**New Jersey Department of Education**

**Division of Early Childhood Education**

**Office of Preschool**

# 2022-2023 Private Provider Budget Expenditure Guidance

## Overview

The following expenditure guidance must be used by providers to document and justify all expenditures relating to the New Jersey Department of Education (NJDOE) state funded preschool program. As per [New Jersey Administrative Code (N.J.A.C.) 6A:13A](https://www.state.nj.us/education/code/current/title6a/chap13a.pdf), the district board of education shall monitor the expenditures of each contracted private provider and local Head Start agency (referred to hereafter as contracted private providers) at least quarterly, shall assist the contracted private provider with budget transfers and must recoup any unexpended or misspent funds based on the quarterly expenditure reports and enrollment records when necessary. If an enrollment adjustment is necessary, the adjustment should be reflected in a revised budget plan workbook and/or on the final quarterly expenditure report in the adjustment column. Each provider must submit to the district board of education a quarterly report of actual, approvable, reasonable, and customary expenditures with supporting documentation and receipts, whether paid or accrued. For example, if the expense is incurred in June and accrued, the payment must be paid in July. The districts should allow the expenditure, as long as proof of the accrual is paid in July (copy of July bank statement).

Regardless of its format, the quarterly report must include expenditures for all budget lines for the school year including all approved salaries, benefits, payroll taxes, substitute stipends, classroom materials and supplies, classroom technology, field trips and associated transportation, space costs, food costs, and all allowable administrative and indirect costs itemized under the Administrative Support and Indirect Costs section of this document. The quarterly report must be signed and certified by an officer of the corporation. If submitted electronically, the provider may instead submit a statement of assurance.

All expenditures must be within allowable expenditure categories. The district and each contracted private provider should complete a “2022-23 Private Provider One-Year Budget Planning Worksheet” prior to the start of the fiscal year. The budget planning worksheet will serve as the basis for the provider’s 2022-23 quarterly reports. The budget planning worksheet is an estimate of costs. Providers need not be held to the initial amounts indicated in their planning document. Providers will be reimbursed, however, only for costs that are allowable and documented through quarterly expenditure reports.

Due to many providers experiencing a decrease in funding amounts received from the Department of Human Services (DHS) for wraparound care, the NJDOE is establishing, via this guidance document, opportunities for greater flexibility with NJDOE funding. Exceptions to a provider’s standard proration for support and indirect costs will be negotiated by the provider and the district, based on reasonable and customary costs and verifiable documentation, that DHS funding is not enough to cover the provider’s standard proration for these line items. Supporting documentation of revenue and expenses should be submitted to the district to justify an increased in proration. The district will work with the provider to approve an increase in the percentage of costs covered by NJDOE funding for affected allowable indirect/support budget line items up to 100 percent. NJDOE funding may not be used for costs of infant/toddler or non-contracted Head Start or tuition-based preschool classrooms.

## Changes

Any changes to the standard proration must be verified by the district through collected, verifiable information about DHS and private funding to justify charging NJDOE up to 100 percent. If the provider can demonstrate they do not receive adequate funding from wrap around or private pay (i.e., general ledger/financial statements indicating revenue/income), then NJDOE can be charged for the cost. The changes to the standard proration may be established in the following ways:

* When establishing their budget planning worksheet with the district, the provider may budget a higher percentage of NJDOE funds toward line items within the indirect and support cost sections of the provider budget planning worksheet to compensate for decreased income received from the wrap around program. The percentage may be increased up to 10 percent provided that enough funding is available within the provider’s established budget total. Alternatively, the district and provider may choose to start all percentages at 100 percent, and then decrease some or all progressively until the budget is balanced.
* During the school year, the provider may alter their district-approved budget planning worksheet to budget a higher percentage of NJDOE funds toward a line item or line items within the indirect and support cost sections to compensate for decreased income received from the wraparound program. The percentage may be increased up to 100 percent provided that enough funding is available within the provider’s established budget total.
* As in previous years, the district must also work with providers to facilitate budget transfers, where appropriate, within their planning budget worksheet. The district must allow automatic offsets for under and overspent lines within the indirect cost section of the budget both during and at the end of the school year. However, transfers must be submitted by the provider and approved by the district for any movement of funds within or outside of the educational cost section of the budget. As indicated above, these transfers/offsets may result in an increase to the provider’s standard proration for indirect/support costs. The percentage may be increased up to 100 percent provided that enough funding is available within the provider’s established budget total.

The provider and district can unlock the budget worksheet to make changes to prorations, as needed. The password needed to make this change is “provider.” Any changes to a provider’s standard proration must be documented in writing (letter/memo/email) between the district and the provider. It should be noted that any increase in the NJDOE standard proration should not be given if the provider is using revenue from other funding sources inappropriately (i.e., excessive salaries/benefits).

## Salaries

Please note that preschool program employees should receive an annual contract detailing their annual salary and any intended breakdown between NJDOE and other funding. The following is required for the annual employment contracts for those employees that work for the NJDOE-funded preschool program.

1. Job title;
2. 10- or 12-month employee (including NJDOE/DHS/Private);
3. Annual salary broken down by funding source and/or rate of pay if working wraparound;
4. Frequency of pay: weekly, bi-weekly, semi-monthly or monthly;
5. Work location if there are multiple sites;
6. Scheduled work hours;
7. Prep time and if paid or unpaid;
8. Lunch break and if paid or unpaid;
9. Breakdown of paid time off (vacation, sick, personal, bereavement, etc.); and
10. Benefits offered to employee including any amount to be contributed by the employee.

### Teachers

Teacher salaries represent compensation for ten months. A provider may choose to offer teachers the option of having their school calendar year compensation paid over a period of twelve (12) months (see Deferment of Salaries instructions below). A provider may also choose to offer this option for payment to teacher assistants and floating teacher assistants. In order to do this, the provider should be able to provide supporting documentation for all deferred amounts. Deferred amounts should be reported in the fourth-quarter report.

### Deferment of Salaries

Providers may choose to pay school calendar year salaries in one of the following ways:

1. Over 10 months starting in September
2. Over 12 months starting in September (deferred for July and August)

Appendix A shows examples of basic journal entries for each of the above methods. Please use these examples as a guide. Keep in mind that there are variables that should be taken into consideration when reporting, so providers should consult with their accountant and/or fiscal specialist to ensure the proper accounting method is used.

### Teacher Assistants and Floating Teacher Assistants

Teacher assistant and floating teacher assistant salaries represent compensation for ten months. See the above section on teacher salaries for guidance regarding deferred payment of teacher assistant and floating teacher assistant salaries.

Providers must ensure that all preschool classrooms are staffed with one appropriately certified teacher and one appropriately qualified teacher assistant.

### Substitute Teachers and Substitute Assistant Teachers

Providers may hire substitutes on an as-needed basis or may hire a full-time employee to serve as a permanent teacher substitute. In either case, all substitutes must hold at least a substitute teacher credential. Funding budgeted for teacher and/or assistant teacher substitute days may also be used for substitutes for floating teacher assistants in the event of their absence.

### Family Workers

The family worker position is a minimum 200-day, full-time position. The proration for family worker salary and benefits on the provider budget planning worksheet represents the minimum NJDOE-funded salary for 200 days only. However, this proration may be increased up to 100 percent to represent a 12- month, full-time position.

### Food Workers

NJDOE funding supports, however, does not require a cook and cook’s assistant. Providers must prorate cook and cook’s assistant salaries based on documented income from other sources as applicable (DHS, Head Start, infant/toddler classrooms, and/or tuition-based preschool classrooms). As such, the salary and benefit amounts entered on the budget worksheet must represent only school calendar year costs for state-funded classrooms. Exceptions to a provider’s standard proration for support costs will be permitted in circumstances where the provider and the district have agreed, based on reasonable and customary costs and verifiable documentation, that DHS funding is not sufficient to cover the provider’s standard proration for these line items. In this case, the district will work with the provider to approve an increase in the percentage of costs covered by NJDOE funding (using one of the three methods detailed on page 2) for this line item. NJDOE funding may not be used for costs of infant/toddler or non- contracted Head Start or tuition-based preschool classrooms. Expenses for a food worker are allowable for centers denied application to Child and Adult Care Food Program (CACFP) only when the denial letter from CACFP is submitted to the district showing that the denial was not for fiscal, administrative, or other mismanagement reasons. NJDOE requires time records to be kept separate for the food worker duties performed by other employees.

### Preschool Center Directors

NJDOE funding supports director salaries. Providers must prorate director salaries based on documented income from other sources as applicable (DHS, Head Start, infant/toddler classrooms, and/or tuition- based preschool classrooms). Exceptions to a provider’s standard proration for support costs will be permitted in circumstances where the provider and the district have agreed, based on reasonable and customary costs and verifiable documentation, that DHS funding is not enough to cover the provider’s standard proration for these line items. In this case, the district will work with the provider to approve an increase in the percentage of costs covered by NJDOE funding (using one of the three methods detailed on page 2) for this line item. It is recommended that salary payments for the director be in line with the director’s salary scale, unless otherwise approved by the district. NJDOE funding may not be used for costs of infant/toddler or non-contracted Head Start or tuition-based preschool classrooms.

### Non-Allowable Salary Costs

1. Salaries (or, when applicable, portions of salaries) for any staff performing duties related to children/classrooms not funded by the NJDOE;
2. Salary for any staff member for time not expended and/or services not performed;
3. The cost of a salary when the salary is determined in an arbitrary or capricious manner rather than on an existing, written, uniform policy based on district salary scales for teaching staff or years of service/education for non-teaching staff;
4. Salary for a retired employee;
5. Salary for a head teacher;
6. Salary for a professional staff member, consultant or subcontractor, including a member of a management company who is not certified but is functioning in a position requiring certification, in accordance with N.J.A.C. 6A:9; ([Professional Standards](https://www.nj.gov/education/code/current/title6a/chap9.pdf));
7. Salary for a staff member that is not properly supported by an employee time record that is properly segregated by funding source (if applicable) and signed by both the employee and a supervisor;
8. Salary or any payment made to a member of the board of directors/trustees for services performed in their capacity as a member of the board of director/trustees;
9. Salary for a current or retired member of the board of directors/trustees;
10. Cost of employee severance pay;
11. Cost of a buyout of an employee contract;
12. Cost of a salary or consultant fee paid to a full-time employee or consultant for performing more than one administrative function in the center;
13. Cost of a salary increase paid after the start of the fiscal year not in accordance with the following:
	1. The increase is due to a staff member(s) promotion that results in additional job responsibilities; or
	2. The increase has been approved by the district after review of a formal written request to the district documenting the facts necessitating the increase, if the above case is not met; and
14. Salary of a non-instructional staff person that increases by more than 10 percent from one fiscal year to the next (unless due to approved change in position that results in additional job responsibilities).

## Benefits and Pensions

All benefit expenditures must be based on a written, uniform policy based on an equitable standard of distribution, such as years of service or education, within each class of employee. Annual benefit policies which must include all the benefit coverages offered to the employees, including self-contributory plans, and should be in writing. Annual benefit waivers must include all the benefits offered and must be listed on the benefit waiver, not just health coverage.

Providers must obtain a waiver from any staff member choosing to opt out of benefit coverage. Waivers must be signed annually.

### Teaching Staff

Providers must offer full-year health benefits to all teaching staff. Benefit package expenditures may also include vision, prescription, dental, life insurance and pension contributions (including administrative fees associated with 401K programs).

Providers are encouraged, but are not obligated, to charge a co-pay for benefits. Providers must establish a written policy regarding benefits for any part-time teaching staff or may follow district benefit eligibility policies for employees in part-time positions. Providers may choose to establish a written policy allowing cash in lieu of benefits for teaching staff.

Group insurance, social security contributions, unemployment contributions and disability contributions must be expensed as payroll taxes and must not be included in the average benefit cost.

### Non-Teaching Staff

Providers must offer benefits for staff filling all non-teaching positions paid from their district-approved provider planning budget workbook. Benefit expense must not exceed 15 to 20 percent of the individual’s approved salary.

### Non-Allowable Benefit and Pension Costs

1. The cost of benefits that do not equal the provider’s written policy amounts (established prior to the start of the school year) indicating the percent that will be put towards retirement for all employees;
2. Fringe benefits for a staff member for time not expended and/or services not performed;
3. The cost of fringe benefits based on a non-allowable salary;
4. Fringe benefits when the benefits are determined in an arbitrary or capricious manner rather than on an existing, written, uniform policy based on an equitable standard of distribution, such as years of service or education, within each class of employee;
5. Pension costs that are:
	1. Not in conformance with the Employee Retirement Income Security Act of 1974, P.L. 93- 406, and its successor legislation and that do not exceed costs allowed by the Internal Revenue Service. See the US Department of Labor’s “[Health Plans & Benefits: ERISA](https://www.dol.gov/general/topic/health-plans/erisa)” webpage for more information.
	2. For a non-qualified pension plan(s);
	3. For a defined contribution plan in excess of the maximum percentage and maximum dollar amount (see Internal Revenue Code Section 415(c)) as the lesser of 100 percent of the employee's compensation or $44,000 and subsequent changes made to the IRS maximum percentage and maximum dollar amount; and
	4. For a defined benefit plan in excess of an amount, by employee, which would allow the defined plan to provide a benefit in excess of the percentage of the employee’s number of years of service divided by 55 times the highest three-year average salary and at an age prior to age 55;
6. Cost of a pension plan and/or medical benefits for current or retired members of the board of directors/trustees;
7. Cost of medical benefits for retired employees;
8. Transfers to employees’ retirement plans that are not in line with the written policy supplied to the district at the start of the fiscal year (i.e. end-of-year transfers of unexpended funds to employees’ retirement plans);
9. Head teacher benefits and employer payroll taxes;
10. Other administrative personnel benefits and employer payroll taxes;
11. The benefits of a professional staff member, consultant or subcontractor including a member of a management company who is not certified but is functioning in a position requiring certification in accordance with N.J.A.C. 6A:9; ([Professional Standards](https://www.nj.gov/education/code/current/title6a/chap9.pdf)).
12. Benefits of a staff member that are not properly supported by the employee time record;
13. Benefits or any payment made to a member of the board of directors/trustees for services performed in their capacity as a member of the board of director/trustees;
14. Cost of employee severance pay;
15. Cost of benefits paid to a full-time employee or consultant for performing more than one administrative function in the center; and
16. Cost of a benefit increase paid after the start of the fiscal year not in accordance with the following:
	1. The increase is due to a staff member(s) promotion that results in additional job responsibilities; and
	2. The increase has been approved by the district after review of a formal written request to the district documenting the facts necessitating the increase if the above case is not met.

## Employer Payroll Taxes (All Employees)

The allowable actual employer payroll costs relate to social security, Medicare, Unemployment (both Federal Unemployment Tax Act, FUTA, and State Unemployment Insurance, SUI), and disability, as reported on the employer’s payroll registers reports, and then allocated for the standard proration or the NJDOE share of the costs. Providers must prorate employer payroll tax expenses for directors, food workers, and family workers based on the portion of salaries funded by the NJDOE. Providers may combine payroll tax line items on quarterly reports and may be reimbursed based on their actual payroll tax expenses. Workers’ compensation must be expensed under the indirect cost line item: insurance. Since payroll tax costs to the provider may be greater than the estimate built into the budget planning worksheet, providers should check to ensure the correct amount is expensed.

## Non-Salary Educational Costs

### Classroom Materials and Supplies

Expenditures must consist of only instructional materials and supplies to be used for the NJDOE-funded preschool program and may include any consumable materials and supplies for other staff working directly with children in the classroom. Replacement, repair, and upgrade of classroom furniture are also allowable expenses. Funds expensed for classroom materials and supplies do not have to be spent evenly for each NJDOE-funded classroom but may be used for classroom materials and supplies across the provider’s DOE-funded classrooms as needed.

Districts may ask providers to supply an inventory of each NJDOE-funded classroom for each quarter to demonstrate that appropriate materials and supplies are present in each classroom. Districts may work with providers to set a date by which funds for materials and supplies should be expended, however, providers should be allowed to expend funds throughout the school year. Funds spent on office materials and supplies must be expensed in the appropriate line under indirect costs.

Providers may choose to refurbish classroom and playground spaces from within their district-approved budget amount or may request additional funds from the district’s preschool budget, if funds are available.

### Dedicated Preschool Classroom Technology

Allowable expenses include the purchase, upgrade, and repair of computers, printers, software, and other educational technology in NJDOE-funded classrooms. Funds expensed for classroom technology do not have to be spent evenly for each NJDOE-funded classroom but may be used for classroom technology across the provider’s NJDOE-funded classrooms as needed.

Districts may ask providers to supply an inventory of each NJDOE-funded classroom to demonstrate that appropriate preschool classroom technology is present in each classroom. Districts may work with providers to set up a schedule for the replacement/repair of preschool classroom technology equipment.

Please note that per classroom amounts listed for Dedicated Preschool Classroom Technology in the 2022-23 Provider Budget Planning Workbook Instructions are not required amounts and are intended only as a guide.

### Startup Classroom Supplements

Additional monies for startup classrooms are not funded by the NJDOE for the 2022-23 school year. However, if approved to open a new classroom, expenses for startup classrooms are allowable from within a provider’s district-approved budget amount, or from the district’s preschool budget, if funds are available. Expenses must be for purchase of the essential supplies, furniture, technology, etc. needed to set up a new classroom.

### Field Trips with Transportation

Field trips must be educationally based, consistent with the district’s approved preschool curriculum, and consistent with [NJDOE Field Trip Guidance](https://www.nj.gov/education/earlychildhood/preschool/docs/FieldTrip.pdf). Many appropriate field trips do not require fees or transportation. Field trip plans are required from each community provider detailing each trip by destination and cost.

Please note that per child amounts listed for Field Trips in the 2022-23 Provider Budget Planning Workbook Instructions are not required amounts and are intended only as a guide.

### Food-Related Costs

A provider may expense food-related costs only if the center participates in the [Child and Adult Care Food Program](https://www.fns.usda.gov/cacfp) (CACFP) or the [National School Lunch Program](https://www.fns.usda.gov/nslp) (NSLP), and [School Breakfast Program](https://www.fns.usda.gov/sbp/school-breakfast-program) (SBP).

No funding may be expensed retroactively to cover any food-related costs prior to a center’s participation in the CACFP or the NSLP/SBP, with the following exception: Food costs may be expensed retroactively within the first school year and budget of a provider new to contracting with the district so long as active CACFP status is documented by the provider to the district by the end date of the first year’s contract. The provider must participate in their respective program for breakfast, lunch, and snack. All food-related administrative and/or indirect costs (food for parent meetings, etc.) must be recorded in the administrative/indirect costs section of the budget and cannot be mixed with the CACFP bookkeeping.

If a provider is denied application to a federal food program for fiscal, administrative, or other mismanagement reasons, the provider must provide food at their own expense (not chargeable to NJDOE or parents).

## Facilities Costs

NJDOE funding is intended to cover the cost of contracted classroom space for the NJDOE-funded educational program portion of the day and year within which providers will prorate total space costs based on documented income from other sources as applicable (DHS, Head Start, infant/toddler classrooms, tuition-based preschool classrooms). The exception will be in circumstances where the provider and the district have agreed, based on reasonable and customary costs and verifiable documentation, that DHS funding is not sufficient to cover the provider’s standard calculation for this line item. In this case, the district will work with the provider to approve an increase in the percentage of costs of up to 100 percent covered by NJDOE funding (using one of the three methods detailed on page 2) for space costs. Providers must be able to relate all expenditures for space costs back to actual documentation. NJDOE funding may not be used for space costs of infant/toddler or non-contracted Head Start or tuition-based preschool classrooms.

### For Providers Who Own Their Facility

Providers who own their own facility may expense up to the fair market value of the space in the center used for the NJDOE-funded preschool program. Expenses must be based on actual costs including, but not limited to, mortgage costs, straight-line depreciation, mortgage interest, real estate taxes, and/or property insurance. Documentation must be used to support all expenses. Annual written communication between the provider and the district must indicate the agreed-upon space cost for that year.

When space is shared between the NJDOE-funded program and one or more other programs, the space cost attributed to the NJDOE-funded program must be related to the space occupied by the NJDOE- funded program. However, a provider may not budget and expense an amount that, when combined with annual contributions from the other programs within the building, would exceed the provider’s actual space costs.

Mortgage costs are allowable only for long-term, first mortgages of at least 15 years, based on the assessed value of the property at the time the mortgage was financed. Long-term mortgage costs for renovations of space related to the NJDOE-funded preschool program are allowable, not to exceed the market value of the space. The payment schedule for an allowable mortgage expense must tie back to the original purchase amount of the space.

Mortgage refinancing is allowable only to obtain a lower interest rate for the same principal amount. Refinancing costs are not chargeable to the NJDOE-funded program and the provider must make closing materials available for inspection upon request.

Providers who own their facility with no outstanding loan obligations may budget up to the fair market value of the space in the center used for the NJDOE-funded preschool program. An annual written agreement between the provider and district must establish the amount budgeted. It is not then necessary for these providers to produce documentation of expenditures for this line.

### For Providers with Donated Facilities

Providers who operate within space that is owned because of a donation may budget up to the fair market value of the space used for the NJDOE-funded preschool program. An annual written agreement between the provider and district must establish the amount budgeted. It is not then necessary for these providers to produce documentation of expenditures for this line.

### For Providers Who Lease Their Facility

Providers who lease their facility may submit expenses only up to the actual amount of their lease. Providers may not expense funds on buildings and grounds maintenance when the lease states that such costs are included in the rental agreement.

Rental agreements should be negotiated for multiple years whenever possible. Related-party leases may not increase by more than the cost-of-living as determined by the state.

### Non-Allowable Rent/Mortgage/Other Space Costs Include the Following:

1. Costs related to transactions between related parties in which one party to the transaction can control or substantially influence the actions of the other. Such transactions are defined by the relationship of the parties and include, but are not limited to, those between divisions of an institution; institutions or organizations under common control through common officers, directors, or members; and an institution and a director, trustee, officer, or key employee of the institution or his or her immediate family either directly or through corporations, trusts, or similar arrangements in which they hold a controlling interest. Such costs shall include, but are not limited to:
	1. Rental costs for buildings and equipment more than the actual allocated costs of ownership (such as straight-line depreciation, mortgage interest, real estate taxes, property insurance and maintenance costs) incurred by the related property owner including a 2.5 percent return calculated on the actual costs of ownership incurred by the related party. The lease agreement shall include a list of anticipated costs to be incurred by the property owner, signed by the property owner and notarized;
	2. Rental costs under a sub-lease arrangement with a related party for buildings and equipment in excess of the actual allocated costs related to the lease (such as rent, lease commission expense and maintenance costs) incurred by the sub-lesser. Profit return on investment or windfall of any kind shall not be included in the sub-rental cost. The sub-lease agreement shall include a list of anticipated costs to be incurred by the sub-lessor, signed by the sub-lesser and notarized; and
	3. Cost of purchasing/leasing buildings, equipment, or other goods from related parties in excess of the original cost to the related party, less depreciation calculated using the straight-line method;
2. Cost of a less-than-arm’s length/related-party transaction when the related party does not provide documentation to support the actual costs of ownership to the district and/or NJDOE when requested and does not allow the district and/or NJDOE access to such information for review and audit during normal business hours. Documentation to demonstrate allowable less- than-arm’s length/related party transactions may include:
	1. The related parties’ tax returns; and
	2. The related parties’ paid bills and canceled checks concerning the transaction;
3. Rental costs under sale and leaseback arrangements more than the amount that would be incurred had the organization continued to own the property;
4. Administrative fees associated with refinancing of mortgage;
5. The cost of maintaining an administrative office in a private home or other residence;
6. Depreciation that does not meet the requirement that fixed asset expenditures of $2,000 or more shall be capitalized and depreciated using the straight-line method and a useful life consistent with current federal tax law, except for real property which may be depreciated using a useful life of 15 years or the term of the original mortgage, whichever is greater, and depreciation on:
	1. Donated goods and assets;
	2. That which is not based on estimated straight-line method; and
	3. Automobiles.
7. Interest costs on loans other than mortgages;
8. Interest costs on long-term loans or mortgages when:
	1. The loan is used for other than financing of fixed assets;
	2. The loan is not secured by the fixed asset being financed; and
	3. Interest costs are on the portion of the loan term, which exceeds the recovery period for depreciation of the fixed asset securing the loan.
9. Costs to purchase or rent an administrative office or business office at a location other than at the center location;
10. Additional mortgage payments or mortgage payments consisting of principle and/or interest and/or fees of any kind; and
11. Costs of capital improvements.

## Administrative Support and Indirect Costs

Providers must maintain verifiable, documented records of actual expenditures for administrative support and indirect costs and make such records available to the district, NJDOE, DHS, and auditors upon request. Records of all administrative support and indirect expenditures must be included in quarterly expenditure reports to the district, as required by [N.J.A.C. 6A:13A](https://www.nj.gov/education/code/current/title6a/chap13a.pdf). The district may deny expenditures based upon provider budget guidance, reasonable and customary costs, and verifiable documentation presented by the provider. Providers must prorate all administrative support and indirect costs based on documented income from other sources as applicable (DHS, Head Start, infant/toddler classrooms, tuition-based preschool classrooms). The exception will be in circumstances where the provider and the district have agreed, based on reasonable and customary costs and verifiable documentation, that DHS funding is not sufficient to cover the provider’s standard proration for a line item(s) in this section of the budget. In this case, the district will work with the provider to approve an increase in the percentage of costs covered by NJDOE funding (using one of the three methods detailed on page 2) for affected indirect/support budget line items. NJDOE funding may not be used for support/indirect costs for infant/toddler or non-contracted Head Start or tuition-based preschool classrooms. Only actual, documented expenses associated with the following categories are allowable. All expenditures must be deemed reasonable and customary by the district.

### Allowable Support Costs

* Clerical or other administrative support salaries;
* Clerical or other administrative support benefits;
* Custodial salary or services;
* Custodial benefits;
* Security guard salary (if contracting for security services, record below);
* Security guard benefits;
* Employer payroll tax expenses for NJDOE-funded custodial, clerical, and other administrative support workers, which may include social security, Medicare, unemployment, and disability taxes but must be prorated to appropriately account for income from other sources, as applicable (DHS, Head Start, infant/toddler classrooms, tuition-based preschool classrooms); and
* Workers’ compensation must be expensed under the indirect cost line item: insurance.

### Allowable Indirect Costs

* Office equipment and repair;
* Office materials and supplies;
* Paper supplies;
* Cleaning supplies;
* Food for meetings;
* Building/grounds maintenance and repair (documentation must include invoice with detailed bill);
* Utilities;
* Telecommunications;
* Security equipment and/or security guard services (if hiring individual(s), please record in “Security Guard” line above);
* State-required insurances (if a provider’s policies cover multiple locations, the district should be supplied with a breakdown of how the expense for the location(s) with NJDOE classrooms is determined);
* Expenditures for a workers’ compensation insurance policy must be classified as an insurance expense and recorded in the line: insurance;
* Accounting (including the provider’s annual audit);
* Payroll preparation;
* Advertising;
* Staff transportation;
* Playground equipment and surfacing; and

For-profit centers only:

Profit, subject to a maximum of 2.5 percent of the subtotal of the center’s NJDOE-funded educational program costs.

### Non-Allowable Administrative and Support Costs

Vehicle and Certain Travel Expenses

1. Costs associated with travel out of state or for meetings/events not related to the NJDOE-funded preschool program;
2. Any cost associated with travel to and from the officer’s or employee’s home and the center or agency, including parking fees or permits;
3. Any costs associated with a center-owned vehicle, a leased vehicle or a vehicle contained in a related-party transaction;
4. All personal expenses, such as a personal travel expense or repair on a personal vehicle;
5. Personal use of a center-owned or leased vehicle which includes to/from work commutation;
6. A business-incurred charge for a privately-owned vehicle in excess of the mileage rate allowed by the United States Internal Revenue Service for automobile travel (e.g., reimbursement based on gas charges in lieu of using the IRS rate to determine reimbursement);
7. Reimbursement for staff transportation that was not pre-approved and adequately documented by the director for each reimbursable trip. Documentation must include an accurate, ongoing record of staff transportation expenses including person, date of trip, purpose of the trip, number of miles driven, and to/from where; and
8. Reimbursement for staff transportation that includes the mileage equivalent of the employee’s daily commute between the home and the center.

### Donations/Contributions

1. Contributions, donations, awards and scholarships;
2. Goodwill; and
3. The cost of fund-raising, such as a financial campaign, an endowment drive or solicitation of a gift and bequest which is done to raise capital or obtain a contribution.

### Investments

1. An investment expense associated with the purchase/sale of stock, securities, other investment instruments or other investments with the exception of those investments made within a retirement benefit plan that meets IRS regulations; and
2. A loss on an investment.

### Other

1. The cost of a fine or penalty which results from failure by the center to remit payment for a bill or service (i.e., late fees for late payments);
2. Indirect and direct costs associated with activities or enterprises unrelated to the DOE-funded preschool program;
3. Any cost associated with public relations and lobbying including salaries and fringe benefits;
4. A loss incurred on the sale or exchange of fixed assets;
5. Entertainment expenses, outside of food for meetings;
6. The cost of a fine or penalty which results from a violation of or failure by the center to comply with a federal, state and/or local law or rule;
7. The cost of key man insurance except where a term insurance policy is required by a lender as collateral for a loan;
8. The write-off of uncollected accounts receivable (bad debts) before three years has elapsed and before a reasonable effort has been made to collect such accounts receivable;
9. Payment of federal, state, and local taxes on income other than DOE preschool funding;
10. Cost of the year-end audited financial statements if prepared by an individual who is not an independent registered municipal accountant of New Jersey, or an independent certified public accountant of New Jersey, and who does not hold an un-cancelled registration license as a public-school accountant of New Jersey;
11. Costs for membership in civic, business, technical and professional organizations;
12. Costs found to be patently unreasonable by the Commissioner or his or her representative(s) or the independent auditor/accountant.
13. A payment of a bonus;
14. Cost of a buyout of an employee contract;
15. Cost of a personal cellular phone or any phone used for calls unrelated to the NJDOE-funded preschool program. Cost of multiple phone plans (i.e., a business cell phone when a business land line already exists);
16. Cost of annual or monthly fees for a credit card (including cards that offer rewards such as airline miles); and
17. Cost of food for staff meetings and/or parties of any kind.

## Other Approved Budgeted Costs

Providers may request to allocate funding for particularized needs under the category of Other Approved Budgeted Costs. The provider must submit detailed documentation to the district to support the particularized need, and the district must review and approve all projected expenditures. The standard proration used in the indirect and support cost sections of the budget must be applied to projected amounts in this section of the budget, unless the district and provider have worked together to approve an increase in the percentage of costs covered by NJDOE funding (using one of the three methods detailed on page 2). In this line, providers may expense the cost of environmental testing required for childcare license renewal, as well as the cost of Child Abuse Record Information (CARI) and Criminal History Record Information (CHRI) background checks.

## Budget Transfers

Providers must be afforded by the district the opportunity to make budget transfers. While it is not the responsibility of the district to initiate budget transfers on behalf of a provider, the district must work with providers to facilitate budget transfers where appropriate. Transfers must be submitted by the provider and approved by the district for any movement of funds within or outside of the educational cost section of the budget.

The NJDOE has established greater flexibility for providers to use NJDOE funding to cover a larger percentage of non-instructional costs when DHS funding is documented to be insufficient to do so. Districts must allow automatic offsets for under and overspent lines within the indirect cost section of the budget, both during and at the end of the school year. These offsets may result in an increase to the provider’s standard proration for indirect/support costs, however, NJDOE funding may not be used to cover costs or portions of costs associated with private pay programs or classrooms, or capital expenditures. In order to close out the school year, after June 30th, the district may set a date past which proration may no longer be changed.