

SECTION II – SPECIFIC COMPLIANCE
FUND 20 – SPECIAL REVENUE FUND

TPAF Reimbursement

N.J.S.A. 18A:66-90 requires that each local board of education reimburse the state for the employer share of pensions, group life insurance, FICA and other benefits of the Teachers' Pension and Annuity Fund (TPAF) for TPAF members carrying out and paid from federally funded programs. Accordingly, the cost of pensions, group life insurance, and social security incurred by the district for positions of TPAF members funded by the federal Education Jobs Fund (Fund 18) shall be reimbursed to the State of New Jersey. The reimbursement, together with supporting documentation prescribed by the Director of Pensions, must be remitted to the Department of Education within 90 days after the close of the fiscal year. Auditors should refer to the updated letter and downloadable form expected to be posted to the NJDOE website under "Most Requested Items" available July-August, 2012:

<http://www.state.nj.us/education/finance/>

Districts were given specific guidance in a hotline dated June 29, 1993 on accruing a liability for the TPAF Pension and Social Security related to salaries charged to federal grants. The reimbursement must be made by October 1 following the fiscal year end. Auditors are required to certify the accuracy of the reimbursement via their signature on the reimbursement form submitted by the district with the actual reimbursement. If submission of the reimbursement form is performed prior to the completion of audit procedures, the form may initially be submitted without the required auditor signature and a revised form reflecting the auditor signature may be subsequently submitted.

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

TPAF and FICA Reimbursement for Districts Required to Use School-Based Budgeting

The blending of federal, state and local funds in the school-based budgets recorded in Fund 15 necessitates a calculation of the salary amounts paid in Fund 15, which are attributable to federal sources. This calculation is necessary to enable the district to remit the correct amount of funds to the Department of Education. This calculation pertains to schools implementing school-based budgeting for the year ended June 30, 2012 and is detailed below and illustrated at the TPAF series of schedules which are linked below.

Procedures to Calculate TPAF and Employer Share of Social Security & Medicare Charged to Federal Programs in a School-Based Budget School to be Remitted to the Department of Education in Compliance with N.J.S.A. 18A:66-90

The following steps one through four must be performed for each school:

- 1.) Perform a payroll sort from the district's payroll system, by school, detailing the teachers at each school and each teacher's contracted salaries paid during the year. (This amount is to be contracted base wages only and should not include stipends or extra-curricular activity payments.) This amount should be broken out between salaries paid from July 1, 2011 through December 31, 2011 and salaries paid from January 1, 2012 through June 30, 2012. Salaries paid for the calendar year ended December 31, 2011 will also be needed to calculate the social security and Medicare portions of FICA salaries over and under \$106,800 for the 2011 calendar year.
- 2.) The total fiscal year contractual salaries must then be broken down by calendar year to determine the amount paid which is less than or equal to \$106,800 for the 2011 calendar year; the amount which exceeds \$106,800 for the 2011 calendar year; the amount paid which is less than or equal to \$110,100

for the 2012 calendar year; and the amount which exceeds \$110,100 for the 2012 calendar year. This information is necessary to calculate the social security and Medicare portions of FICA. This is most easily accomplished by sorting the information into two columns for each calendar year and totaling the columns.

- 3.) The amounts determined in 2.) above must be accumulated and multiplied by the Title 1 percentage calculated on the current year *Schedule of Expenditures Allocated by Resource Type* to determine the Title 1 proportionate share of salaries. The amounts determined in 2.) above then must be accumulated and multiplied by the “all other federal programs” rate to determine the all other federal programs proportionate share of salaries. The all other federal programs rate is the sum of the percentages calculated on the current year *Schedule of Expenditures Allocated by Resource Type* for all federal programs excluding Title 1.
- 4.) The reimbursement amounts will also need to be calculated at the school level to enable the reimbursements to be recorded in the individual school’s Fund 15. The social security, Medicare and TPAF rates are then applied to the salary amounts determined in steps two and three above to calculate the social security, Medicare and TPAF reimbursements due to the Department of Education for each school-based budget school. Note that the 2011-12 estimated TPAF rate of 6.99% has been used for illustration purposes in the sample schedule accessible using the link on page II-20.3. **Districts should not use this estimated rate to complete the TPAF and FICA Reimbursement form.** Districts must use the actual rate which will be available after the release of this Audit Program. When the actual 2011-12 TPAF rate is known, the sample schedule will be revised to reflect the actual TPAF rate.

The federal program salaries calculated for each school in steps one through four will then be entered onto the worksheet entitled *SBB TPAF and FICA Calculation to Comply with N.J.S.A. 18A:66-90* in the applicable column and should be included in the salary amounts reported on the reimbursement form entitled, *Reimbursement to State of New Jersey – N.J.S.A. 18A:66-90*. The district should retain the worksheet and the individual school calculations as supporting documentation of the school-based budget salaries included in the amounts reported on the reimbursement form. The district’s public school accountant will need to verify these calculations prior to signing off on the reimbursement form.

Districts charge the TPAF and Social Security employer contributions related to salaries charged to federal grants to that grant budget as employee benefits (20-xxx-200-200) using an estimated rate. Throughout the year, districts debit employee benefits and credit Intergovernmental Accounts Payable – State (20-411) using that estimated rate. When the actual combined TPAF/Social Security rate is known, the accumulated expenditures and payable to the State are adjusted. The June 30 financial statement will report the amount due to the State as a liability.

SBB TPAF and FICA Calculation to Comply with *N.J.S.A. 18A:66-90*

To display the total SBB TPAF, and FICA Calculation illustration, click on the following link:

[TPAFforms11-12forSBB.xls](#)

Restricted State Aid

Overview

Under GAAP, there are no fund balances related to grant revenues in excess of expenditures in the special revenue fund since the revenue is not recognized until expenditures have been incurred. Any payments received but not expended or encumbered must be reported as deferred revenue. This also applies to the Preschool Education Aid being accounted for in the special revenue fund.

Year-end encumbrances are included in the special revenue fund as budgetary expenditures (Exhibit C-1) for the year end June 30, 2012 and are reported as GAAP expenditures (Exhibit B-2) in the subsequent year.

June State Aid Payments

Districts prepare their budgets based on state aid revenue paid over 20 cash payments. Beginning in fiscal year 2002-03, the state determined that the last payment would not be paid until July of the subsequent year. In 2010-11 and 2011-12, the last two state aid payments were/are not paid until July of the subsequent year. GASB 33 requires that the provider government and recipient government recognize a payable and receivable in the same fiscal period. *N.J.S.A. 18A:22-44.2* requires that districts include the last two state aid payments as revenue for budgetary purposes only. There may be a year-end difference between the revenue for GAAP reporting and revenue for budgetary comparisons for any fiscal year in which the last state aid payments are deferred to the subsequent fiscal year. Chapters II-8 and III-6 provide an in depth discussion of the budget to GAAP reconciliation.

ARRA Special Revenue Awards

ARRA Title I, ARRA IDEA or any other ARRA special revenue awards must be reported in separate columns in the *Combining Schedule of Program Revenues and Expenditures – Budgetary Basis* in the Special Revenue Fund section (Exhibit E) of the CAFR.

Acting Commissioner Cerf issued a memo on “Unspent ARRA Funds – in Jeopardy” in May 2011 regarding ARRA Title I, School Improvement and IDEA funds. There is no provision to carryover funds that have not been spent by August 31, 2011. This memo and a schedule of comparison of the allocations to amounts paid to date are available at this website:

<http://www.state.nj.us/education/arra/allocation/>

Preschool Education Aid (PEA)

Pursuant to *N.J.S.A. 18A:7F-54*, districts with high concentrations of low income students shall establish preschool and full day kindergarten for all three- and four-year-olds. The program objective under the School Funding Reform Act (SFRA) is for district factor group A and B school districts, and district factor group CD school districts with a concentration of at-risk children equal to or greater than 40 percent, to provide free access to full-day preschool for all three- and four-year-old children. All other school districts shall provide free access to full-day preschool for at-risk children. The program objective is to be met by the 2013-14 school year. For the 2011-12 fiscal year, only districts receiving preschool aid prior to the passage of the SFRA received Preschool Education Aid. In the 31 SBB districts and in the 4 former Early Childhood Program Aid (ECPA) districts previously approved to expand their program, Preschool Education Aid shall reflect the cost of the child’s placement in a district program, a licensed child care provider program, or a Head Start Program which provides high quality full-day preschool in accordance with the Commissioner’s regulations.

For 2011-12 the department reviewed and issued approvals for Preschool Education Aid budgets for the 31 SBB districts and the 4 former ECPA districts that were approved to expand their preschool programs. The department also reviewed/approved the preschool operational plan updates and budgets for the other former ECPA districts and the ELLI districts receiving 2011-12 Preschool Education Aid.

Districts must appropriate Preschool Education Aid in the special revenue fund for expenditures. Any Preschool Education Aid not expended during the budget year may be carried forward. Preparation of the year end schedule for Preschool Education Aid is contained on the next page in this Audit Program. Preschool Education Aid may be transferred to the general fund to support kindergarten through grade 12 if the district has served all eligible preschool children and provided the program as required. The district must request and obtain approval by the Commissioner. For 2011-12, only one approval was granted.

Revenue that was not expended or encumbered by June 30 of the budget year shall be classified as deferred revenue in the financial accounts and statements of the district and added to the revenue of the subsequent year preschool education budget. As part of the June 30 CAFR districts are required to prepare a budgetary basis schedule for Preschool Education Aid expenditures using the minimum outline required for the special revenue fund, including a calculation of the unbudgeted Preschool Education Aid funds along with June 30, 2012 unexpended/unencumbered funds.

The New Jersey Office of the State Auditor performed an audit of Preschool Education Aid for the period July 1, 2009 to October 14, 2011 and issued their audit report dated December 19, 2011. The complete audit report including the department's response to the audit findings is posted on the Office of Legislative Services' website at <http://www.njleg.state.nj.us/legislativepub/Auditor/340511.pdf>. Finding 2, Data Integrity, disclosed a 16% error rate between the Preschool Education Aid carryover reported in Audsum when compared with the carryover reported in the Schedule of Preschool Education Aid Expenditures – budgetary Basis (Exhibit-2). It is an integral element of the department's response to this finding that school district auditors verify that the Actual Budgetary Carryover (reported on Line 8 of the PEA Schedule- see below) is computed correctly and agrees with the carryover reported in Audsum. Beginning with the June 30, 2012 Audsum, there is a separate data entry line for the reporting of PEA budgetary carryover. This amount must agree to Line 8 of the PEA Schedule. The department will compare the budgetary PEA carryover reported in Audsum to the budgetary PEA carryover reported on Line 8 of the PEA Schedule in the CAFR. In the event that differences exist, those discrepancies must be resolved by the school district and the school district auditor. Discrepancies will generate correspondence from the department and will only be resolved through the re-transmission of Audsum and/or the revision of the PEA Schedule Exhibit-2. Note that unbudgeted Preschool Education Aid is included in the carry-forward computation.

Auditors should verify that the funds were expended only for approved Preschool Education Aid programs pursuant to N.J.S.A. 18A:7F-54 and are in compliance with the department approved Preschool Program Plan Update for 2011-12. Auditors should verify that the 2011-12 Preschool Education Aid plan was amended to reflect audited carryover balances. See the *State Aid/Grant Compliance Supplement* for the applicable year available on the NJ Treasury (OMB) and NJ Department of Education websites for further audit procedures.

PREPARING THE PRESCHOOL EDUCATION RESTRICTED AID SCHEDULE

The Schedule of Preschool Education Aid is prepared from the district records and is the responsibility of the district. This schedule is to be included in the Special Revenue Fund section of Other Supplementary Information. All districts eligible for Preschool Education Aid were required to track Preschool Education Aid expenditures in the special revenue fund using the uniform grant project budget statement coding structure. The following sample schedules are presented in the required format for reporting Preschool Education Aid expenditures for 2011-12.

The format of the schedule was designed to provide an audit trail of the actual versus budgeted expenditures as well as calculate deferred revenue and carryover. This schedule is to be prepared on the budgetary basis where “actual” equals the 2011-12 expenditures less the reversal of the prior year end encumbrances plus encumbrances at June 30, 2011. These encumbrances must be liquidated within 60 to 90 days. The “budgeted” amounts can be obtained from the district’s 2011-12 certified Detailed Appropriations lines 13010 – 13300 adjusted for any approved carryovers and/or transfers. At the bottom of the schedule is a calculation of the 2011-12 Available & Unbudgeted funds and the Actual Budgetary Carryover as of June 30, 2012.

Line (1) represents the total 2011-12 Preschool Education Aid (PEA) allocation. This amount can be obtained from the district’s “Estimated 2011-12 State School Aid/State Aid Summary” (NET) and is a budgetary amount. Include the adjustment to PEA received by certain SDA districts in the 2011-12 PEA allocation on Line 1. By letter dated September 12, 2011 nineteen SDA districts were notified on their Homeroom Page of an increase to their 2011-12 PEA attributable to an increase in the CPI. These SDA districts were permitted to budget this adjustment to PEA for 2011-12 and should include the “adjustment” PEA in their total revised 2011-12 PEA allocation. For budgetary purposes for these nineteen districts, PEA equals the amount shown on the 2011-12 NET in the Special Revenue Fund Aid section plus the PEA increase “adjustment” provided to these SDA districts.

Line (2) represents the actual audited PEA carryover as of June 30, 2011. Carryover balances may have been anticipated in the 2011-12 original budget. Districts were instructed to utilize a Carryover Funds form to request use of June 30, 2011 balances or to adjust prior estimates. Copies of the approved request should be on file at the district.

Line (3) represents the budgeted transfer from the general fund to fund preschool programs. This amount can be obtained from Line 511 (Account 20-5200) in the 2011-12 certified advertised revenues.

Line (4) represents the total 2011-12 funds available for the 2011-12 preschool education budget (sum of lines 1-3).

Line (5) represents the amount the district included in its Preschool Education Aid budget for the fiscal year 2011-12, including contribution to charter schools.

Line (6) represents the difference between Line (4) and Line (5). If a district did not revise its budgeted original allocation (if different) or revise its budgeted June 30, 2011 carryover, then this amount is considered Available and Unbudgeted as of June 30, 2012. Line (6) is then considered a component of the Actual Carryover – Preschool Education Aid of June 30, 2012.

Line (7) represents 2011-12 budgeted Preschool Education Aid (Line 5) less the “total actual” for the program. This amount represents the 2011-12 unexpended/unencumbered Preschool Education Aid.

Line (8) is the total Actual Budgetary Carryover – Preschool Education Aid as of June 30, 2012 and is the sum of Lines (6) and (7). There is a collection line in Audsum for Actual Budgetary PEA Carryover at June 30, 2012. The carryover reported on this line of the CAFR schedule and the carryover reported in AUDSUM must agree. Unbudgeted PEA is included in the carryover computation.

Line (9) can be found in the 2012-13 Supporting Documentation 15 as Preschool Education Aid carry forward used to fund 2012-13 preschool education programs from the 2012-13 certified budget. If the (budgetary) actual carryover transferred to Preschool Programs (Line 8) differs from the budgeted carryover on line 9, the district should consider a revision to their 2012-13 preschool education program budget.

The Budgetary Preschool Education Aid Carryover (line 8) is for budgetary purposes and will differ from the June 30, 2012 Preschool Education Aid deferred revenue reported on Schedule B, *Schedule of State Financial Assistance* by the amount of the 2011-12 last two state aid payments. The Schedule of State Financial Assistance (GAAP) will not include the amount of the last state aid payment but instead will include this amount in the MEMO column under “Budgetary Receivable.” This state aid adjustment is required because the revenue recognition of the last two state aid payments in 2011-12 is not in conformity with GAAP revenue recognition based on GASB 33; however, districts are legally required to recognize the revenue of the last two state aid payments for fiscal year 2011-12 in their budgetary schedules. The Schedule of State Financial Assistance does not include the last two payments for 2010-11 (received in July 2011) in the beginning balance deferred revenue, but does include it in the cash received column. For the SDA districts that received additional PEA for 2011-12, for GAAP financial reporting revenue equals the amount reported on the 2011-12 NET plus the PEA “adjustment” allocated to those SDA districts increased by the first two cash payments of July 2011 and decreased by the two June 2012 state aid payments paid in July 2012 (and not recognized until that subsequent year).

Please note that on the following example schedule every possible account is listed. This is an optional format. Districts may list only those accounts that are applicable. In addition, the line (#) references on the example schedules should not appear on the actual schedules in the CAFR. The sample schedule has been updated for the revised Chart of Accounts in the preschool education function. This revision was required beginning July 1, 2009.

**Anytown School District
Special Revenue Fund
Schedule of Preschool Education Aid
Budgetary Basis
For the Fiscal Year Ended June 30, 2012**

	<u>Budgeted</u>	<u>Actual</u>	<u>Variance</u>
EXPENDITURES:			
Instruction:			
Salaries of Teachers	\$ 808,955	\$ 743,268	\$65,687
Other Salaries of Instruction	253,474	252,365	1,109
Other Purchased Services (400-500 series)	325,000	315,000	10,000
Tuition to Other LEAs within State-Regular			
General Supplies	110,500	82,500	28,000
Other Objects			
Total Instruction	<u>1,497,929</u>	<u>1,393,133</u>	<u>104,796</u>
Support Services:			
Salaries of Supervisors of Instruction			
Salaries of Program Directors			
Salaries of Other Professional Staff			
Salaries of Secr. & Clerical Assistants			
Other Salaries			
Salaries of Community Parent Involvement Specialists			
Salaries of Master Teachers			
Personal Services – Employee Benefits	142,071	136,589	5,482
Purchased Educ. Services – Contracted Pre-K			
Purchased Ed. Services- Head Start			
Purchased Professional – Educational Services	25,000	5,689	19,311
Other Purchased Professional - Services			
Cleaning, Repair & Maintenance Services			
Rentals			
Contr. Transportation Service (Betw. Home & Sch.)			
Contr. Transportation. Service (Field Trips)			
Travel			
Supplies & Materials			
Other Objects			
Total Support Services	<u>167,071</u>	<u>142,278</u>	<u>24,793</u>
Facilities Acquisition and Const. Services:			
Instructional Equipment	15,000	10,000	5,000
Noninstructional Equipment	-	-	-
Total Facilities Acquisition and Const. Services	<u>15,000</u>	<u>10,000</u>	<u>5,000</u>
Contribution to Charter Schools	<u>20,000</u>	<u>20,000</u>	<u>-</u>
Total Expenditures	<u>\$1,700,000</u>	<u>\$1,565,411</u>	<u>\$134,589</u>

EX E-2 (cont'd)**CALCULATION OF BUDGET & CARRYOVER**

Total revised 2011-12 Preschool Education Aid Allocation	\$ 1,642,835	(1)
Add: Actual ECPA/PEA Carryover (June 30, 2011)	212,404	(2)
Add: Budgeted Transfer from the General Fund 2011-12	42,835	(3)
Total Preschool Education Aid Funds Available for 2011-12 Budget	<u>1,898,074</u>	(4)
Less: 2011-12 Budgeted Preschool Education Aid (Including Prior year budget carryover)	<u>(1,700,000)</u>	(5)
Available & Unbudgeted Preschool Education Aid Funds as of June 30, 2012	198,074	(6)
Add: June 30, 2012 Unexpended Preschool Education Aid	<u>134,589</u>	(7)
2011-12 Carryover – Preschool Education Aid Programs	<u>\$ 332,663</u>	(8)
2011-12 Preschool Education Aid Carryover Budgeted for Preschool Programs 2012-13	<u>\$ 130,000</u>	(9)

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