			**7/1/xx**	**$5,000,000**	**S/L**	**35 yr**	**$1,285,715**	**$142,857**	**$1,428,572**
Furniture:									
Desks	**B2**	**P5**	**7/1/xx**	**$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 district should note "N/A" in the program column.
N3 - Districts 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 Implementation Guides provide 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 expenses 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 districts use the straight line method of depreciation.

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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 rebatable arbitrage.

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. Districts 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.

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 district should be reported in the governmental activities column of the district-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. District 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 such as bonds payable. 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 district-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, amortization of premium or discount over the life of the bonds and inclusion for discussion within the Management Discussion and Analysis.

Compensated Absences

Statement No. 16 of the Governmental Accounting Standards Board (GASB), "Accounting for Compensated Absences", changed the method for calculation of a district'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 district-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 district's accrual and modified accrual statements, the annual pension (PERS) expense/expenditures is generally equal to the district'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, district 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 Programs (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. School districts are assessed annually for their actuarially determined contribution to fund this program. Each participating district was given several options as to the length of time it desired to fund this liability.

Under GAAP, the district ERIP liability is considered a contractual obligation. The liability is calculated for each participating district and billed to the district separately from its normal pension obligation, if any. For fund statement purposes, advance payments made against that contractual obligation are considered GAAP expenditures in the year of payment. The department recommends proper footnote disclosure and a supplemental exhibit identifying the annual maturities.

*N.J.S.A.*18A:24-61.2 permits NJ school districts to issue refunding bonds to fund their remaining ERIP liabilities. Auditors should refer to the Question and Answer Guidance on the web site http://www.nj.gov/education/finance/fp/af/faq_retire.shtml. At the time the payment is made to retire the unfunded liability, the old balance is removed from the district's general long-term liabilities, the new balance recorded as a general long term liability and subsequently reported in the district-wide statement of net assets. The refunding transaction is reported in the S*tatement of Revenues, Expenditures, and Changes in Fund Balances* as "Other Financing Sources – Long-Term Debt Issued" and "Other Financing Uses – Repayment of ERIP Liability".

If there is not a requirement in the bond agreement to use the debt service fund, the transaction is recorded in the general fund. Districts and auditors should refer to GASB Codification sections 1500 and D20 for further guidance on year-end reporting and disclosures.

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 effecting 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).

Arbitrage Requirements

The glossary of The Government Finance Officers Association's publication *Governmental Accounting, Auditing, and Financial Reporting* (the "blue book") describes rebatable arbitrage as "A term used in connection with the reinvestment of the proceeds of tax-exempt debt. A requirement to remit to the federal government interest revenue in excess of interest costs when the proceeds from the sale of tax-exempt securities are reinvested in a taxable money market instrument with a materially higher yield."

Districts should refer to page 66 of the GASB 34 edition of the "blue book" for guidance on rebatable arbitrage. "Rebatable arbitrage should *not* be treated as a reduction of investment revenues in governmental funds; it should instead be treated in the same way as any other claim or judgment. There should be no recognition in the governmental fund's balance sheet or operating statement until rebatable liability amounts are actually due and payable to the federal government."

The AICPA Audit and Accounting Guide, *State and Local Governments* includes guidance on arbitrage requirements in section 5.07. "Governments generally should calculate the arbitrage liability annually to determine whether it is material and thus should be reported in the financial statements." If material, the arbitrage liability is reported in the district wide statements and when actually due and payable, reported in the funds statements.

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