The Audit Program

Section II – Specific Compliance

Governmental Funds-

School District/Charter School/Renaissance School Project Bookkeeping

The State Board of Education has, in accordance with law, prescribed a uniform double-entry system of bookkeeping for use in all school districts/charter schools/renaissance school projects and is authorized to compel its use. (*N.J.S.A*. 18A:4-14 and *N.J.A.C*. 6A:23A-16)

The Uniform Minimum Chart of Accounts for New Jersey Public School (2019-20 Edition) (COA) was originally published in 1992 and revised annually. The revised COA is available on the Uniform Minimum Chart of Accounts webpage: https://www.nj.gov/education/finance/fp/af/coa/.

GAAP distinguishes between funds which benefit the district/charter school/renaissance school project (Permanent funds) and those for which the district school/renaissance school project acts as a trustee or agent, but where the resources benefit other governments, individuals, or organizations (Trust or Fiduciary funds). Governmental fund 50 should be used to record the accounting for Permanent funds. Expendable trusts that benefit the district/charter school/renaissance school project should be included in the Special Revenue fund. The Proprietary funds use fund 60 and fund 70, and the Fiduciary funds use funds 80, 90, and 95. When the district/charter school/renaissance school project uses the reimbursable or pay as you go method for unemployment, the Unemployment Compensation Trust would be included in fund 80. The resources and changes in net assets of a private purpose scholarship fund would also be reported here. The Fiduciary funds are not included in the accrual level statements (A - series) since they are not assets of the district/charter school/renaissance school project.

The following is a listing of funds using the revised chart of accounts structure effective July 1, 2004:

- Governmental Funds
  - Fund 10 (General fund)
  - Fund 20 (Special revenue fund)
  - Fund 30 (Capital projects fund)
  - Fund 40 (Debt service fund)
  - Fund 50 (Permanent fund)
- Proprietary Funds
  - Fund 60 (Enterprise fund)
  - Fund 70 (Internal service fund)
- Fiduciary Funds
  - Fund 80 (Trust funds)
  - Fund 90 (Agency funds)
  - Fund 95 (Student activity funds)

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Section II – Specific Compliance

Fund 10 –General Fund

Optional Treasurer of School Moneys

(Applicable to school districts, charter schools and renaissance school projects)

N.J.S.A. 18A:13-14 allows the board of education or board of trustees to make the treasurer of school moneys an optional position. Upon the board's election to eliminate the treasurer's position, the law requires a shifting of internal control and internal reporting responsibilities from the treasurer to the board secretary and chief school administrator. Accordingly, Boards of Education/Board of Trustees electing to eliminate the treasurer's position must consider the impact on the district's/charter school's/renaissance school project's internal controls. The following is an overview of responsibilities of the board secretary when the treasurer position is eliminated.

N.J.S.A. 18A:17-9.1 - the board secretary will receive and hold in trust all school moneys, except any moneys derived from athletic events or other activities of pupil organizations of the district/charter school/renaissance school project.

N.J.S.A. 18A:17-9.2 - the board secretary shall keep a record of the sums received and paid out by him in accordance with the uniform system of bookkeeping prescribed by the State board.

N.J.S.A. 18A:19-9 requires that payrolls must be certified by the president and secretary of the board and the chief school administrator.

N.J.S.A. 18A:19-10 requires the board secretary to draw and deposit the warrants in separate bank accounts as a net payroll account and an agency account for payroll deductions and associated board contributions (agency account); authorized signatories on the payroll account must include the secretary and a board designee.

N.J.S.A. 18A:19-10 provides that the board secretary shall draw and deposit the warrants.

Board Secretary and (Optional) Treasurer Reports

(Applicable to school districts, charter schools and renaissance school projects)

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, the amount for which warrants have been drawn against each account, the amounts of orders or contractual obligations incurred and chargeable against each account year to date, and since the date of the last report, the cash and appropriation balances for each account and fund, and the reconciled bank account balances. 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 executive county superintendent on or before August 1st of each year.

For a district board of education/ board of trustee that elects to maintain the treasurer's position, *N.J.S.A*. 18A:17-36 requires the treasurer to 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. At the close of each fiscal year, the treasurer shall present an annual report showing the amounts received and disbursed for school purposes during said year and file a copy with the executive county superintendent on or before August 1st of each year.

The separate monthly board secretary and treasurer (where the board of education/board of trustees elects to maintain the position) report must be reconciled on a monthly basis.

Cash Reconciliation

(Applicable to school districts, charter schools and renaissance school projects)

The cash accounts must be reconciled. *N.J.S.A.*18A:17-9 provides that the chief school administrator or board designee other than the secretary must prepare the monthly reconciliations of all bank accounts prior to the completion of the secretary's monthly report. Reconciliation of payrolls and bond and interest accounts are to be made in all districts/charter schools/renaissance school projects 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 school district/charter school/renaissance school project.

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

Petty Cash Funds

(Applicable to school districts, charter schools and renaissance school projects)

N.J.A.C. 6A:23A-16.8 states "Pursuant to the provisions of *N.J.S.A*. 18A:19-13, a district board of education or 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 June 30.

Summer Payment Plans

(Applicable to school districts, charter schools and renaissance school projects)

N.J.S.A. 18A:29-3 authorizes a district board of education/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:23A-16.9 states "The district board of education 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."

SOC 1 Report (Service Organization Controls Report)

(Applicable to school districts, charter schools and renaissance school projects)

N.J.A.C. 6A:23A-16.6 requires that district boards of education/board of trustees which contract for electronic data processing bookkeeping services including services provided by software vendors, payroll service vendors, and other service organizations, shall annually have an audit prepared or obtain a copy of an audit of the internal controls of the service company. Such audit shall be as prescribed by Statement on Standards for Attestation Engagements (SSAE) No. 16, *Reporting on Controls at a Service Organization* is codified at Section 801 available on the AICPA website at*:* http://www.aicpa.org/Research/Standards/AuditAttest/DownloadableDocuments/AT-00801.pdf. A SOC 1 report (Service Organization Controls Report) is a report on Controls at a Service Organization which are relevant to user entities' internal control over financial reporting. Previously known as SAS #70 Reports, the SOC 1 report may be either a Type 1 or a Type 2 report.

- Type I – Report on policies and procedures placed in operation. This report may be an effective and efficient way for the district/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 district's/charter school's auditor may choose to assess control risk below the maximum for financial statement assertions related to the service organization transactions. This is a decision made by the district/charter school auditor.

Auditors are advised to review Chapter 4, Standards for Financial Audits, of the Government Auditing Standards (2018 edition), https://www.gao.gov/yellowbook/overview, for further guidance on internal controls.

Third Party Disbursements

(Applicable to school districts, charter schools and renaissance school projects)

N.J.S.A. 52:27D-20.1 *Contracts for third-party disbursement services*, gives the Local Finance Board, in consultation with the Commissioner of Education, the authority to adopt regulations permitting district boards of education/ board of trustees to contract with a third-party disbursement service organization in order to make payments and execute financial transactions for those purposes.

The rules on third party disbursements can be found in *N.J.A.C*. 5:30-17 et seq. District boards of education/boards of trustees are advised to review the rules prior to engaging a third party disbursement service organization.

N.J.A.C. 5:30-17 et seq., Electronic Disbursement Controls for Payroll Purposes can be found at: http://www.nj.gov/dca/divisions/dlgs/resources/rules_docs/5_30/njac_53017.pdf.

N.J.S.A. 18A:19-10 requires districts/charter schools/renaissance school projects to maintain separate bank accounts for net payroll, and for payroll deductions and associated board contributions (agency account). In a district/charter school/renaissance school project that does not maintain the position of treasurer of school moneys the secretary shall draw and deposit the warrants. Where the district/charter school/renaissance school project maintains the position of treasurer of school moneys the treasurer shall deposit the warrants.

N.J.S.A. 18A:19-10 requires that authorized signatories on the payroll account must include the secretary and a board designee.

Investments

(Applicable to school districts, charter schools and renaissance school projects)

Several statutes govern permissible investment of school monies by New Jersey school districts/charter schools/renaissance school projects. In a district/charter school/renaissance school project which appoints a treasurer of school moneys, *N.J.S.A.* 18A:17-34 gives the treasurer of the school district/charter school/renaissance school project the authority to deposit school moneys in any bank or banking institutions of this state designated as a depository of school monies. In a district/charter school/renaissance school project that does not have a position of treasurer of school moneys, the board secretary when required by the board resolution has that authority (*N.J.S.A.* 18A:17-9.1). Under *N.J.S.A.* 17:9-41 et seq., the Governmental Unit Deposit Protection Act (GUDPA), a school district/charter school/renaissance school project may deposit public funds in a public depository if such funds are secured in accordance with GUDPA. This statute defines a public depository as:

> "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 education/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 school district's/charter school's/renaissance school project'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 school districts/charter schools/renaissance school projects. The division does not publish a listing of approved investments but districts/charter schools/renaissance school projects may request approval of a specific security by sending a letter 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 school district/charter school/renaissance school project can utilize. Districts/charter schools /renaissance school projects should consult with their legal 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 GUDPA webpage: http:/www.state.nj.us/dobi/division_banking/depositories/gudpa.htm. A school district/charter school/renaissance school project which is unsure as to 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.

Districts/charter schools/renaissance school projects are required to implement GASB Statement No. 31, "*Accounting and Financial Reporting for Certain Investments and for External Investment Pools."* This 1998 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 school districts/charter schools/renaissance school projects. For government entities other than external investment pools, this statement, and subsequent amendments to this statement, establishes accounting and financial reporting standards for the following investments: 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 did not supersede the required disclosures 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.

Effective for reporting periods after December 15, 2015, GASB Statement No. 79, *"Certain External Investment Pools and Pool Participants*", establishes accounting and financial reporting standards for state and local governments that participate in a qualifying external investment pool that measures for financial reporting purposes all of its investments at amortized cost. The department believes this statement will have a limited impact on school districts, charter schools, and renaissance school projects. If an external investment pool meets the criteria in paragraph 4 of GASB Statement No. 79 and measures all of its investments at amortized cost, the pool's participants should also measure their investments in that external investment pool at amortized cost for financial reporting purposes. If an external investment pool does not meet the criteria in paragraph 4, the pool's participants should measure their investments in that pool at fair value as provided in paragraph 11 of Statement 31, as amended. Effective January 16, 2018, P.L. 2017, Chapter 310, which amended P.L.1977, c.177 and P.L.1977, c.39, expands school district investment options; prevents the imposition of barriers or penalties on investment pool withdrawals; removes the mandate on the Local Finance Board to promulgate accounting and disclosure rules and requires that local government investment pools be managed in accordance with Generally Accepted Accounting Principles (GAAP) established by the Governmental Accounting Standards Board (GASB). Prior to this amendment, investment pools were managed pursuant to U.S. Securities and Exchange Commission regulations governing money market funds (17 C.F.R. s.270.2a-7).

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 the summary of paragraphs 46 and 47 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.

Auditors should refer to the statement for further understanding and for illustrations of disclosures.

Effective for reporting periods beginning after June 15, 2015 districts/charter schools/renaissance school projects are required to implement *GASB Statement No. 72, Fair Value and Measurement Applicatio*n.

The Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement applies to donated capital assets, donated works of art, donated historical treasures, and also to similar assets and capital assets received in a service concession arrangement such as the investment held in Solar Renewable Energy Certificates (SRECs). It provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. *GASB Statement No. 72* provides that donated capital assets should be measured at acquisition value (an entry price). Using the link, auditors can access the DOE broadcast from May 31, 2016 for additional information on recording and reporting.

Revenues and Receipts

(Applicable to school districts, charter schools and renaissance school projects)

Revenues accruing to the board of education/board of trustees 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.

N.J.S.A. 18A:17-9.1 provides that for a district/charter school /renaissance school project that does not maintain the position of treasurer of school moneys, the board secretary will receive and hold moneys. *N.J.S.A.* 18A:17-9.2 provides that in a school district/charter school/renaissance school project that does not have a treasurer of school moneys, the board secretary will keep a record of the sums received.

Reporting of future fiscal years' State Aid advanced to a school district during the current fiscal year that will be repaid by the school district to the State through deductions from subsequent years' State Aid payments.

(Applicable only to school districts approved by the Commissioner)

In accordance with the "advance" agreement and guidance provided to the school district at the time of the "advance", repayments are generally scheduled to be made over a 10 year period and must be reported as follows:

i. Record and report the advance of State Aid as general fund state aid revenue on the budgetary basis (C-1) in the fiscal year of receipt.

ii. Report the advance of State Aid as an "Other Financing Source" on the Statement of Revenues, Expenditures, and Changes in Fund Balance (B-2) in the fiscal year of receipt

iii. Report the advance of State Aid as a current/long term liability in the District- wide Statement of Net Position (A-1)

iv. In the fiscal year of receipt, do not report the advance of State Aid as state aid revenue on the *Schedule of Expenditures of State Awards* (Schedule B)

v. During the repayment period – record and report state aid in accordance with the current year award notice. Appropriate the repayment of principal and interest (if any) in the appropriation accounts provided in the budget/chart of accounts.

Dr. State Aid Receivable
    Cr. State Aid

Dr. Cash
Dr. Loan Principal
    Cr. State Aid Receivable

vi. During the repayment period, report the full current year state aid award (do not reduce the current year state aid award by the amount to be withheld by the State to repay the loan) on the Schedule of Expenditures of State Awards. The annual repayment made through the state aid deduction is simply an expenditure (against the appropriation of P&I) of that state aid.

For purposes of the Schedule of Expenditures of State Financial Assistance do not report the "advance" as State Aid revenue in the year of receipt. In the ensuing repayment years, report the full State Aid award per the award notice(s) on the Schedule of State Financial Assistance; don't reduce the State Aid revenue per the State Aid award notice for cash deductions made by the Department representing repayment of the State Aid advance. The annual repayment of principal and interest made through State Aid deductions are recorded and reported as an appropriation and expenditure against that year's State Aid award.

Insurance Recoveries

(Applicable to school districts, charter schools and renaissance school projects)

GASB Statement No. 42, Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries, paragraph 21 provides that an insurance recovery is recognized as soon as it becomes realizable. A recovery is considered to be realizable if the insurer has acknowledged coverage.

Impairment of a capital asset:

In accordance with GASB Statement No. 42, in the governmental funds financial statements, restoration or replacement of an impaired capital asset should be reported as a separate transaction from the associated insurance recovery. The insurance recovery is reported as an "other financing source." Use newly created Audsum line 685 – "Other Financing Sources – Insurance Recovery Related to Impaired Capital Asset–Super Storm Sandy" (10-5901) for this purpose.

In the government-wide financial statements, when the recovery and loss occur in the same year report the "restoration or replacement of an impaired capital asset" as a separate transaction from the impairment loss and the associated insurance recovery. The impairment loss and the insurance recovery should be reported net. When the recovery occurs in a year subsequent to the loss, insurance recoveries reported in the subsequent year should be reported as a non-operating revenue source.

Recoveries other than those related to an impairment of a capital asset:

In the governmental funds financial statements, insurance recoveries other than those related to an impairment of a capital asset should be reported as a separate transaction from the covered loss. The insurance recovery is reported as an "other financing source." Use newly created Audsum line 686 – "Other Financing Sources – Insurance Recovery Related to Other Costs of Super Storm Sandy" (10-5902) for this purpose.

In governmental and in business-type activities in government-wide financial statements if the impairment loss and the insurance recovery occur in the same year, the impairment loss and the insurance recovery should be reported net. Insurance recoveries reported in a subsequent year(s) should be reported as a non-operating revenue source.

Community Disaster Loans (CDL) – FEMA

(This section is not applicable to charter schools and renaissance school projects)

Executive Order 128 directed all eligible school districts to apply for FEMA Community Disaster Loans. (https://homeroom5.doe.state.nj.us/broadcasts/2013/MAR/26/9343/CDL%20Guidance.pdf). School districts that have received approval of a CDL and have drawn down upon the associated line of credit as a replacement for timely remitted property tax collections, were provided guidance in the 2013-14 software vendor letter and through direct contact from the department to record the CDL proceeds received in revenue line 700 (10-5XXX). The outstanding amount of principal and accrued interest of the CDL at the year-end should be included in the Statement of Net Position's noncurrent portion of long-term obligations and described accordingly in the Notes to the Financial Statements. The CDL drawdown period ended with the 2015-16 year. The loans were subject to FEMA review in the fall of 2017 and were determined to be fully or partially cancelled based upon FEMA's calculation of the revenue loss that the district experienced over a specified period. The CDLs matured in 2018 and repayment was required beginning in the 2018-19 year. Districts were able to negotiate a payment plan with FEMA.

Community Development Block Grants (CDBG)

(This section is not applicable to charter schools and renaissance school projects)

Community Development Block Grants (CDBG) were awarded by FEMA to districts based upon the applications submitted by the municipality. Recipients were required to sign an agreement stating that grant funds would be used to pay for essential services *only* in conformance with the district's CDBG Action Plan as approved by HUD. In 2019-20, there were no districts which received CDBG funds as no additional CDBG funding was available.

Additional information about the CDBG grant can be found in LFN 2013-15 at: http://www.nj.gov/dca/divisions/dlgs/resources/lfns_2013.html and in the Software Vendor Letter (https://www.nj.gov/education/finance/fp/audit/1314/program/vendor%20letter%2013-14.pdf).

Other FEMA Reimbursements

(This section is not applicable to charter schools and renaissance school projects)

Unrestricted reimbursements are reported as an "other financing source" in the general fund. However, if the FEMA reimbursement is received pursuant to the school district having submitted a project worksheet for expenditures related to a disaster (such as Project SERV funds), those eligible restricted expenditures should be reported in the special revenue fund in the exact amount of the reimbursement received. The reimbursement is recorded and reported as "Other Restricted Grants-in-Aid from the Federal Government through the State" also in the special revenue fund. GASB *Comprehensive Implementation Guide*, Z.42.4 clarifies that the loss and the FEMA reimbursement are separate events that must be recorded and reported separately, rather than netted. See Section II-20 of this Audit Program for additional guidance on restricted reimbursements.

Extraordinary Aid

(Extraordinary Aid Application is applicable to school districts only; charter school and renaissance school project students are included in the resident school district's Extraordinary Aid Application)

School districts shall file an application with the department for expenses incurred for which the district is seeking reimbursement and that additional State aid awarded for Extraordinary Aid (ExAid) costs shall be recorded by the district as revenue in the current school year (N.J.S.A. 18A:7F-55 c.) and paid to the district in the subsequent school year. School districts shall include the resident student enrolled in a charter school or a renaissance school project in their application. The awards for ExAid will be posted in the district's state aid folders upon release. ExAid Payments are expected to be made mid to late September. EXAID MEMO.pdf

Extraordinary Aid awards are recorded in the general fund, account 10-3131. Since actual payment will not be made until after the end of the fiscal year districts/charter schools/renaissance school projects must also establish a receivable for the appropriate amount of anticipated payment (*N.J.S.A.* 18A:7F-55 c., and GASBS 33 par.74). This amount (or a portion of the amount) may be excluded from the June 30, 2020 excess surplus calculation only if the district can clearly document that they did not budget this additional aid during the 2019-20 fiscal year for which they filed an application.

Audit procedures, similar to the ASSA, can be found in the *State Aid/Grants Compliance Supplement* on the DOE finance website. Extraordinary aid applications are made online, with the Department's determination of aid based on the applications submitted for each individual student. Additional information on ExAid including a Frequently Asked Questions document can be found at EXAID FAQ.pdf.

The exclusion of extraordinary aid from the audited excess surplus calculation should be documented on the "Extraordinary Aid Adjustment" line. This will also require the submission of a brief letter or memo explaining the circumstances surrounding the exclusion, and if applicable, how the exclusion relates to the appearance of the excess surplus warning message on the Audit Summary (Audsum) transmittal form.

N.J.A.C. 6A:23A-13.3(d)6 provides that a district board of education may at any time without Commissioner approval appropriate surplus generated from state revenue, such as extraordinary aid, that has been excluded from the excess surplus calculation in the prior year.

District Taxes

(This section does not apply to charter schools and renaissance school projects)

District taxes must be recorded in the fund for which they were voted (Type II) or were certified by the Board of School Estimate (Type I). Additional amounts certified to the county board of taxation after the issuance of tax bills by the municipality will be shown as an adjustment on the district's subsequent year's certificate and report of school taxes. These adjustments are generally the result of Commissioner restorations for budget appeals and/or additional certifications for unanticipated debt service expenditures. These additional certifications should be reported as revenue via the accrual of a tax levy receivable.

N.J.S.A. 54:4-75, states, "The governing body of each municipality shall pay over to the board secretary or treasurer of school moneys, as appropriate, in the case of school districts in which appropriations for school purposes are made by the inhabitants of the school district, within forty days after the beginning of the school year, twenty percent (20%) of the appropriation for local school purposes, and thereafter, but prior to the last day of the school year, the balance of the moneys raised in the municipality for school purposes in such amounts as may from time to time be requested by the Board of Education, within thirty days after each request."

The auditor should comment on any uncollected taxes as of June 30 (other than the special accruals referred to above), and make a recommendation that the board of education request the remittance of the balance from the municipality.

Tuition - Charter Schools Only

Pursuant to *N.J.S.A.* 18A:36A:8, a charter school is prohibited from charging tuition to enrolled students. 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 in 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.

Tuition-(*N.J.A.C.* 6A:23A-17.1) – School Districts Only

Tuition revenue is recorded in the general fund. The procedures for determining tuition rates are detailed in *N.J.A.C*. 6A:23A-17.1. Because it is "measurable and available" the entire tuition charged for the school year is revenue of the year even though part of the charge is uncollected at year-end. Tuition or program fees should not be charged for accredited Adult Education programs operating for the purposes outlined in *N.J.S.A*. 18A:50, since pupils enrolled in such programs are included on the Application for State School Aid. Fees collected for non-accredited Adult Education programs are miscellaneous general fund revenue, not tuition.

Local school district auditors should compare tentative tuition charges in the current fiscal year to the rate certified by the Department of Education. The auditor must comment on whether appropriate billing adjustments have been made for the differences between tentative and actual charges. In accordance with *N.J.A.C.* 6A:23A-17.1(f), the certification of tuition rates occurs after two years. In the 2019-20 budget, districts were required to include any applicable tuition adjustment for the certification of the 2018-19 rates. Consult *N.J.A.C.* 6A:23A-17.1(e). Local school district auditors should refer to *N.J.A.C.* 6A:23A-17.4 for auditing tuition rates for county vocational schools; and *N.J.A.C*. 6A:23A-17.7 for auditing rates for county special services schools when these types of LEAs are audited.

Local school district auditors must perform procedures to determine that the following requirements are met and should refer to the guidance on Fund Balance Classification in Section II-10.20 of this Audit Program for reporting the tuition reserve in the CAFR and to Section III-5 for guidance on including the tuition reserve in Audsum. **There are specific lines for the opening and ending balance for each year of the reserve.**

1. The district used the Budget Software tuition worksheet (only applicable to regular districts) or another Department of Education prescribed method for estimated tuition charges (Estimated Cost Per Pupil for Tuition Purposes).
2. Receivables and/or payables are based upon uncollected tuition billed.
3. Regular tuition adjustments based upon Department of Education certification of rates are not recognized as revenue and/or expenditures until the second year after the contract year and

that the tuition adjustments are correctly reflected in the amounts reported as tuition revenue (receiving district) or tuition expenditures (sending district).

4. If at the end of the contract year when a district board of education anticipates that a large tuition adjustment will be required in the second year following the contract year, the district board of education may restrict fund balance up to 10 percent of the estimated tuition cost in the contract year, in a reserve for tuition adjustments. The tuition reserve is available only for districts that have a sending/receiving relationship. Full appropriation must be made in the second year. In the 2019-20 budget districts were required to include any applicable tuition adjustment for the certification of 2017-18 rates.
5. For the 2019-20 budget year districts were required to withdraw and budget the June 30, 2018 deposit to the tuition reserve, which was based upon the estimated 2017-18 tuition costs, to account for the actual 2017-18 certified tuition rate adjustments. The funds were legally reserved in 2017-18 based on an estimate of the 2017-18 tuition adjustment (estimated vs. actual) that would occur in 2019-20.
6. A district may have at June 30, 2020 a reserve for each applicable year 2018-19 and 2019-20. The tuition reserve for each year should be presented separately on the *Budgetary Comparison Schedule – General Fund* (Exhibit C-1) in the Recapitulation of Balances and on Audsum. There is no authority to increase the tuition reserve by interest earnings.

Local school district auditors must make appropriate comments and recommendations for any findings related to these procedures.

On-Behalf Payments

The following sections regarding Teachers' Pensions and Annuity Fund (TPAF), Public Employees' Retirement System (PERS), and Defined Contribution Retirement Plan (DCRP) Reporting are Applicable to School Districts, Charter Schools, and Where Deemed Appropriate, to Renaissance School Projects

Reporting of Teachers' Pension and Annuity Fund (TPAF) On-behalf Payments. (TPAF is a Cost Sharing Multi-Employer Defined Benefit Pension Plan with a Special Funding Situation – 100% Legal Obligation of the State). On-Behalf Pension, and FICA Reimbursement Payments Made by the State - LEAs with Participating/Eligible Employees

Accrual Basis Financial Statements

Pension Payments Made by the State:

Effective for the year ending June 30, 2014 Governmental Accounting Standards Board (GASB) Statement No. 68 *Accounting and Financial Reporting for Pensions* superseded GASB Statement No. 24 *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance* and eliminated the requirement to recognize revenue and expense for on-behalf pension payments made by the State in the accrual basis financial statements only (e.g. A-2 Statement of Activities). The requirements of GASBS No. 68 for the accrual basis statements are designed to report the true "cost of services" at the LEA level as it relates to pension costs; not only the amounts actually paid by the State (on-behalf) towards the cost of those services. Refer to the section below on reporting TPAF pension expense in the accrual basis statements under GASBS No. 68 for additional guidance.

GASB Statement No. 73, *"Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans"* is effective for reporting periods beginning after June 15, 2015 (with regards to those requirements for pension plans that are within the scope of GASBS No. 68.) and for fiscal years beginning after June 15, 2016 for all other requirements, this statement establishes requirements for pensions that are provided through pension plans that are administered through trusts or equivalent arrangements , and not within the scope of GASBS No. 68.

This Statement clarifies the application of certain provisions of Statements 67 and 68 with regard to the following issues:

1. Information that is required to be presented as notes to the 10-year schedules of required supplementary information about investment-related factors that significantly affect trends in the amounts reported.
2. Accounting and financial reporting for separately financed specific liabilities of individual employers and nonemployer contributing entities for defined benefit pensions.
3. Timing of employer recognition of revenue for the support of nonemployer contributing entities not in a special funding situation.

FICA Reimbursements Received from the State (On-behalf FICA for TPAF Members):

GASBS No. 68 and GASBS No. 75 don't address "FICA reimbursements" which are reimbursements made by the State to the employer district/charter/renaissance school project reimbursing the employer for the school's share of the FICA payroll tax expense. Accordingly, continue to report PRM payments in the accrual basis financial statements (A-2) as revenue and expense in equal amounts. LEAs must support the amounts recognized through the preparation of a schedule of the amounts reimbursed by the state for the current year FICA employer contribution for its TPAF members. The current year amount equals total cash reimbursement received during the current year less the prior year June 30 receivable amount plus the current year June 30 receivable balance.

Post-Retirement Medical (PRM) Payments Made by the State:

Please refer to OPEB guidance beginning on page II-10.23 of this Audit Program.

Modified Accrual Basis Financial Statements and Schedules

Pension and Post-Retirement Medical Payments (on-behalf payments) made by the State:

Please refer to OPEB guidance beginning on page II-10.23 of this Audit Program. GASB Statement No. 24, paragraphs 7 through 13 require that an employer government (LEA) recognize equivalent amounts of revenue and expenditure for on-behalf payments for fringe benefits and salaries actually remitted by a nonemployer on-behalf of the employer government during the fiscal year under audit. On-behalf payments for fringe benefits and salaries are direct payments made by one entity during the fiscal year (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 to modified accrual basis statements and schedules in New Jersey, LEAs are required to include in the (B-2) Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balance and in the (C-1) General Fund Budgetary Comparison Schedule the pension and post-retirement medical premium contributions actually made during the fiscal year under audit directly to TPAF by the state on their behalf.

The department annually obtains from Treasury and makes available to LEAs a schedule of the TPAF pension amounts paid on their behalf for employer contributions to the TPAF on the DOE Audit Information webpage: https://www.state.nj.us/education/finance/fp/audit/.

FICA Reimbursements Received from the State (On-behalf FICA for TPAF Members):

LEAs must also prepare a schedule of the amounts reimbursed by the state for the current year FICA employer contribution for its TPAF members on a modified accrual basis. That is, the current year amount equals total cash reimbursement received during the current year less the prior year June 30 receivable amount plus the current year June 30 receivable balance. The on-behalf FICA payments are included in the CAFR as non-budgetary revenue and expenditure items (B-2, and C-1). LEAs are not required to include these amounts in their annual school budgets or monthly reports of the board secretary. These amounts should be excluded from the Type A programs threshold calculation. For further guidance on this schedule, schools and their auditors should refer to Section II-SA, Federal and State Audit Requirements, of this Audit Program.

Pension Reporting Under Governmental Accounting Statements Board Standard No. 68 (GASBS No. 68)

Teachers' Pension and Annuity Fund (TPAF) – Cost Sharing Defined Benefit Plan with a Special Funding Situation

TPAF qualifies as a special finding situation because the nonemployer (the State) is the only entity with a legal obligation to make "employer" contributions directly to the TPAF. GASBS 68 requires an employer that has a special funding situation for defined benefit pensions to recognize a pension liability and deferred outflows of resources and deferred inflows of resources related to pensions *with adjustments for the involvement of nonemployer contributing entities*. An LEA is also required to recognize its proportionate share of the collective pension expense, as well as additional pension expense and revenue for the pension support of the State. For special funding situations, the requirements for accounting and financial reporting by employers (LEAs) for defined benefit cost-sharing pensions are presented in GASBS 68 paragraphs 92-96 (GASBS 68 par. 16). To summarize those requirements for New Jersey LEAs by statement/schedule:

The district-wide statements are prepared on the economic resources measurement focus and the accrual basis of accounting and are identified in the CAFR as A-1 (Statement of Net Position) and A-2 (Statement of Activities):

1. GASBS No. 68, par. 92 provides that a liability should be recognized for the employer's proportionate share of the collective net pension liability. The State is the only entity that has a legal obligation to make employer contributions to TPAF. As clarified in the GASBS No. 68 Implementation Guide Q&A number 224 (available on the GASB.org website), in a situation where the State is the only entity with a legal obligation, the LEAs proportionate share percentage determined under paragraph 48 of GASBS No. 68 is zero percent. Accordingly, LEAs shouldn't recognize any portion of the TPAF collective net pension liability on the Statement of Net Position (A-1). Also on the A-1, and for the same reasons, LEAs should not recognize any portion of TPAF collective deferred outflows of resources and TPAF deferred inflows of resources.

2. GASBS No. 68, paragraph 93 requires LEAs to recognize pension expense in conformity with GASBS par. 52-57. Applying the same reasoning as directly above, the proportionate share percentage determined in accordance with GASBS No. 68 paragraphs 52-57 is zero. Accordingly, LEAs don't recognize any amount of proportionate share of pension expense on the district-wide Statement of Activities (A-2). In addition though, GASBS 68 paragraphs 94 and 95 require that LEAs also recognize an equivalent amount of TPAF pension expense and TPAF pension revenue on the (accrual basis) district-wide Statement of Activities (A-2) in an amount representative of the expense of the State (nonemployer contributing entity) that is associated with the particular LEA (employer). Although GASBS No. 68 doesn't specify the basis to be used for this purpose, GASB's implementation guidance is the "resulting proportion should represent the relationship of the employer to the total of all employers that are provided support as a result of the special funding situation" (reference Q&A # 225). The measurement period for the pension expense and revenue reported in the school's financial statements (A-2) at June 30, 2020 is based upon change in the collective net pension liability with a measurement period of June 30, 2018 through June 30, 2019. Accordingly, the pension expense and the related revenue associated with the support provided by the State is based upon the changes in the collective net pension liability between July 1, 2018 and June 30, 2019. An allocation schedule for the revenue and expense to be recognized on the district-wide Statement of Activities for each LEA will be provided by the plan accompanied by an auditor's opinion on that schedule. Note that GASBS No. 68 Implementation Guide Q&A number 227 clarifies that only the nonemployer contributing entity in a special funding situation should recognize as a deferred outflow of resources contributions made subsequent to the measurement date of the collective net pension liability.

The governmental funds statements are prepared on the current financial resources measurement focus and modified accrual basis of accounting and are identified in the CAFR as B-1, Governmental Funds Balance Sheet and B-2, Statement of Revenues, Expenditures, and Changes in Fund Balance. The B-3 provides a Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds (B-2) to the Statement of Activities (A-2):

1. LEAs participating in a "special funding situation" pension plan (e.g. TPAF) are required to recognize their proportionate share of the collective net pension liability on the B-1 to the extent

the liability is normally expected to be liquidated with expendable available financial resources of the State (GASBS 68, paragraph 73). Because the State is the only entity legally responsible for TPAF employer contributions, this amount is zero for all LEAs.

2. LEAs participating in a "special funding situation" pension plan are required to recognize pension expenditures on the B-2 Statement of Revenues, Expenditures, and Changes in Fund Balances (GASBS 68, paragraph 73). Pension expenditures should be recognized equal to the total of
    a. Amounts paid by the employer to the pension plan. Because the State is the only entity legally responsible for employer payments to the TPAF, for TPAF this amount is zero for all LEAs, and
    b. The change between the beginning and ending balance of amounts normally expected to be liquidated with expendable available financial resources. Net pension liabilities are normally expected to be liquidated with expendable available financial resources to the extent that benefit payments are due and payable and the pension plan's fiduciary net position is not sufficient for payment of those benefits. Because the State is the only entity legally responsible for employer payments to the TPAF, for TPAF this amount is zero for all LEAs

TPAF Footnote Disclosures, Required Supplementary Information (RSI), and Notes to RSI:

requires LEAs to disclose in notes to financial statements information about the amount of support provided by nonemployer contributing entities (e.g. the State) and to present similar information about the involvement of those entities in 10-year schedules of required supplementary information. Even though the LEA employer doesn't recognize a proportionate share of the collective net pension liability for TPAF, paragraphs 75 (disclosures) and 81 (RSI) of GASBS 68 require that the LEA present note disclosures and schedules of RSI that include the proportionate share of the TPAF collective net pension liability, and other information that is detailed on paragraphs 76-82 of GASBS 68. Specific information provided by the TPAF plan required to meet the LEA's disclosure and RSI requirements under GASBS 68, including but not limited to, plan financial reports, actuarial reports, auditor's opinions, schedules (e.g. Schedule of the LEA's Proportionate Share of the Net Pension Liability – Last 10 Fiscal Years – as historical information becomes available; Schedule of District Contributions – Last 10 Fiscal – as historical information becomes available) is posted on the Treasury's Division of Pensions & Benefits website: https:/www.state.nj.us/treasury/pensions/. GASBS 68 includes illustrations (refer to illustration 4a and 4b for TPAF) available on the GASB website.

Public Employees Retirement System (PERS) – Cost Sharing Defined Benefit Plan- No Special Funding Situation

Background – Initial Year of Implementation

GASBS No. 68 (issued June 2012) was first implemented for PERS employer participants for the fiscal year ended June 30, 2015. For each succeeding year, the school's proportionate share of the collective net pension liability is to be reported in the year-end financial statements and has a measurement date of one year prior (i.e. June 30, 2019) with a measurement period of beginning July 1 and ending June 30 (i.e. July 1, 2018 to June 30, 2019). GASBS No. 68 Implementation Guide.

Application to the District-wide Financial Statements:

The district-wide financial statements are prepared on the economic resources measurement focus and the accrual basis of accounting and are identified in the CAFR as A-1 (Statement of Net Position) and A-2 (Statement of Activities):

1. A cost-sharing employer (e.g. LEA) that doesn't have a special funding situation (e.g. PERS) is required to recognize on the Statement of Net Position (A-1):
   a. A liability for the LEA's proportionate share of the collective net pension liability as provided by Treasury for PERS employers (GASBS No. 68 paragraphs 48 – 51) and,
   b. The LEA's proportionate share of the collective deferred outflows of resources as provided by Treasury for PERS employers (GASBS No. 68 paragraphs 52 -57) and,
   c. The LEA's proportionate share of the collective deferred inflows of resources as provided by Treasury for PERS employers (GASBS No. 68 paragraphs 52 -57)

   To facilitate the recording of the conversion entries for a. b. and c. above from the fund statements to the district-wide statements, the department has obtained access to Treasury's published Schedule(s) of Collective Net Pension Liabilities, Collective Deferred Outflows of Resources, and Collective Deferred Inflows of Resources including proportionate share by entity for the beginning of the measurement period (6/30/18) and for the end of the measurement period (6/30/19). The actuarial valuation date and the measurement date are one year prior to the ending date of the year under audit (6/30/20), i.e. June 30, 2019, as permitted by GASBS 68. Auditor's Note: The department has also provided on our website a link to the accompanying independent plan auditor's report for PERS.

2. Whenever there is a change in the LEA employer's proportionate share percentage (provided by Treasury) since the prior measurement date compared to the current ending measurement date (e.g. for PERS 6/30/18 compared to 6/30/19), the LEA PERS participating employer is required to record conversion journal entries that reflect any change in the LEA's proportionate share percentage of the collective beginning balances (6/30/18) compared to the LEA's ending proportionate share percentage (6/30/19) applied to the amounts provided by Treasury for the beginning of the measurement period (e.g. 6/30/18) for the collective balance of net pension liability, collective balance of deferred outflows of resources and collective balance of deferred inflows of resources related to pensions, and collective pension expense. Note that in conformity with GASBS. No. 68 paragraph 54, the net effect of the change in proportion is recognized in pension expense, beginning in the current reporting period, using a systematic and rational method over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions through the pension plan, determined as of the beginning of the measurement period. The amount of the net effect of a change in proportion that is not recognized in the employer's pension expense is reported as a deferred outflow of resources or deferred inflow of resources related to pensions.
   a. Where Treasury reports an increase in the LEA's proportion, the result is an increase in pension expense and a deferred outflow of resources.
   b. Where Treasury reports a decrease in the LEA's proportion, the result is a decrease in pension expense and a deferred inflow of resources.

   (Refer to GASBS No. 68 Implementation Guide, Illustration 3b, page 163, item (2) (a) for an illustration of the conversion journal entry(s) and supporting calculations).

3. Whenever there is a contribution (GASBS No. 68 paragraph 55) made by the LEA employer to the pension plan (other than those to separately finance specific liabilities of an individual employer (e.g. ERIP)) during the measurement period (6/30/17 through 6/30/18 – e.g. payment of the April PERS billings) the difference between (a) the total amount of such contributions from the LEA and (b) the amount of the LEA employer's proportionate share of the total of such contributions from all employers and all nonemployer contributing entities should be recognized in the employer's pension expense (A-2), beginning in the current reporting period, using a systematic and rational method over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions through the pension plan determined as of the beginning of the measurement period (e.g. 6/30/17). The amount not recognized in the employer LEA's pension expense should be reported as a deferred outflow of resources or a deferred inflow of resources related to pension.
    a. Where the employer LEA's actual contribution(s) during the measurement period (6/30/17 through 6/30/18) exceed its proportionate share of total contributions reported by Treasury, the result is an increase in pension expense and a deferred outflow of resources.
    b. Where the employer LEA's actual contribution(s) during the measurement period (6/30/17 through 6/30/18) are less than its proportionate share of total contributions reported by Treasury, the result is a decrease in pension expense and a deferred inflow of resources.

   (Refer to GASBS No. 68 Implementation Guide, Illustration 3b, page 164, item (2) (b) for an illustration of the conversion journal entry(s) and supporting calculations). Note that the effects of GASBS No. 68 paragraphs 54 and 55 (numbers 2 and 3 above) in a single measurement period are permitted to recognized on a net basis.
4. A cost-sharing employer (e.g. LEA) that doesn't have a special funding situation (e.g. PERS) is required to recognize pension expense for its proportionate share of collective pension expense on the Statement of Activities (A-2) (GASBS. No. 68 paragraphs 52-57). This amount is determined by multiplying the collective PERS pension expense for the measurement period ended June 30, 2019 by the LEA's proportionate share. To facilitate the recording of conversion entries for pension expense from the fund statements to the district-wide statements, the department has obtained access to Treasury's published schedule(s) of Collective Pension Expense for the measurement period ended June 30, 2019and the proportionate share for each participating employer entity. Note that pension expense as described in this paragraph may be adjusted for the provisions of GASBS No. 68 discussed in paragraph numbers 1 through 4 above.
5. Auditors are encouraged to refer to GASBS No. 63 for definitions of net position, deferred outflow of resources, and deferred inflow of resources. Note that GASBS 68, paragraph 57, requires that contributions to the pension plan from the employer LEA subsequent to the measurement date (June 30, 2019) of the collective net pension liability and before the end of the employer's reporting period (June 30, 2020) should be reported as a deferred outflow of resources related to pensions on the Statement of Net Position (A-1). Preparer's/Auditor's Note: Refer to GASBS 68 Implementation Guide Q&A # 147 for additional guidance.

Application to the Governmental Funds Statements:

The governmental funds statements are prepared on the current financial resources measurement focus and modified accrual basis of accounting and are identified in the CAFR as B-1, Governmental Funds Balance Sheet and B-2, Statement of Revenues, Expenditures, and Changes in Fund Balance. The B-3 provides a Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds (B-2) to the Statement of Activities (A-2):

1. LEAs participating in a defined benefit pension plan (e.g. PERS) are required to recognize their proportionate share of the collective net pension liability on the B-1 to the extent the liability is normally expected to be liquidated with expendable available financial resources (GASBS 68, paragraph 73).
    a. In a situation where the 2019 employer PERS billing, due April 1, 2019, was not remitted to Treasury prior to the year ending June 30, 2019, the amount billed, but not remitted, must be reported as a component of the LEAs proportionate share of the collective net pension liability on the B-1.
    b. In a situation where at the measurement date (6/30/18), the PERS plan fiduciary net position is not sufficient to make benefit payments that were due and payable (e.g. within 30-90 days of the 6/30/20 year-end), the LEAs must recognize an amount equal to its proportionate share of the amount of benefits due and payable that exceeds the pension plan's fiduciary net position as its proportionate share of the collective net pension liability. Net pension liabilities are normally expected to be liquidated with expendable available financial resources to the extent that benefit payments are due and payable and the pension plan's fiduciary net position is not sufficient for payment of those benefits.
    c. To facilitate reporting, the department has obtained access to Treasury's published Schedule of Proportionate Shares of Collective Net Pension Liabilities for PERS and also a link to the accompanying independent auditor's report on the plan's Schedule of Proportionate Shares of Collective Net Pension Liabilities for PERS. Preparer's and auditor's note: refer to GASBS 68 Implementation Guide Q&A # 197) for additional guidance.
2. LEAs participating in a defined benefit pension plan (e.g. PERS) are required to recognize pension expenditures on the B-2 Statement of Revenues, Expenditures, and Changes in Fund Balances (GASBS 68, paragraph 73). Pension expenditures should be recognized equal to the total of:
    a. Amounts paid by the employer to the pension plan, and
    b. The change between the beginning and ending balances of amounts normally expected to be liquidated with expendable available financial resources. Preparer's and Auditor's Note: To the extent that GASB 68 requires the recognition of pension expenditures on the B-2, a budget to GAAP adjustment should be reported on the C-3 (Budget to GAAP Reconciliation).

PERS Footnote Disclosures, Required Supplementary Information (RSI), and Notes to RSI:

GASBS 68 paragraphs 74 through 82 address the required notes to the financial statements disclosures, required supplementary information (RSI), and notes to RSI for LEAs. For PERS, 10-year schedules of Specific information provided by the PERS plan required to meet the LEA's disclosure and RSI requirements under GASBS 68, including but not limited to, plan financial reports, actuarial reports, auditor's opinions, schedules (e.g. Schedule of the LEA's Proportionate Share of the Net Pension Liability – Last 10 Fiscal Years – as historical information becomes available; Schedule of District Contributions – Last 10 Fiscal – as historical information becomes available) is posted on the Treasury's Division of Pensions & Benefits website at: http://www.state.nj.us/treasury/pensions/.
The GASBS 68 Implementation Guide includes illustrations (refer to illustration 3a and 3b for PERS).

The GASB Implementation Guide No. 2019-1, Implementation Guidance Update—2019 is available online:
https://www.gasb.org/jsp/GASB/Document_C/DocumentPage?cid=1176172594870&acceptedDisclaimer=true

Defined Contribution Retirement Plan (DCRP)

The district-wide statements are prepared on the economic resources measurement focus and the accrual basis of accounting and are identified in the CAFR as A-1 (Statement of Net Position) and A-2 (Statement of Activities):

1. A change in the DCRP pension liability is required to be recognized for the difference between amounts recognized in expense and amounts paid by the employer to DCRP.
2. An LEA whose employees are provided with defined contribution pensions is required to recognize pension expense for the amount of contributions to employees' accounts that are defined by the benefit terms as attributable to employees' service in the period, net of forfeited amounts that are removed from employees' accounts.

The governmental funds statements are prepared on the current financial resources measurement focus and modified accrual basis of accounting and are identified in the CAFR as B-1, Governmental Funds Balance Sheet and B-2, Statement of Revenues, Expenditures, and Changes in Fund Balance. The B-3 provides a Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds (B-2) to the Statement of Activities (A-2):

1. A pension liability should be recognized to the extent the liability is normally expected to be liquidated
2. Pension expenditures should be recognized equal to the total of:
    a. Amounts paid by the employer to the DCRP and,
    b. The change between the beginning and ending balances of amounts normally expected to be liquidated with expendable available financial resources

For DCRP, the notes to the LEAs financial statements should include descriptive information about the pension plan and benefit terms, contribution rates and how they are determined, and amounts attributable to employee service and forfeitures in the current period. The GASBS 68 Implementation Guide includes illustrations (refer to illustration 6 for DCRP) available online.

AICPA - Independent Auditing Firm Guidance for GASBS No. 68 Implementation

1. AICPA Auditing Interpretations of generally accepted auditing standards (GAAS):

a. Interpretation #2 (April 2014) "Auditor of Participating Employer in a Governmental Cost-Sharing Multiple-Employer Pension Plan". AU-C Section 9500 *Audit Evidence: Auditing Interpretations of AU-C Section 500* - (Applies To TPAF, PERS, DCRP):

- .25 GASBS 67 requires only the disclosure of the collective net pension liability for all participating employers in GAAP financial statements of the cost-sharing plan (TPAF/PERS/DCRP), not each employer's proportionate share of the collective net pension liability. GAAP doesn't require the plan to present deferred outflows of resources or deferred inflows of resources by category, pension expense, or each participating employer's share of collective pension amounts. **Unaudited** information provided by the plan to the employer district to support allocations or pension amounts that has not been subjected to further audit procedures would not constitute sufficient appropriate audit evidence to support the relevant assertions in the employer's financial statements related to the pension amounts, including required disclosures.

- .26 Absent additional audit evidence from the cost-sharing plan, (e.g. auditor's opinions on the schedule of employer allocations and net pension liability, deferred outflows/inflows, total pension expense) the school district/charter school auditor would not likely be able to accumulate sufficient appropriate audit evidence to support the pension amounts and disclosures in the school's (employer's) financial statements. In this case, the auditor should modify the audit opinion pursuant to *AICPA, Professional Standard*, AU-C section 705, *Modifications to the Opinion in the Independent Auditor's Report.*
- .28 The school district/charter school (employer) auditor may use the plan auditor's report on the schedules as evidence that the pension amounts allocated to the employer and included in the employer's financial statements are not materially misstated. In accordance with .29, the employer auditor should evaluate whether the plan auditor's report and accompanying schedules are adequate and appropriate for the employer auditor's purposes:
    i. Evaluate whether the plan auditor's report and accompanying schedules are adequate and appropriate for the employer auditor's purposes;
    ii. Employer auditor must evaluate whether the plan auditor has the necessary competence and independence for the employer auditor's purposes;
    iii. Verify and recalculate amounts specific to the applicable employer, including the employer amount used in the allocation percentage – the numerator of the calculation; (entity's proportionate share/collective amount)
    iv. Recalculate the allocation percentage for the employer;
    v. Recalculate the pension amounts allocated to the employer based on the allocation percentage

b. Interpretation #1 (April 2014) "Special Considerations – *Audits of Group Financial Statements (Including the Work of Component Auditors): Auditor Interpretations of AU-C Section 600" & "Special Considerations – Audits of Single Financial Statements and Specific Elements, Accounts, or Items of a Financial Statement: Auditing Interpretations of AU-C Section 805"*

- AU-C Section 9600 - .02 A governmental pension plan is not a component of the school district/charter school (employer). It would not be appropriate for a school district/charter school (employer) auditor to make reference to the audit report of the governmental pension plan auditor.
- AU-C Section 9805 – Is directly applicable to the report issued by the auditor of the cost-sharing multiple employer pension plan (not to the school district/charter school (employer) auditor). The school district/charter school auditor electing to rely upon this report is responsible to ensure the format and content are

appropriate. Also provides samples – Schedule of Employer Allocations; Schedule of Pension Amounts by Employer; and Schedule of Collective Pension Amounts.

1. AICPA Governmental Audit Quality Center (GAQC) Whitepapers:

Governmental Employer Participation in Cost-Sharing Multiple-Employer Plans: Issues Related to Information for Employer Reporting. Applicable to PERS and DCRP only (doesn't address special funding situations – TPAF) There is no question that significant interaction between the plans, participating employers and related auditors will be needed for purposes of corroborating pension amounts in employer financial statements. GASB 68 doesn't specify which party (plan or employer) is responsible for calculating the allocation percentages. Cost–sharing plans are in the best position to perform this calculation because they have the necessary information to do so including the data supporting the allocation measure for each individual employer (the numerator) and for all employers (denominator) for the calculation. While not required to be disclosed in the plans financial statement, there is an expectation that deferred outflows/inflows by category and pension expense are calculated by the actuary of the plan and included in the actuarial valuation report.

It is the recommendation of State and Local Government Expert Panel (SLGEP) that cost sharing plans calculate and disclose in schedules each employer's allocation percentage and collective pension amounts. Identified schedules are: "Schedule of Employer Allocations" and "Schedule of Pension Amounts by Employer". Further, GLGEP recommends pension plans engage their auditors to obtain reasonable assurance and report on the schedules in accordance with AU-C section 805, *Special Considerations – Audits of Single Financial Statements and Specific Element, Accounts, or Items of a Financial Statement.* The plan auditor's report on the schedules provides evidence that the pension amounts allocated to the employer and included in the employer's financial statements are not materially misstated. When pension amounts are material to one or more applicable opinion units of the employer's financial statements and the auditor is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement, the auditor should **modify the audit opinion** pursuant to AU-C section 705 *Modification to the Opinion in the Independent Auditor's Report.* (AICPA *Professional Standards*). .28 The employer auditor may use the plan auditor's report on the schedules as evidence that the pension amounts allocated to the employer and included in the employer's financial statements are not materially misstated. .29 The school district's independent auditor would be required to:

i. Evaluate whether the plan auditor's report and accompanying schedules are adequate and appropriate for the employer auditor's purposes;

ii. Employer auditor must evaluate whether the plan auditor has the necessary competence and independence for the employer auditor's purposes;

iii. Verify and recalculate amounts specific to the applicable employer, including the employer amount used in the allocation percentage – the numerator of the calculation; (entity's proportionate share/collective amount)

iv. Recalculate the allocation percentage for the employer;

v. Recalculate the pension amounts allocated to the employer based on the allocation percentage

"Single-Employer and Cost-Sharing Multiple-Employer Plans: Issues Associated with Testing Census Data in an Audit of Financial Statements" is guidance for the plan auditor, not for the school (employer) auditor. Note there are two options: 1) Retirement system auditor issues a SOC 1, Type 2 report on the census data maintained by the system to provide assurance that the system's controls over census data are suitably designed and operating effectively for the year which the actuarial valuation was performed. 2) Engage the systems auditor to perform an examination-level engagement (an audit of the census data).

Sample Journal Entries, Notes & Schedules from *GASB 68 Implementation Guide* applicable to school districts/charter schools:

1) Page 155 Illustrations 3a and 3b – Note Disclosures and Required Supplementary Information for a Cost Sharing Employer (No Nonemployer contributing entities – PERS and DCRP); Net Pension Liability, Deferred Outflows of Resources and Deferred Inflows of Resources, and Pension Expense – Sample school district – Includes sample 10 year schedules (Includes sample journal entries)
2) Page 166 Illustration 4a – Note Disclosures and Required Supplementary Information for a Cost-Sharing Employer That Has a Special Funding Situation and Page 174 Illustration 4b Net Pension Liability, Deferred Outflows of Resources and Deferred Inflows of Resources related to Pensions, Pension Expense, and Sample Journal Entries – TPAF)
3) Page 186 Illustration 6 Note Disclosures for an Employer with Defined Contribution Pensions (No Nonemployer Contributing Entities) - DCRP

Governmental Accounting Standards Board (GASB) Statement No. 75 Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions

Summary:

GASBS No. 75 is effective for fiscal years beginning after June 15, 2017. The State of New Jersey first implemented GASBS No. 74 *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* beginning with the year ended June 30, 2017. In accordance with GASBS No. 74, the State of New Jersey, Division of Pensions and Benefits, reevaluated the Other Postemployment Benefit (OPEB) plans it administers and determined the Defined Benefit Other Postemployment Benefit Plan: State Health Benefit Program Fund – Local Education Retired is not administered through a trust that meets the criteria in paragraph 4 of GASBS No. 75. Accordingly, the fund is reported in an agency fund in the New Jersey Comprehensive Annual Financial Report. *N.J.S.A.* 52:14-17.32f provides medical coverage to qualified retired education participants and the State of New Jersey is responsible for the cost of employer-paid coverage (as amended by P.L.2010, c.2 which requires the retiree to contribute in retirement 1.5 percent of the retiree's monthly retirement allowance) to members of the TPAF who retire from a board of education with 25 years of service or on a disability retirement. Under the provisions of Chapter 126, P.L. 1992, the State also provides employer-paid coverage to members of the PERS who retire from a board of education with 25 years of service or on a disability retirement if the member's employer does not provide this coverage. Beginning with the fiscal year ended June 30, 2017 the State adopted GASBS. No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* and reclassified the State Health Benefit Program Fund – Local Education Retired from a Pension and Other Employee Benefits Trust Fund to an Agency Fund. Accordingly, for purposes of implementation of GASBS. No. 75, schools should obtain OPEB plan information for their local education PERS and TPAF retirees through an agency fund reported in the State of New Jersey's comprehensive annual financial report (CAFR). The agency fund is titled, "State Health Benefits Program Fund – Local Education Retired

The State of New Jersey (a nonemployer contributing entity) is the only entity that has a legal obligation to make benefit payments as other postemployment benefits (OPEB) comes due for benefits provided to employees of a local school district, charter school, and renaissance school project through an OPEB plan that is not administered through a trust that meets the criteria in paragraph 4 of GASBS No. 75. The department has obtained an opinion from GASB that, for purposes of meeting the required note disclosures and required supplementary information RSI) of this statement, New Jersey schools are to treat OPEB as "a defined benefit single employer OPEB Plan That is Not Administered through a Trust That Meets the Criteria in Paragraph 4 of GASBS. No. 75."

GASBS No. 75, paragraphs 193 through 202 provide the rules for reporting a defined benefit OPEB that doesn't meet the "trust" requirements of paragraph 4, and has a special funding situation. Accordingly, paragraphs 193 through 202 are applicable to stand-alone financial statements issued by New Jersey school districts, charter schools, and renaissance school projects. Implementation guidance is found in GASB's Implementation Guide 2017-3, available on the GASB website. Refer to Q&A 4.410 through 4.418.

Applicable to the school's stand-alone financial statements prepared using the economic resources measurement focus and accrual basis of accounting (e.g. A-1 and A-2) district-wide statements:

- GASBS No. 75, paragraph 193, requires recognition of the LEA's proportionate share of the collective total OPEB liability, net of the nonemployer contributing entities' (i.e. the State) total proportionate share of the collective total OPEB liability.

  The State, a nonemployer contributing entity, is the only entity that has a legal obligation to make employer contributions to OPEB. The LEA's proportionate share percentage determined under paragraphs 193 and 203 through 205 of GASBS No. 75 is zero percent. Accordingly, LEAs shouldn't recognize any portion of the collective net OPEB liability on the Statement of Net Position (A-1).

- GASBS. No. 75, paragraph 200 (Support of Nonemployer Contributing Entities in a Special Funding Situation) requires schools to recognize revenue in an amount equal to the total of (a) the nonemployer contributing entities' total proportionate share of collective OPEB expense measured in conformity with paragraph 207 and (b) the total of nonemployer contributing entities' expense measured in conformity with paragraph 210. Paragraphs 194 provides guidance regarding expense recognition to match the revenue recognition summarized as:
    - OPEB Expense: In accordance with paragraph 195, OPEB expense should be recognized in an amount equal to "collective OPEB expense", defined as arising from certain changes in the "collective total OPEB liability". "Collective total OPEB liability" is defined as, "the total OPEB liability for benefits provided through a defined benefit OPEB plan that is not administered through a trust that meets the criteria in paragraph 4 and in which there is a special funding situation. For New Jersey's schools, the expense should equal the revenue as determined above.
    - OPEB deferred outflows of resources and deferred inflows of resources: In accordance with paragraph 195, OPEB deferred outflows of resources and deferred inflows of resources should be recognized for the employer's proportionate share of collective deferred outflows of resources and deferred inflows of resources related to OPEB, where "collective" is defined as "related to OPEB arising from certain changes in the "collective total OPEB liability". Because the OPEB deferred outflows of resources and deferred inflows of resources are 100% attributable to the State (i.e. a special funding situation), there is no recognition of the allocation of proportionate share of OPEB deferred outflows of resources and deferred inflows of resources by New Jersey LEAs.

Applicable to LEA financial statements prepared using the current financial resources measurement focus and modified accrual basis of accounting (e.g. B-1, B-2, B-3):

- Revenue and expenditures: GASBS No. 85, Omnibus 2017 paragraphs 9 and 10 require recognition and measurement of on-behalf payments for OPEB in employer financial statements. In financial statements prepared using the current financial resources measurement focus, an employer should recognize expenditures for on-behalf payments for OPEB equal to the total of (a) amounts paid during the reporting period by nonemployer contributing entities to the OPEB plan (or for benefits as they come due) and (b) the change between the nonemployer contributing entities' beginning and ending balances of amounts normally expected to be liquidated with expendable available financial resources. Both (a) and (b) include amounts for payables to a OPEB plan. In financial statements prepared using the current financial resources measurement focus, an employer should recognize revenue equal to the amount of expenditures as determined in (a) and (b).
- OPEB liability: GASBS No. 75, paragraph 202 of GASBS No, 75 requires New Jersey LEAs to follow the requirements in paragraphs 161 through 171 for recognition in financial statements prepared using the current financial resources measurement focus and modified accrual basis of accounting, notes to financial statements, and required supplementary information.
    - Paragraph 161 – in a special funding situation, a proportionate share of the "collective total OPEB liability" should be recognized to the extent the liability is normally expected to be liquidated with expendable available financial resources. "Collective total OPEB liability" is defined as, "the total OPEB liability for benefits provided through a defined benefit OPEB plan that is not administered through a trust that meets the criteria in paragraph 4 and in which there is a special funding situation. Because the collective total OPEB liability is 100% attributable to the State (i.e. a special funding situation), there is no recognition of the allocation of proportionate share of the collective total OPEB liability to New Jersey LEAs.

Applicable to New Jersey LEA stand-alone financial statements prepared on the budgetary basis using the current financial resources measurement focus and modified accrual basis of accounting (e.g. C-1):

- This Audit Program requires the reporting of OPEB (Post-retirement medical) for TPAF on-behalf payments as "on-behalf revenue and expense" as provided by the State, as has been convention in the Budgetary Comparison Schedule (C-1),
- This Audit Program requires the reporting of OPEB (Post-retirement medical) for PERS on-behalf payments as "on-behalf revenue and expense" as provided by the State, will also be required in the Budgetary Comparison Schedule (C-1),

Notes to the Financial Statements:

In consultation with GASB, the Department recommends that preparers of school financial statements are encouraged to reference Illustration 4 – Note Disclosure And Required Supplementary Information For A Single Employer That Provides OPEB Through A Defined Benefit OPEB Plan That Is Not Administered Through A Trust That Meets The Criteria In Paragraph 4 Of This Statement. In consultation with GASB, it has been determined that New Jersey schools are considered to be participants in a defined benefit OPEB plan, with no trust or equivalent arrangement, single employer for purposes of implementation of GASBS No. 75. The State of New Jersey CAFR for the year ending June 30, 2019 will contain the detailed information necessary to provide the footnote and RSI information for the single entity school as required by:

- GASBS. No. 75 paragraph 165, requires the following information disclosures about the OPEB plan through which benefits are provided. All of the following information is expected to be available in a financial report to be issued by the Department of Treasury, State of New Jersey:
    a. The name of the OBEB plan - Defined Benefit Other Postemployment Benefit Plan: State Health Benefit Program Fund – Local Education Retired; identification of the entity that administers the OPEB plan – Sponsored and administered by the State of New Jersey, Department of the Treasury, Division of Pensions and Benefits; identification of the plan as reported in an agency fund in the New Jersey Comprehensive Annual Financial Report in accordance with *N.J.S.A*. 52:14-17.32f which provides medical coverage to qualified retired education participants and requires the State of New Jersey to fund the cost of employer-paid coverage (as amended by P.L.2010, c.2 which requires certain retirees to contribute in retirement 1.5 percent of the retiree's monthly retirement allowance).
    b. A brief description of the benefit terms, including the classes of employees covered;

       the types of benefits; the key elements of the OPEB formulas; the terms or policies if any with respect to automatic post-employment benefit changes such as the sharing of benefit-related costs with inactive employees; and the authority under which benefit terms are established and amended.
    c. The number of employees covered by the benefit terms, separately identifying the numbers of: 1. Inactive employees currently receiving benefits, 2. Inactive employees entitled to but not yet receiving benefits, and 3. Active employees
    d. The fact that there are no assets accumulated in a trust that meets the criteria in paragraph 4 of GASBS. No. 75.
    e. Identification of the authority under which requirements for the nonemployer contributing entity (the State) to pay OPEB as the benefits come due. The amount paid by the employer (zero) as the benefits came due during the reporting period.
- GASBS No. 75 paragraph 166 requires information about the Total OPEB liability. Total OPEB liability is defined as, “the portion of the actuarial present value of projects benefit payments that is attributable to the past periods of employee service”. The total OPEB liability is the liability of the employers (zero) and the nonemployer contributing entity to employees for benefits proved through a defined benefit OPEB plan that is not administered through a trust that meets the criteria in paragraph 4 of GASBS No. 75. Additionally, certain assumptions and other inputs used to measure the total OPEB liability must be included.
- Refer to GASBS No. 75 paragraphs 167 requiring disclosure of the employer’s proportionate share of the total OPEB liability (Zero).
- Refer to GASBS No. 75 paragraphs 168 and 169 for additional disclosure requirements
- Refer to GASBS No. 75 paragraph 170 for required supplementary information – the employer LEA’s proportionate share of the total OPEB liability is zero.
- Refer to GASBS No. 75 paragraph 171 for Notes to Required Supplementary Information

The department annually obtains from Treasury and makes available to LEAs a schedule of the PERS OPEB amounts paid on their behalf for employer contributions to the PERS on the DOE Audit Information webpage: https://www.state.nj.us/education/finance/fp/audit/

Other Postemployment Benefits (OPEB) Reporting Under Governmental Accounting Statements Board Standard No. 75 (GASBS No. 75) (first effective for periods beginning after June 15, 2017)

Public Employees' Retirement Systems (PERS)

Compensation Reporting

(Applicable to school districts, charter schools and renaissance school projects)

N.J.S.A. 18A:23-2.1 requires that the annual audit include test measures to assure that documentation prepared for income tax related purposes complies fully with the requirements of federal and state laws and regulations regarding the compensation which is required to be reported. See the *State Aid/Compliance Supplement* available on the DOE Suggested Audit Procedures webpage: http://www.nj.gov/education/finance/fp/audit/ for suggested audit procedures.

The following link is provided to assist auditors and districts/charter schools/renaissance school projects in complying with this law: Internal Revenue Service Governmental Entities website at: https://www.irs.gov/government-entities

Information on tax filings for the State of New Jersey can be obtained through the website for Department of Treasury: https://www.state.nj.us/treasury/, the Division of Revenue link for "Tax and Employer Filings and Payments" website at: http://www.state.nj.us/treasury/revenue/, or the Division of Taxation link website: https://www.state.nj.us/treasury/taxation/. Generally, anything regarded as "wages" for federal withholding purposes is subject to withholding for the NJ Income Tax. See also *N.J.S.A.* 54:A1-1 et seq. Auditors are advised to contact the NJ Department of Treasury directly for technical questions regarding taxable compensation for state reporting.

Compensation Reporting- E-CERT1

(This section is not applicable to charter schools and renaissance school projects)

N.J.S.A. 18A:17-14.4 requires the school business administrator, or any other person designated by the board of education, to certify to the Department of Treasury that all documentation prepared for income tax related purposes, in regard to superintendents of schools, assistant superintendents of schools and school business administrators, complies fully with the requirements of federal and state laws and regulations regarding the types of compensation which are required to be reported. The certification (not applicable to charter schools/renaissance school projects) is due annually on or before March 15 for the certification year (calendar year). In the case of shared service agreements for superintendents of schools, assistant superintendents of schools and school business administrators, the school district that is the employer responsible for all payroll-related obligations and issues the W-2 for the individual is responsible for completing the certification to the Department of Treasury. The form and instructions for this certification are available in the E-CERT1 PDF (http://www.nj.gov/treasury/taxation/pdf/other_forms/misc/e_cert1.pdf)

Pensionable Wages

(Applicable to school districts, charter schools and renaissance school projects)

All defined benefit plans administered by the NJ Division of Pensions and Benefits require that employee contributions be remitted regularly to the Division. For school districts/charter schools/renaissance school projects, these include the TPAF and PERS. School districts/charter schools/renaissance school projects are issued a Quarterly Report of Contributions to report and reconcile employee pension information and monies each calendar quarter. Districts/charter schools/renaissance school projects 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. On July 17, 2012, the Office of the State Comptroller (OSC) issued their report *Improper Participation by Professional Service Providers in The State Pension System* (http://www.nj.gov/comptroller/news/docs/pensions_report.pdf).

Local Finance Notice (LFN) 2007-28 clarifies that it is the responsibility of the school district for determining and maintaining documentation to support the decision as to whether certain professionals are properly classified as employees of the school district in accordance with criteria established by the Internal Revenue Service for the express purpose of determining employee or contractor status. Auditors should confirm that the district has maintained documentation in the professional employee's personnel file in support of the (Pensions) Certifying Officer's analysis of the decision to classify the professional as an employee or contractor.

LFN 2007-28 is available on the Local Finance Notices webpage:
http://www.nj.gov/dca/divisions/dlgs/resources/local_fin_notices.html

For further guidance, refer to the Division of Pensions and Benefits Employer's Pensions and Benefits Administrative Manual: https://nj.gov/treasury/pensions/pension-employers.shtml at the Treasury website. 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:
https://nj.gov/treasury/pensions/pension-employers.shtml

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

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)

(Applicable to school districts, charter schools and renaissance school projects)

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. 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, 2020. Additional information is available at the Department of Education, Office of Technology website: http://www.state.nj.us/education/techno/ and at the School and Libraries website: www.sl.universalservice.org.

Cancellations

(Applicable to school districts, charter schools and renaissance school projects)

Cancelled prior year contractual orders and canceled prior year tuition receivables are reflected in the audit report as revenues and expenditures, respectively. Cancellations of prior year reserve for encumbrances increase the amount available for expenditure in the current year.

Travel Expenditures

(Applicable to school districts, charter schools and renaissance school projects)

N.J.S.A. 18A:.11-12 limits expenditures for travel. Travel regulations *(N.J.A.C.* 6A:23A:7.1 et seq.) provide rules on school district/charter school/renaissance school project travel policies and procedures. District/charter school/renaissance school project auditors can access this document at Fiscal, Accountability, Efficiency, and Budgeting Procedures website: https://www.state.nj.us/education/code/current/title6a/chap23a.pdf. Please note that the travel guidance is applicable to all funds. District/charter school/renaissance school project auditors should refer to *The State Aid/Compliance Supplement* for suggested audit procedures related to travel.

Travel Regulation Circular No. 16-11-OMB effective March 1, 2016 supersedes 12-14-OMB and includes a relaxation of the rules regarding the use of Amtrak rail travel and updates the allowable reimbursement for meals when authorized. Note that *N.J.A.C.* 6A:23A-7.9 (c)(3) continues to reflect limitations upon rail travel in the Northeast Corridor. In accordance with *N.J.A.C.* 6A:23A-7.1 districts and auditors may apply the provisions of 16-11 OMB for 2019-20. Commisioner waiver decisions for in-state travel reimbursements (http://www.state.nj.us/education/genfo/travel/) for specific conferences are posted at the DOE Finance website. The circular places certain restrictions on out-of-state travel. Accordingly, the district /charter school/renaissance school project must obtain prior written approval of the Executive County Superintendent for a travel event that exceeded $5,000 as required by N.J.A.C. 6A:23A-5.9

Entertainment, Meals, and Refreshments Circular No. 11-09-OMB effective January 5, 2011 supersedes 06-14-OMB and allows receptions for awards, retirements, not to exceed $25 per month per agency.

Health Insurance Policies

(Applicable to school districts, charter schools and renaissance school projects)

The department issued a hotline concerning audit issues/procedures regarding certain insurance policies held by New Jersey school districts dated August 30, 1995. 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 school districts 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 1995 hotline was issued after review of policy terms and discussions with both public school accountants and insurance company representatives. Based on that review, the following issues were identified:

Districts/charter schools/renaissance school projects with minimum premium policies commonly have three accounts with the carrier:

- a termination reserve account
- a claims account
- a premium stabilization account

The termination reserve account generally represents funds earmarked for the district's/charter school's/renaissance school project'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 (including the employee's contribution to medical premiums) 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 district's/charter school's/renaissance school project'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.

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

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

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 district/charter school/renaissance school project 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 district/charter school/renaissance school project itself should be used to determine the proper presentation in the CAFR. The assets (total of the June 30 account balances) will be compared to the related liabilities (total of the June 30 IBNR claims and claims in process at June 30). Any excess assets should be included in the amount reported as unreserved general fund surplus. If the liabilities exceed the assets, the district's/charter school's/renaissance school project'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 30 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 districtwide/schoolwide *Statement of Net Position* and the June 30 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 30 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 district/charter school/renaissance school project or the carrier on the district's/charter school's/renaissance school project's behalf are included in the general fund balance sheet as cash, cash equivalents, or investments.

The June 30 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.

Refer to page II-90.1 of this Audit Program for audit guidance regarding employee health insurance withholding.

Sale and Lease-back Contracts

(Applicable to school districts, charter schools and renaissance school projects)

*N.J.S.A.*18A:20-4.2(h) authorizes boards of education/board of trustees to enter into sale and lease-back contracts on certain instructional materials (i.e. textbooks). The district/charter school/renaissance school project 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 lease-back 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 materials shall not be included in the calculation of excess undesignated general fund balance during the budget year in which they are realized. A board of education may establish a reserve account in the general fund with all or part of the proceeds from the sale and lease-back provided that subsequent appropriations from the reserve account shall only be made within the original budget certified for taxes or as approved by the Commissioner for good cause.

If the board of education establishes a reserve in the year the proceeds are realized, then the calculation of excess surplus will not include the June 30 legally restricted reserve balance in that year and future years. The exclusion of sale and lease-back funds from the audited excess surplus calculation should be documented on the "Sale and Lease-Back" line.

Required Maintenance

(Not Applicable to charter schools/renaissance school projects)

Beginning in ten years following enactment of P.L. 2000, c.72 (EFCFA), *N.J.S.A.* 18A:7G-9, to receive funding under EFCFA, districts will be required to demonstrate a net investment in required maintenance of at least 2 percent of the replacement cost of the related school facility (determined pursuant to subsection b. of section 7). For new construction, additions, and school facilities aided under the act, beginning in the fourth year after occupancy of the school facility, districts must demonstrate an investment in required maintenance in the prior year of at least two-tenths of 1 percent of the replacement cost of the school facility.

To support the demonstration of this requirement, districts must include a schedule of required maintenance expenditures for each year by school facility (as defined under *N.J.A.C.* 6A:26-1.2) in the CAFR. ***This schedule must reflect each year for the last ten years through 2019-20.***

Districts are required to maintain their accounting records for required maintenance at the school facility level and will be required to "have available the expenditure records, detailed by school facility, for verification by the district auditor beginning in the year 2002-2003" (*N.J.A.C.* 6A:26A-2.2(c)). Auditor verification should include a review of classification of expenditures and documents to support the school level expenditures for object code 261 and random testing of purchase orders/vouchers. Auditors should be aware that salaries split between custodial and required maintenance need "task specific documentation."

A sample Schedule of Required Maintenance for School Facilities (Exhibit J-19), http://www.nj.gov/education/finance/fp/cafr/outline/J-16toJ-20.xls, is included on the website. The schedule should indicate the gross square footage in the column preceding the current year expenditure.

All district types should complete this schedule. If the district has no school facilities projects, the district should indicate “N/A” on the schedule.

Restricted Appropriations/Balances:

(Not Applicable to charter schools/renaissance school projects)

Additional Spending Proposals

Additional spending proposals (school districts only) are supported by: (1) a formal board resolution, “Separate Proposal Summary,” (2) an advertised description of the purpose or purposes and amount, (3) a separate ballot question or questions for the associated tax levy, (4) an itemized accounting for the appropriations, and (5) a merged final budget including the base budget and approved appropriations.

N.J.A.C. 6A:23A-12.13(a)10 requires that amounts approved by the local voters or board of school estimate shall be used exclusively for the purpose(s) contained in the associated question(s). Additionally, each question must contain sufficient funds to carry out the specific purpose or purposes contained therein and no funds shall be included in the base budget for implementing such purposes.

Budgeted appropriations are deemed restricted when associated with an additional spending proposal (*N.J.A.C.* 6A:23A-12.13(a)11).

The district board of education is required to maintain a separate accounting of expenditures for each question. Approved amounts that remain unexpended or unencumbered at the end of the school year shall either be anticipated as a part of the designated general fund balance of the subsequent school year budget or reserved and designated in the second subsequent school year budget.

N.J.A.C. 6A:23A-12.13(a)9 requires that a district board of education may not modify the base budget to execute proposed expenditures that have been rejected by the local voters, or board of school estimate, except as specified in *N.J.A.C.* 6A:23A-12.13(a)13, through a donation or contribution from an external source, only if such implementation will not require funding by the district board of education in subsequent budget years.

When a reservation of fund balance is established for unexpended or unencumbered funds pursuant to an additional spending proposal, the annual independent audit shall contain a note to the financial statements indicating the reserved fund balance amount, source and the fiscal year in which it will be appropriated. The financial statements should include the amount of the reserve in general fund equity account in the “Restricted Fund Balance” category (GASBS 54): reserved fund balance-legally restricted appropriations.

Capital Reserve Account - General Fund

(Not Applicable to charter schools/renaissance school projects)

The capital reserve account (*N.J.A.C.* 6A:23A-14.1) maintained in the general fund allows a district to accumulate funds for future capital projects. A capital reserve account must have been established by board resolution, a copy of which should have been filed with the county superintendent of schools. A district board of education or board of school estimate may establish a capital reserve account at any time pursuant to *N.J.S.A.* 18A:21-2 and 3, and 7G –1.

The regulations *N.J.A.C.* 6A:23A-14.1 et seq. provide procedures for capital reserve accounts (withdrawals, deposits, and transfers). The bulleted points below are highlights of that rule. Additional guidance on School Development Authority (SDA) grant accounting and use of capital reserve can be found in Section II-30.6 of this Audit Program.

General Compliance:

- Funds in a capital reserve account must be used to implement the capital projects in the long-range facilities plan (LRFP). Withdrawals may not be used for current expense.
- Funds in a capital reserve account in existence prior to July 18, 2000 shall be utilized for the original purpose for which the funds were deposited (*N.J.A.C.* 6A:23A-14.1(k)).
- The capital reserve account balance cannot exceed the amount needed to implement the capital projects in the LRFP not met by state support (*N.J.A.C.* 6A:23A-14.1(g)). "All excess amounts in the capital reserve account identified in the annual audit shall be reserved and designated in the subsequent year's budget." (*N.J.A.C.* 6A:23A-14.1(g)2).

Deposits:

- A district board of education or board of school estimate may increase the balance in the capital reserve by appropriating funds in the annual general fund budget certified for taxes to meet the needs of the long-range facilities plan (*N.J.A.C.* 6A:23A-14.1(c)1). For a district with a November election, a deposit to capital reserve that has been included in the original budget certified for taxes is within the budget cap and is deemed to have met the requirements for deposit set forth at *N.J.A.C.* 6A:23a-14.1(c)1.
- A district board of education may deposit any unanticipated revenue or unexpended line-item appropriation by board resolution at year end. The board resolution for deposit at year end into a capital reserve account must be made between June 1 and June 30 of the budget year (*N.J.S.A.* 18A:7F-41, *N.J.A.C.* 6A:23A-14.3).
- A district board of education may request approval of the voters for appropriation of additional amounts into the capital reserve by a separate proposal at budget time or by a special question at one of the four special elections authorized pursuant to *N.J.S.A.* 19:60-2. A district board of education may request approval of the board of school estimate for appropriation of additional amounts into the capital reserve by a separate proposal at budget time or by special resolution. The amount expressly approved by the voters or board of school estimate for deposit into a capital reserve may be from surplus or unrestricted local miscellaneous revenue only if such source is delineated in the question and/or special resolution. (*N.J.A.C.* 6A:23A-14.1(e))
- Interest earned on capital reserve funds in the account, including that earned on current year increases, must automatically be placed in the account. Failure to budget the interest does not change the requirement to deposit the interest earned in the account.
- Deposits are not made for a specific capital project unless specific voter approval was sought and received.

Withdrawals for Local Amount of School Facilities Projects:

- Withdrawals of the local share by board resolution, after receiving voter, board of school estimate or capital project review board approval of the intended capital reserve use and specific amount in an approved referendum(s) question for the school facilities project(s). (*N.J.A.C.* 6A:26A-14.1(h)(4))
- Withdrawals for a non-referendum school facilities project may be made, by board resolution, up to 110 percent of the local share less excess costs. Withdrawals must be transferred to the capital

projects fund and accounted for separately with the corresponding SCC/SDA grant. (*N.J.A.C.* 6A:26A-14.1(j)(2))

Withdrawals for Excess Costs or Other Capital Projects:

- By board resolution for the transfer of funds to the line items in the capital outlay major account/fund to fund the total costs, less any excess costs, of an "Other Capital Project" which would otherwise be eligible for State support, and has received approval from the Office of School Facilities as eligible for State support. The amount of the withdrawal should not exceed the amount necessary to complete the "Other Capital Project". Note that an approval of the "Other Capital Project" alone does not constitute eligibility for State funding. (*N.J.A.C.* 6A:23A-14.1(h)(3))
- Upon voter, board of school estimate, or capital project board approval, withdrawals may be made to fund excess costs of a school facilities project, and to fund the total costs of an "Other Capital Project" that would not otherwise be eligible for State support as determined in accordance with *N.J.A.C.* 6A:26. Note that a project that has not received notification of eligibility for state funding from the Office of School Facilities requires a separate Statement of Purpose in the advertised budget. (*N.J.A.C.* 6A:23A-14.1(h)(5)) It is the position of the department that where the district has moved to a November election, a budgeted withdraw from capital reserve to fund an "Other Capital Project" or "excess costs of a school facilities project" is considered to have met the requirements at *N.J.A.C.* 6A:23A-14.1(h)(5)(i) for voter approval through the original budget certified for taxes provided the budget is within the tax levy cap certified by the board of education or the board of school estimate and approved by the Executive County Superintendent.
- Withdrawals for additional funds to augment a previously approved referendum project may be made if voter approved through the original budget certified for taxes which must include a Statement of Purpose which includes the amount of excess costs to be withdrawn, the date of the referendum, the amount of the local share in the approved referendum, and the reason needed to exceed the original approved amount. (*N.J.A.C.* 6A:23A-14.1(h)(5))
- Withdrawals for referendum approved "Other Capital Projects" may be made if the capital reserve use and specific amount is identified in the approved question. (*N.J.A.C.* 6A:23A-14.1(h)(4))

Withdrawals for Debt Service:

A district, by board resolution, may withdraw and transfer funds to the debt service fund to offset principal and interest payments for bonded projects in the LRFP.

Unexpended funds remaining after completion of a project:

- Capital reserve funds transferred to Capital Projects to augment a grant that are remaining after completion of a school facilities project must be returned to the capital reserve account or anticipated as part of the designated general fund balance of the subsequent school year's budget or reserved and designated in the second subsequent year budget. (*N.J.A.C.* 6A:23A-14.1(j)3)
- Any unexpended capital reserve funds transferred to capital outlay remaining after completion of the school facilities project shall be returned to the capital reserve or anticipated as part of the designated general fund balance of the subsequent school year budget or reserved and designated in the second subsequent school year budget. (*N.J.A.C.* 6A:23A-14.1(h)5)

Capital Reserve - Accounting and Reporting

The department published accounting guidance for capital reserve that was distributed to districts and copied to the public school accountants on October 19, 2001. The passage of P.L. 2004, c.73 (S1701) supersedes that guidance by eliminating the previous EFCFA authority for districts to make transfers to capital reserve at any time during the year. District staff and auditors should refer to the regulations *N.J.A.C.* 6A:23A-14.1. The following highlights from that document are still applicable.

- Activity is recorded in the budgetary and asset accounts, not fund balance accounts.
- Adjustments to fund balance are recorded as part of the year-end closing entries.
- The Capital Reserve Asset Account (10-116) is required to segregate the restricted capital reserve assets and is used during the year to record all activity.
- There is no requirement to open a separate bank account for this activity, however, it is practical to do so, given the requirements for recording interest.
- Interest earned on the money as it is spent down is an increase in the capital reserve asset account.

The Capital Reserve account is reported in the *Balance Sheet* (Exhibit B-1) of the governmental funds statements as both an asset (Capital Reserve Account) and in the "Restricted Fund Balance" category (GASBS 54) as Reserved Fund Balance - Capital Reserve Account. In the districtwide *Statement of Net Position (*Exhibit A-1) the balance of this account is reported in the net assets section as "Restricted for Other Purposes" in the governmental activities column.

> *Auditor's Note* – The June 30, 2020 Balance Sheet should reflect the actual balance at June 30, 2020 and *not* increases/withdrawals included in the 2019-20 budget. The department recommends footnote disclosure in the Comprehensive Annual Financial Report.

Excess Surplus

Overview

Auditors are required to perform the calculation of excess surplus at June 30 in accordance with *N.J.S.A*. 18A:7F-7 for all regular and county vocational school districts. The audited excess surplus calculation is not applicable to Education Service Commissions (ESCs). Special services school districts are subject to an excess surplus calculation in accordance with *N.J.S.A*. 18A:46-31. This calculation will be performed by the department during the tuition rate certification process. Do not perform the excess surplus calculation or report excess surplus for a special services school district.

The excess surplus calculation is required to be documented in the Auditor's Management Report. The applicable percentage is 2 percent for regular districts and 6 percent for county vocational districts. The minimum is $250,000 for both types of districts.

> *Auditor's Note* – Districts required to use school-based budgeting should refer to the guidance is Section III-4 of this Audit Program for detailed instructions on how to complete the excess surplus calculations.

Audited excess surplus is a budget related calculation using the general fund expenditures for the fiscal year end fund balance as reported in the *Budgetary Comparison Schedule – General Fund* (Exhibit C-1) for the fiscal year. **There is only one excess surplus calculation using budgetary amounts.** The reserve for excess surplus is included in the recapitulation of fund balance presented at the end of the Exhibit C-1 schedule. These amounts are reported on the modified accrual basis with the exception of a state legally mandated revenue recognition policy that is in conflict with GASBS 33. See the example on the last page of this chapter.

Amounts included in the 2020-21 certified budget (reserved fund balance – excess surplus designated for subsequent year's expenditure) and any additional amounts reserved for appropriation in the 2020-21 original annual budget (reserved fund balance - excess surplus) must be separately reported in the Audsum on the separate lines provided. See Section III-5 of this *Audit Program* for further clarification. The Audsum includes a warning edit for the calculation of excess surplus at June 30, 2020. Under *N.J.S.A*. 18A:7F-7d, the Commissioner may withhold state aid in an amount not to exceed the audited excess undesignated general fund balances for failure to comply with the required reservation and designation of the audited excess surplus.

A calculation was performed in the 2020-21 budget software in the Budget Tab using projected 6/30/20 surplus balances and revised 2019-20 budgeted appropriations. The software, via the edits, forced the inclusion of the greater of the audited excess surplus at 6/30/19 or the calculated projected excess surplus at 6/30/20 in the 2020-21 budget as budgeted fund balance.

The 6/30/20 audited calculation should be based upon June 30, 2020 total general fund expenditures as reported on the *Budgetary Comparison Schedule General Fund* (Exhibit C-1), including applicable transfers to other funds, and net of TPAF Pension and Social Security on behalf payments and amounts reported as "Assets acquired under capital leases (non-budgeted)." General fund transfers to other funds that are not included in the total general fund expenditures presented in the *Budgetary Comparison Schedule General Fund (Exhibit C-1)*, but may be added to the calculation are, Transfer Capital Outlay to Capital Projects (to augment SCC/SDA grant); Transfer Capital Reserve to Capital Projects (augment SCC/SDA grant); Local Contribution – Transfer to Special Revenue – Regular Preschool; and Local Contribution – Transfer to Special Revenue – Inclusion Preschool. Beginning with June 2012, Transfer to Food Services is no longer an adjustment to expenditures. This calculation is also adjusted for any allowable adjustments such as the amount of current year federal impact aid received, sale and lease-back, extraordinary aid, Family Crisis Transportation Aid, and additional nonpublic transportation aid, if applicable. The adjustment for extraordinary aid and additional nonpublic transportation aid is limited to the amount of revenue recognized in the current year that was not appropriated. The federal impact aid adjustment only applies to districts receiving current year general fund (8002 and 8003) Federal Impact Aid. The amount that can be entered as an adjustment to expenditures is limited to the amount of general fund federal impact aid (8002 and 8003) revenue received in the current year that has not been transferred to the Federal Impact Aid General Fund Reserve pursuant to P.L.2015, c.46 that effective May 7, 2015 amended *N.J.S.A.* 18A:7F-41. See section III-4 for an illustration.

The surplus used in the calculation is the total general fund surplus net of any reserve for encumbrances, capital reserve, maintenance reserve, emergency reserve, tuition reserve, school bus advertising revenue reserve – 50% fuel offset, federal impact aid general fund reserve, and any other state/government imposed or department approved legal reserve that has not been appropriated in the 2020-21 budget and that are in compliance with *N.J.A.C.* 6A:23A-16.2. Adjustments for legal reserves not appropriated in 2020-21 must be supported by a board resolution establishing the legal reserve. In most cases, this adjustment will not be applicable since most legal reserves require appropriation into the next year's budget.

For any legal reserve that is for other than encumbrances or state/government imposed or other legal restriction, the school district must seek approval from the Assistant Commissioner of Field Services, for use as an adjustment in the excess surplus calculation. Written approval must be received by September 30 if the district is seeking approval for the current audit year.

Auditors are required to include the calculation of 6/30/20 audited excess surplus in the Auditor's Management Report. The department requires footnote disclosure in the CAFR for those districts where excess surplus is reflected on the general fund balance sheet.

2 Percent Calculation –Regular Districts

Pursuant to *N.J.S.A.* 18A:7F-7, all regular districts, excluding county vocational districts, must perform the excess surplus calculation using 2 percent of general fund expenditures. The minimum balance is $250,000.

Amounts calculated in excess of 2 percent that have not been appropriated in the 2020-21 original budget certified for taxes must be reported in the "Restricted Fund Balance" category (GASBS 54) as general fund "Reserved Fund Balance - Excess Surplus" in the June 30, 2020 CAFR and appropriated in the 2021-22 budget. The amount which has been included in the 2020-21 budget should be reported in the "Restricted Fund Balance" category (GASBS 54) as general fund "Reserved Fund Balance - Excess Surplus, Designated for Subsequent Year's Expenditures."

Expenditures of Community Disaster Loan (CDL) and Community Development Block Grant (CDBG) funds at June 30, 2020 are included as a component of overall general fund expenditures, and also are included in total general fund expenditures for purposes of the excess surplus calculation.

The illustrations and instructions for the excess surplus calculation for regular districts and the 6 percent calculation for vocational districts have been relocated to Section III, Chapter 4, "Auditor's Management Report" of this Audit Program. Refer to page III-4.31 et. seq.

Fund Balance Classifications

(Applicable to school districts, charter schools, and renaissance school projects. Auditor note: Not all fund balance classifications illustrated below are applicable to all operating types)

In February 2009, the GASB issued GASBS No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. Available for purchase from GASB website store: https://gasb.org/store. GASBS No. 54 is effective for periods beginning after June 15, 2010 and establishes accounting and financial reporting standards for governmental funds (Refer to the *Governmental Funds Balance Sheet, B-1*, from the CAFR Outline). Under GASBS 54, general fund balances are further classified into five overarching categories:

- Non-spendable (assets that are not in spendable form; e.g. inventory)
- Restricted
- Committed
- Assigned
- Unassigned

Districts/charter schools/renaissance school projects will continue to maintain the existing general ledger fund balance accounts (as appropriate) such as reserve for encumbrances, capital reserve, reserve for adult education programs, maintenance reserve, legal reserve {inclusive of tuition reserve, waiver offset reserve, emergency reserve, impact aid general fund reserve, impact aid capital fund reserve excess surplus (current year), and excess surplus – (prior year) designated for subsequent year's expenditures}. For purposes of presentation in the *Governmental Funds Balance Sheet, B-1*, reserve balances are further categorized into one or more of the five fund balance categories according to the degree of restriction placed upon those balances. Unreserved general fund balance is further categorized as either "assigned" or "unassigned".

For purposes of presentation in the *Governmental Funds Balance Sheet, B-1*, GASB does not consider encumbrances to be a further restriction on fund balances that are already considered restricted, committed or assigned. Accordingly, the reserve for encumbrances account is not displayed as an individual component of overall fund balance. The general ledger balance in the reserve for encumbrances account is reported within the "other purposes" or other appropriate category of committed or assigned fund balance based on the degree of restriction. Significant encumbrances at year-end should be disclosed in the notes to the financial statements, along with other significant commitments. (Par. 24).

Districts use the fund balance classifications reported at the end of the *General Fund Budgetary Comparison Schedule* (Exhibit C-1) for purposes of calculating excess surplus. Fund balance in this Schedule reflects the modified accrual basis with the exception of the last state payment. Districts 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 restriction, commitment, or assignment. The department has elected to continue to require districts to separately identify the total amount of encumbrances on the fund balance recapitulation on the C-1. The "Reserve for Encumbrances" should be displayed as "Year-End Encumbrances" in the "committed" and/or "assigned" categories. "Unrestricted Fund Balance" should be displayed as "Unassigned Fund Balance". 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 under GASBS No. 54 should be classified into nonspendable, restricted, committed, assigned or unassigned fund balance. In the accrual basis *Statement of Net Position* (Exhibit 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 district/charter school/renaissance school project staff should refer to GASBS 34, paragraphs 30 – 37 for further clarification of these classifications.

> *Auditor's Note* – No appropriation of surplus after June 30, 2020 is to be reflected in the June 30, 2020 balance sheet as designated for subsequent year's expenditures. The department recommends footnote disclosure in the CAFR.

Under GASBS No. 54, the reserved fund balance classification is further categorized as restricted, committed or assigned fund balance. Restricted fund balance will generally include amounts constrained for a specific purpose by external parties, constitutional provision, or enabling legislation, such as state or other government imposed fund balance restrictions. All other legal reserves/restrictions require departmental review and approval. The request for approval should state the amount, source, purpose and legal basis for the reserve/restriction (i.e., why the funds are not available for appropriation in the subsequent year) and the fiscal year in which it will be appropriated. School districts/charter schools/renaissance school projects should submit requests to the Assistant Commissioner for Field Services no later than September 30 if approval is required for the audit period under review.

Fund Balance Classifications – Reserved. Reserved fund balance is further categorized as "Restricted", "Committed", and/or "Assigned" on the *General Fund Budgetary Comparison Schedule*, C-1, and *Governmental Funds Balance Sheet* (B-1)

- The **reserve for encumbrances** is maintained in the district's/charter school's/renaissance school project's general ledger and 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 30. 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. Separate lines are provided in the Audsum for the reserve for encumbrances at June 30 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. Districts/charter schools/renaissance school projects should not be encumbering goods and services that relate to the subsequent year. The Hotline is available on the department's 2003 Broadcast memo, "Hotline," 2003 Year-end Encumbrance Hotline
- The reserve for encumbrances is not separately presented on the *Governmental Funds Balance Sheet* (Exhibit B-1). GASBS 54 provides that encumbrances are not considered to be an additional restriction on the fund balance where those funds are already restricted, committed, or assigned. Amounts encumbered for a specific purpose for which amounts have not been previously restricted, committed, or assigned, should be classified as either committed or assigned. (par. 24).
- On the fund balance recapitulation presented at the end of the *General Fund Budgetary Comparison Schedule* (Exhibit C-1), the reserve for encumbrances should be displayed as "Year-end encumbrances" and further categorized as "Committed" and/or '"Assigned" fund balance depending on the nature and degree of restriction(s).
- The **capital reserve account** (applicable to school districts only) maintained in the general fund allows a district to accumulate funds for future capital projects. See page II-10.33 of this Audit Program for specific procedures affecting capital reserve accounting. A separate line is provided in the Audsum for this reserve account. GASBS No. 54 requires the further categorization of the capital reserve account balance on the *Governmental Funds Balance Sheet* (Exhibit B-1) as restricted, depending on the nature and degree of restriction(s). The Department recommends reporting the capital reserve under "Restricted" fund balance due to the statutory and regulatory

restrictions on withdrawals from capital reserve. The same categorization is applicable to the *General Fund Budgetary Comparison Schedule* (Exhibit C-1)

- The **maintenance reserve account** (applicable to school districts only) is maintained in the general fund. The maintenance reserve account is used to accumulate funds for the required maintenance of a facility in accordance with the EFCFA (*N.J.S.A.*18A:7G-9). Districts may increase the balance in the maintenance reserve account by appropriating funds in the annual general fund budget certified for taxes (*N.J.A.C.* 6A:23A-14.2) or by deposit of any unanticipated revenue or unexpended line-item appropriation by board resolution at year end. The board resolution for deposit at year end into a maintenance reserve account must be made between June 1 and June 30 of the budget year (*N.J.S.A.* 18A:7F-41, *N.J.A.C.* 6A:23A-14.3). EFCFA requires that upon district completion of a school facilities project, the district must submit a plan for the maintenance of that facility. Auditors and district staff should refer to the regulations, *N.J.A.C.*6A:26A, for further guidance. A separate line is provided in the Audsum for this reserve account. GASBS No. 54 requires the further categorization of the maintenance reserve account balance on the *Governmental Funds Balance Sheet* (Exhibit B-1) as restricted, committed, and/or assigned. The Department recommends reporting the maintenance reserve under “Restricted” fund balance due to the statutory and regulatory restrictions on withdrawals from maintenance reserve. The same categorization is applicable to the *General Fund Budgetary Comparison Schedule* (Exhibit C-1)

- The **emergency reserve** (applicable to school districts only) is maintained in the general fund. The emergency reserve account is used to accumulate funds in accordance with *N.J.S.A*. 18A:7F-41c(1) to finance unanticipated general fund expenditures required for a thorough and efficient education. Unanticipated means reasonably unforeseeable and shall not include additional costs caused by poor planning. The maximum balance permitted at any time in this reserve is the greater of $250,000 or 1 percent of the general fund budget not to exceed $1 million. Deposits may be made to the emergency reserve account by board resolution at year end of any unanticipated revenue or unexpended line item appropriation or both. The department has defined year end for the purpose of depositing surplus into reserve accounts as an amount approved by the board of education/board of trustees between June 1 and June 30. Withdrawals from the reserve require the approval of the Commissioner unless the withdrawal is necessary to meet an increase in total health care costs in excess of 4 percent or the withdrawal is included in the original budget certified for taxes to finance school security improvements to school facilities pursuant to 18A:7G-6(c)1. GASBS No. 54 requires the further categorization of the emergency reserve account balance on the *Governmental Funds Balance Sheet* (Exhibit B-1). The emergency reserve has significant externally imposed restrictions on its withdrawal and should be categorized as “Restricted” fund balance. The same categorization is applicable to the *General Fund Budgetary Comparison Schedule* (Exhibit C-1)

- **The reserve for tuition (applicable to school districts only) is maintained in the general fund. The tuition reserve represents a year end fund balance classification** to reserve unrestricted fund balance for a foreseeable future tuition adjustment pursuant to *N.J.A.C.* 6A:23A-17.1(f). This reserve is only applicable for formal sending /receiving relationships between two district boards of education established under subchapter 3 of the business services code pursuant to *N.J.S.A*. 18A:38-19. It does not pertain to tuition certification or amounts owed to private schools for the handicapped. It is also not applicable to county vocational districts. The tuition reserve enables the district to reserve fund balance for an anticipated large tuition adjustment for the current contract year. The major contributing factor for tuition adjustments and use of the reserve is a significant change from estimated to the actual enrollment. The maximum amount that may be restricted at year end is 10 percent of the estimated tuition cost of the contract year. Upon certification of rates in the second year following the contract year, full appropriation of the applicable year's reserve must be liquidated and any remaining balance related to that year must be reserved and appropriated in the budget. In the recapitulation of fund balance reported at the end of the *Budgetary Comparison Schedule* (Exhibit C-1), the reserve for each of two possible years should be reported separately. Separate lines are provided in the Audsum data collection for each applicable year's reserve, both the beginning fund balance and the ending fund balance for each of the two years reserve. See this Audit Program, Section III-5 for further clarification on the specific lines. GASBS No. 54 requires the further categorization of the tuition reserve account balance on the *Governmental Funds Balance Sheet* (Exhibit B-1). Based upon the withdrawal requirements, the tuition reserve has significant externally imposed restrictions on its use and should be categorized as "Restricted" fund balance. The same categorization is applicable to the *General Fund Budgetary Comparison Schedule* (Exhibit C-1).

- *N.J.S.A.*18A:7F-41 allows the creation of two general fund reserves, an **Impact Aid General Fund Reserve federal funding source 8002 and 8003) account and an Impact Aid Capital Reserve (federal funding source 8007 and 8008) account.** A board of education or a board of school estimate, as appropriate, may through the adoption of a board resolution appropriate federal impact aid funds to establish or supplement the reserve account(s) in the district's annual budget, or through a transfer by a two-thirds affirmative vote of the authorized membership of the board between June 1 and June 30, for withdrawal in any subsequent school year for use in accordance with federal requirements. Any transfer to either the capital or general expenditure impact aid reserve accounts shall not exceed the total amount of federal impact aid received by federal type (i.e. general use or capital) during the fiscal year under audit. The board, at its discretion, may use the funds in the reserve account to finance the district's general fund or to finance school facilities projects, in a manner consistent with federal law. The law requires that the total amount of funds on deposit in the reserve account shall not be limited. All reserve accounts shall be established and held in accordance with GAAP and shall be subject to annual audit. Any capital gains or interest earned shall become part of the reserve account. A separate bank account is not required for either federal impact aid reserve; however, a separate identity for each reserve account shall be maintained. Refer to the excess surplus calculation in section III-4 of this Audit program for information regarding the presentation of federal impact aid in the excess surplus calculation.

  A board of education that establishes a federal impact aid reserve account shall:

  (a) report the amount of federal impact aid received, expended, and on deposit in the federal impact aid reserve account in its annual audit pursuant to *N.J.S.A.* 18A:23-1, and in the budget made available in a "user-friendly" format using plain language pursuant to *N.J.S.A.* 18A:22-8;

  (b) report the amount of federal impact aid received, expended, and on deposit in the federal impact aid reserve account at each board of education meeting, and shall include the information in the board secretary's monthly report in a format to be determined by the commissioner and

  (c) provide any additional supporting documentation that may be required by the commissioner pursuant to subsection c. of section 5(cf: P.L.2007, c.62, s.6)

- The **reserved fund balance-legally restricted account(s)** are maintained in the general fund. The legally restricted fund balance account(s) 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:

1) Approved separate proposals as outlined in *N.J.A.C.* 6A:23A-12.13 (not applicable to charter schools or renaissance school projects).
2) Sale/lease-back reserve *N.J.S.A.* 18A:7F-7(e) (not applicable to charter schools or renaissance school projects).
3) The 50% portion of School Bus Advertising Revenue recognized during the current year under audit (*N.J.S.A.* 18A:7F-7.1) that must be budgeted to offset fuel costs no later than the second subsequent year (2021-22) (*N.J.S.A.* 18A:39-31) (not applicable to charter schools or renaissance school projects).

Fifty percent of the amount recognized as school bus advertising revenue for the current year under audit must be used to reduce fuel costs and may be legally reserved until designated for use no later than the second subsequent year. Refer to Section III-5 of this Audit Program for specific Audsum lines. All other items must be included only pursuant to an approved **request for approval submitted by the school district/charter school/renaissance school project to the Assistant Commissions for Field Services no later than September 30, 2020 for the June 30, 2020 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 school district, or charter school, or renaissance school project and it cannot be removed without the consent of those imposing the restriction or through formal due process. School districts, or charter schools, or renaissance school projects 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 considered 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 district-wide/schoolwide 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 contingency should be disclosed. School districts, charter schools and renaissance school projects that are in unsettled contract negotiations are required to accrue and record the potential liability or disclose the loss contingency related to the ongoing labor contract negotiations as required by GASBI 6 and GASBS 62. 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 2020-21 "School District Budget Statement" and in the 2019-20 column of the "Restricted – Legal Reserve" section of the Recapitulation of Balances . GASBS No. 54 requires the further categorization of the legal reserve account balance on the *Governmental Funds Balance Sheet* (Exhibit B-1). GASBS No. 54 paragraph 8 requires that amounts placed in legal reserve that are subject to:
    - External constraints externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or

- Imposed by law through constitutional provisions or enabling legislation

be further categorized as "Restricted" fund balance. The same categorization is applicable to the *General Fund Budgetary Comparison Schedule* (Exhibit C-1).

- The **reserved fund balance – excess surplus – designated for subsequent year's expenditures (applicable to school districts only)** represents the audited excess surplus from the prior year budgeted in the subsequent year. Any portion of the June 30, 2019 audited excess surplus that was appropriated in the 2020-21 original budget certified for taxes must be categorized on the *Governmental Funds Balance Sheet* (Exhibit B-1) as "Restricted" fund balance. The same categorization is applicable to the *General Fund Budgetary Comparison Schedule* (Exhibit C-1). Audsum line 90031 has been provided for reserved fund balance - excess surplus – designated for subsequent year's expenditures. The following discussion and example illustrates the proper presentation of excess surplus – designated for subsequent year's expenditures.

Example: The school district had audited excess surplus as of June 30, 2019 of $55,000 and an unexpended 2018-19 additional spending proposal of $9,000. The district appropriated $149,000 (sum of the *(a*) items in the 2020-21 original budget (comprised of the $9,000 unexpended 2018-19 additional spending proposal, $55,000 audited excess surplus from June 30, 2019 and $85,000 of "Assigned" fund balance - designated by the BOE for subsequent year's expenditures.) The district recognized school bus advertising revenue of $30,000 during the current year, 50% of which is legally restricted to budget as an offset to fuel costs no later than the second subsequent year (Item (c)). As of June 30, 2020, the district had generated an additional $142,000 *(b*) of excess surplus. The $142,000 is required to be appropriated in the 2021-22 original budget and should also be reported on line 90030 of the June 30, 2020 Audsum data collection.

Fund Balances	**June 30, 2020**	**June 30, 2019**
Year-End Encumbrances	$ 4,900	$ 50,000
Legally Restricted – Unexpended Additional Spending Proposal		9,000
Legally Restricted – 50% of Current Year School Bus Advertising Revenue, Fuel Costs	15,000 (c)	
Legally Restricted – Designated for Subsequent Year's Expenditures	9,000 (a)	
Legally Restricted - Excess Surplus	142,000 (b)	55,000
Legally Restricted - Excess Surplus - Designated for Subsequent Year's Expenditures	55,000 (a)	
Assigned Fund Balance- Designated for Subsequent Year's Expenditures	285,000 (a)	235,000
Unassigned Fund Balance	53,000	215,000
Total	$ 563,900	$ 564,000

- **Legally Restricted – Excess Surplus** represents audited excess surplus generated in the current audit year. Amounts calculated as excess surplus generated during the year ended June 30, 2020 that has not been anticipated and appropriated in the 2020-21 original budget certified for taxes must be reported as Legally Restricted - Excess Surplus – current year and categorized on the *Governmental Funds Balance Sheet* (Exhibit B-1) as "Restricted" fund balance. The same categorization is applicable to the *General Fund Budgetary Comparison Schedule* (Exhibit C-1). Appropriate footnote disclosure should be made in the notes to the financial statements including the amount and an explanation that the amount represents current year surplus that is reserved and designated for use in the 2020-21 budget in accordance with *N.J.S.A*. 18A:7F-7. Audsum line 90030 is used to report the current year reserved fund balance - excess surplus. Please note that the Audsum includes a warning edit for the calculation of excess surplus at June 30, 2020. Auditors are required to include the calculation of excess surplus in the Auditor's Management Report.

Charter schools are not subject to the excess surplus limitations. Charter school auditors are required to document the calculation of excess surplus pursuant to *N.J.S.A*. 18A:7F-7 solely for the purpose of adherence to *N.J.A.C.* 6A:23A-22.4(e), which provides that a district board of education may petition the Commissioner to pay a lower per-pupil rate if the charter school spends "significantly less than budgeted and has accumulated a sizable surplus."

- The **reserved fund balance – adult education programs (applicable to school districts only)** is a required separate restricted account*. N.J.S.A*. 18A:50-6 requires that surplus generated from the excess of receipts from donations, tuition fees, or from any source other than local taxation over the actual cost of the maintenance and operation of the district's adult education program remain in a separate account for the restricted fund balance. The account should be displayed as an asset and within the fund balance section on the *Governmental Funds Balance Sheet* (Exhibit B-1) and in the fund balance recapitulation section of the *General Fund Budgetary Comparison Schedule* (Exhibit C-1) in the "Restricted" fund balance category. In the event that the adult education program in any district is discontinued for two consecutive school years any funds remaining in the separate account shall lapse into the unreserved/unassigned general fund balance of the district. A separate line is provided in the Audsum for reserved for adult education programs - general fund.

Fund Balance – Unassigned

All other fund balance is classified as **"Unassigned" fund balance** and is considered in the excess surplus calculation. Refer to the example calculation in section III-4 of this Audit Program. Following are several points of clarification regarding the determination of "Unassigned" fund balance:

- In determining "unassigned" fund balance, districts may reflect management's intended use of fund balance in the subsequent year's budget certified for taxes as a separate line in the "Assigned" fund balance section of the *Governmental Funds Balance Sheet* (Exhibit B-1) and in the recapitulation of fund balance section of the *General Fund Budgetary Comparison Schedule* (Exhibit C-1). The amount of year end fund balance that has been included in the certified budget should be presented as "Designated for Subsequent Year's Expenditures" and further classified as a component of "Assigned" fund balance. Each assignation should be explained in the notes to the financial statements.
- Separate lines are provided in the Audsum data collection for Unassigned General Fund Balance (90075) and Assigned General Fund Balance Designated Subsequent Year's Expenditure (90080). Include in the "Assigned" fund balance section of Audsum on the designated fund balance line only those amounts which were included in the 2020-21 certified budget as budgeted fund balance on line 580 that have not already been included on another fund balance line of Audsum. Included in the "Unassigned" line are all other fund balances that have not been otherwise reported in Audsum. General Fund Unassigned Fund Balance reported in Audsum must agree with the General Fund Unassigned Fund Balance reported in the recapitulation of fund balance section of the *General Fund Budgetary Comparison Schedule* (Exhibit C-1).

For purposes of the excess surplus calculation, fund balance is the amount derived from the revenue including the last state aid payment. The following recapitulation of fund balance is to be included on the *Budgetary Comparison Schedule for the General Fund* (Exhibit C-1). Note that in the reconciliation to

GAAP, the adjustment to fund balance is only to reverse the last state aid payment, not to add in the payment made for the prior year, since that payment has been included in the "budgetary" fund balance which is rolled forward on the *Budgetary Comparison Schedule.*

All other fund balance is classified as **"Unassigned" fund balance.** Charter schools/renaissance school projects may reflect management's intent for use of the unassigned fund balance as separate lines in the equity section of the balance sheet under the heading unassigned fund balance. Each designation should be explained in the notes to the financial statements. All other unassigned fund balances should be presented as unassigned-undesignated. The amount of unassigned fund balance that has been included in the upcoming year's general fund budget as budgeted fund balance should be reported in the unassigned fund balance equity section as designated for subsequent year's expenditure. If the budgeted fund balance amount included in the approved 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 unassigned designated for subsequent year's expenditure amount. Separate lines are provided in the Audsum data collection for unassigned-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 2020-21 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 unassigned-undesignated line all other unassigned fund balance.

Sample Recapitulation of Fund Balance:

Auditor note: Not all categories are applicable to each operating type. Refer to discussion above.

Nonspendable Fund Balance: Inventory Restricted Fund Balance:	$ xxx
Legally Restricted – Designated for Subsequent Year's Expenditures	9,000
Reserved Excess Surplus - Designated for Subsequent Year's Expenditures	55,000
Legally Restricted – 50% Current Year School Bus Advertising Revenue; Offset to Fuel Costs	15,000
Reserve for Excess Surplus	142,000
Maintenance Reserve [if applicable]	xxx
Capital Reserve [if applicable]	xxx
Emergency Reserve [if applicable]	xxx
Impact Aid General Fund Reserve [if applicable]	xxx
Impact Aid Capital Fund Reserve [if applicable]	xxx
Committed Fund Balance: Year-end Encumbrances Assigned Fund Balance:	4,900
Designated for Subsequent Year's Expenditures	285,000
Unassigned Fund Balance	53,000
	563,900
Reconciliation to Governmental Funds Statements (GAAP): Last State Aid Payment Not Recognized on GAAP Basis	(551,385)
Fund Balance per Governmental Funds (GAAP)	$ 12,515

Deficit Due to Delay of One or More June State Aid Payment(s)

(Does not apply to charter schools or to renaissance school projects)

On the modified accrual statements, a deficit may occur in the general or special revenue fund. Pursuant to *N.J.S.A*. 18A:22-44.2 any negative unreserved, undesignated (Unassigned) fund balance that is reported as a direct result from a delay in the payment of state aid until the following fiscal year, is not considered a violation of New Jersey statute and regulation and does not require corrective action unless the deficit exceeds the last state payment(s). Refer to paragraph 19 of GASBS No. 54 for guidance regarding the reporting of a negative "Unassigned" fund balance.